

# Ways of Improvement of Tax Administration on Real Estate Distinct from Plot of Land

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*Abstract – The article Identifies main benefits from collection of taxes on real property distinct from plot of land for local governments and taxpayers. The problems of the modern system of property taxation are analyzed. The main disadvantages of charging to local budgets in compliance with recent changes to the Tax Code of Ukraine from 12.28.2014 are identified. Proposals for improvement of budget legislation in the part of property taxation are made. Expediency to set the equal tax rate with privileges rejection for the payment of property tax is suggested.*

Key words – real estate tax, distinct from plot of land, local budgets, territorial communities, financial capacity, budgetary and tax law.

## I. Introduction

The main task of development of Ukraine today is ensuring of its efficiency as a guarantee of comfortable and safe living. Article 24 of the Constitution of Ukraine says that all citizens have equal constitutional rights and freedoms and are equal behind the law. That is, all citizens of the country regardless of the place of residence, ethnic or social origin, property status and other features are eligible for state-guaranteed services. Currently, the issue of financing of the development of local communities is characterized by inefficiency of budgetary support, complete dependence on the distribution of funds at the central level, the lack of interest of the community and their reluctance to participate in problem solving of human settlements development and ensuring its financial sustainability and inefficient allocation of responsibilities between local authorities and the central government.

## II. Main Results

One of the main factors of development of the territory is the stability of revenue sources, i.e. the list of certainty of fixed income and standards governing deductions from income for different levels of government on a long term basis, to schedule local authorities' expenditure for the future.

As immovable are characterized by the constancy of their location and their jurisdiction can be easily fixed, it is always possible to define the object of taxation, with peculiar features - permanent location and duration, that ensures unimpeded access to it for fiscal authorities. It is easy to establish the taxpayer, which could be a property owner and the leaser.

Property tax is actively investigated by modern Ukrainian economists, such as V. Vishnevskyy, V. Zagorskiy, V. Kravchenko, A. Lisovyy, I. Lunina, V. Melnyk, B. Rybalka, A. Sokolovska.

The aim of the study is to determine the main threats of property taxation at the local level and make proposals to improve budget legislation regarding property taxation.

Tax on immovable property other than land is attractive to local governments as a stable and financially significant source of revenue.

The main advantage of collecting this tax are:

- Direct dependence between taxpayers and recipients of services financed by revenues from this payment;
- Sustainability of a property tax base that eliminates the possibility of evading its payment;
- The principle of solvency through adjustment rates and establish tax benefits;
- Predictability amounts of tax revenue, that creates conditions for effective planning of their own activities.

In terms of financial autonomy of local budgets changes to Tax Code of Ukraine seemed to be reasonable (from 12.28.2014). In Art. 266 Tax on immovable property, other than land set taxes should be imposed on total subject's area (both residential and non-residential). Thus (according to p. 266.4.1) tax base of residential properties decreased in [1]:

- 60 square meters (for apartments);
- 120 square meters (for residential buildings);
- 180 square meters (for different types of real estate, simultaneous possession of flats and houses).

Cottages and garden homes were included in the list of objects that are not subject to tax till 01.01.2015, and since 2015, the owners pay property tax.

It should be noted that the legislator provided in addition to local councils the right to increase the maximum limit of residential property, which reduced the tax base, which generally can eliminate the payment of taxes, but these changes are one of the first steps to independence of local budgets.

The proposed tax changes achieve the mentioned goals once can be characterized as positive aspects and can carry risks and threats to the implementation of the budget process at the local level. We consider it is necessary to focus on the shortcomings of Article 266 of the Tax Code of Ukraine and to make proposals to address them.

Under the provisions of the Tax Code taxation fall only on commissioned homes, but in the settlements is a sufficient number of private houses, which are inhabited by people, but not commissioned or their owners do not have all necessary documents. This situation has arisen because of the complexity of the introduction of house in operation, is associated with significant costs time and money.

Thus, for the commissioning of a residential building are necessary:

- A document certifying the ownership of the land;
- A declaration of the beginning of construction work;
- Technical passport at home.

The biggest difficulty today in making citizens arising from ownership of the land, entered into article 24 of the Law of Ukraine "On regulation of urban development", according to which for the manufacture of ownership of the land than necessary master plan of the settlement also submit a detailed plan and zoning plan settlement. Today less than 50% of settlements have a new master plans and only about 5% have plans for zoning, which led at the

moment to stop any action on production of documents proving the ownership of the land within these settlements. The lack of official recognition of property rights leads to that of residential property (which is actually used for its intended purpose) can not be taxed.

In such situations the basis for such taxation may be houses product data object or owner books accounts maintained by local authorities and which spelled out all the necessary information to calculate the tax payment.

Therefore, we consider it is appropriate to supplement article 266, paragraph 3, subparagraph 4, be amended as follows:

"The tax base of residential and non-residential property, including their shares that are not registered in the State Register of real rights on real estate or are no documents on the ownership of individuals, calculated on the basis of the supervisory authority or technical passport, owners books, maintained by local authorities. Control of such objects is put on local governments. The decision to tax such objects put on the local council. "

In their work, village councils is governed mainly with owner accounting books, but according to instructions slave accounting data there are made on the basis of the documents or information provided by the head of the household that may significantly understate the real estate tax base.

Before the introduction of this tax would be appropriate to make an inventory of objects that are subjected to tax on immovable property other than land and urban cadastre form. Formation of the Property Registry for inventorying documentation should be put on the local government.

At the same time, the introduction of new sizes and order of calculation of property tax can be challenged in court, because the Tax novels have been violated basic principles of tax law, established art. 4 of the Tax Code of Ukraine. In particular, stability (changes to any element taxes and duties can not be made later than six months before the end of the fiscal period in which it will operate the new rules and rates. Taxes and fees, their rates and tax incentives can not be changed during fiscal year) and equality of taxpayers before the law, to prevent any acts of tax discrimination (ensure equal treatment of all taxpayers regardless of social, racial, national, religious

affiliation, ownership entity, nationality natural person, the place of origin of capital).

In our view, changes in tax rates for residential and / or non-residential property owned by individuals and legal entities are necessary. In the early years of the introduction of property tax would be appropriate to set its minimum rate of 0.5 per cent of the minimum wage, set at 1 January of the reporting (tax) year, for 1 square meter tax base and eliminate all existing benefits for this payment. This will maximize the revenue of local governments and relieve social tension regarding this payment. In addition, during the transition period it will promote the formation of clear information base for property taxation objects and their characteristics.

On January 1, 2015 the minimum wage is 1218 grn., So if the proposals will be implemented in life, the average rural household (2.71 persons), with 75.2 m<sup>2</sup> owned housing will have to pay to the local budget 457.97 grn for the year (1,218 x 0,005 x 75.2), i.e. 38.16 grn per month. It should also consider the fact that these funds should not pay one person and household, which can be two or three able-bodied person. Of course even such a small amount of tax would not be paid voluntarily. Therefore, local authorities should explain to the rural population that these funds will remain with the agriculture budget, and hence will be used for immediate needs of rural development, road repairs, street cleaning and lighting, maintenance of kindergartens, health posts and other facilities of rural social infrastructure.

## Conclusion

Thus, the creation of an effective mechanism of real estate tax in Ukraine will create a financial base for building a financially independent communities. And our proposed changes will increase the potential of tax revenues to local budgets and will remove the social tension among the population in relation to the new tax payment.

## References

- [1] Podatkovyy kodeks Ukrayiny Retrieved from <http://zakon4.rada.gov.ua/laws/show/2755-17> [in Ukrainian].