

Taxation of the Natural Persons' Property in the Russian Federation

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Abstract: The study defines the role of natural persons' property taxation in forming the local budgets in Russia and budgets of some foreign countries; provides information on the foreign practice of real estate tax application. Since, 2015 in Russia new legislation is introduced which regulates the natural persons' property taxation. The study analyzes the positive and negative aspects of the new rules of the natural persons' property taxes computation and levy. The researches state that the switch over to the cadastral estimation in tax computation will increase tax yield into the local budgets but will lead to the greater tax burden on the citizens, that is why it is necessary to thoroughly elaborate the issues of preferences for low-income and socially unprotected citizens. In the study, the researchers analyze the main provisions of the new regulations on natural persons' property taxation and ground the proposals for their improving.

Key words: Natural persons' property tax, inventory value, cadastral value, tax rate, rebate, tax deductions

INTRODUCTION

A topical direction of the Russian taxation system development is the just taxation of natural persons' property, increasing the tax yield from the natural persons' property taxation. The natural persons' property tax belongs to the socially important ones, it directly influences the property interests of dozens of millions Russian citizens. The objective of the new tax introduction is not to increase the tax burden on the population but transition to a more just taxation.

The idea of real estate tax was borrowed by legislators from the experience of European countries, where this tax is the main source of forming the local budgets. The research, devoted to forming a fair system of natural persons' property taxation, is carried out by both foreign and Russian economists.

An essential contribution into the study of both the methodological and applied aspects of natural persons' property taxation was made by such scholars as Bimonte and Stabile (2015), Gordon and Kopczuk (2014), Goeminne and Smolders (2015). The role of local taxes in the incomes of local budgets was studied by Roca and Pandiello (2015), Ibarra and Sotres (2015) and others. The issues of natural persons' property and income taxation were researched by Sabitova and Tukhbatullin (2015).

The research objective is to analyze the new rules of natural persons' property taxation from the viewpoint of fulfillment of the functions imposed on the tax: the fiscal function, i.e., replenishment of the local budgets and the regulative function, i.e., leveling of the tax burden of various segments of the population.

MATERIALS AND METHODS

Theory: Real estate tax is imposed in 130 countries and this tax provides the largest share of income from property taxes. In the majority of countries the tax is imposed on dwelling houses, apartments and other residential and non-residential real estate as well as land lots owned by natural persons (Ihlanfeldt and Mayoock, 2015; Wu *et al.*, 2015). In OECD countries, the share of real estate tax in the tax yields of local budgets is 30-40%, in the Netherlands up to 95% of all yields into local budgets, in Canada up to 81%, in France up to 52%. In the USA, its share can vary from 10-70%, depending on the state (Ibarra and Sotres, 2015; Goeminne and Smolders, 2015). The funds from real estate tax are used to solve the social-economic tasks at the local level (Bimonte and Stabile, 2015). The features of the real estate tax computation in some foreign countries are presented in Table 1.

The necessity to reform the natural persons' taxation has been long brewing in Russia. The initiative to unite the two taxes (natural persons' property tax and land tax) and to introduce the general real estate tax has been elaborated by the Russian Ministry of Finance since 2001. In 2004, the State Duma adopted at the first reading the new rules of natural persons' property tax which were enacted from January 1, 2015.

Thus, the separate taxation of natural persons' property and land has been preserved in the Russian Federation (Stine, 2003).

Table 1: Features of the real estate tax computation in some foreign countries

Country	Tax base	Rate (%)	Tax yield from the general tax yield at all structures of power (%)
Spain	Cadastral value of the property	up to 2	0.21
Great Britain	Estimated sum of the annual rent	up to 4	10.43
Germany	Taxation value of the property	about 1.5	1.06
France	market value of the real estate	3	2.17
The Netherlands	Estimated by state	0.1-0.9	1.81
Sweden	Assessed value (75% of the market value)	0.7-0.8 of assessed value	2.70
Switzerland	Capital value of the real estate, estimated by either the market or the assessed value, depending on the stated system of estimation	0.5-1.1	0.46
The USA	Assessed value with annual indexation at 2%	1% (X by the local coefficients) of assessed value	3.01
Japan	Assessed value	1.4	2.56

RESULTS AND DISCUSSION

The tax yield of the local budgets is formed by the local taxes: the natural persons' property tax and the land tax. The dynamics of the local budgets' income in 2006-2014 and the dynamics of the local taxes in the local budgets' incomes in the Russian Federation are presented in Fig. 1.

The analysis of the structure of the local budgets' income showed that the share of the local taxes in the local budgets of the Russian Federation in 2006-2014 had a very low unit weight: from 4.3% in 2006 to 5.7% in 2014 (Fig. 2).

This is due to the fact that these taxes belong to the group of the difficult-to-collect taxes; their administration is hindered by the fact that many property objects in the Russian Federation have not been inventoried. The inventory value of the natural persons' property which serves as the taxation basis for this tax does not reflect the actual value of the taxable estate. The implemented method of the inventory value computation is not objective, obsolete and contradictory.

From January 1, 2015, the new regulations are enacted in the Russian Federation which stipulate the order of the natural persons' property taxation. The property tax payers are natural persons, owning residential and non-residential real estate. The objects of taxation are buildings, edifices, constructions, residential and non-residential premises, unfinished capital construction venues and single real estate complexes.

The cadastral value of real estate is stipulated as the taxation basis for this tax. The legislation establishes the transition period for taxation by cadastral value. Before 2020, all RF subjects are to transit from the inventory estimation of property to the cadastral one.

In 2015, only 28 RF subjects out of 85 switched over to the cadastral estimation, among them: Buryatia, Tatarstan, Ingushetia, Mordovia, Karachai-Cherkess Republic, Komi Republic, Udmurt Republic, Bash

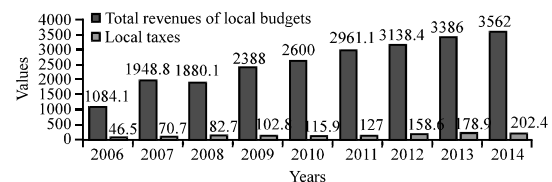


Fig. 1: Dynamics of the local budgets' income and the dynamics of the local taxes in the local budgets' incomes in the Russian Federation in 2006-2014, (bln. rubles)

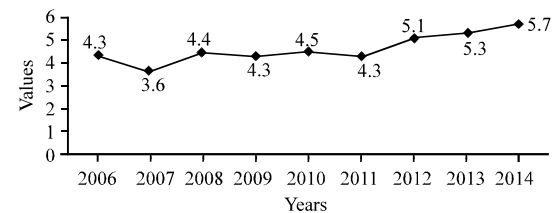


Fig. 2: Dynamics of the share of local taxes in the general volume of local budgets' income in the Russian Federation (%)

kortostan, Moskovskaya, Novgorodskaya, Sakhalinskaya, Amurskaya, Magadanskaya, Novosibirskaya, Ivanovskaya, Vladimirskaia, Nizhegorodskaya, Samarskaya, Tverskaya, Yaroslavskaia, Ryazanskaya, Arkhangelskaya, Pskovskaya, Penzenskaya oblasts, Moscow, Yamalo-Nenets autonomous okrug, Khanty-Mansi autonomous okrug, Zabaikalskiy krai.

For the introduced tax to actually become economically appropriate and social just, it is necessary to solve the essential problem, in particular, the problem of estimating the real estate.

The problem of estimating the real estate is the most essential one. Since, 2015 till 2020 by the choice of the Russian Federation, cadastral value or inventory value will be used as the taxable base, calculated with a coefficient-deflator, stated by the Ministry of Economic Development of the Russian Federation.

Table 2: Tax rates on natural persons' property in some municipal entities of the Russian federation (%)

Municipal entity	Dwelling houses	Apartments, rooms	Incomplete construction	Single real estate sites	Garages, carports, utility complexes	Utility constructions with the area <50 sq. m	Administrative-business centers and venues, over 300 mln rubles	Other venues
Moscow	0.1-0.3	0.1-0.3	0.3	0.1-0.3	0.10	0.1-0.3	2.0	0.5
Kazan	0.3	0.2	0.3	0.3	0.30	0.1	2.0	0.5
Samara	0.3	0.3	0.3	0.3	0.30	0.3	2.0	0.5
Ufa	1-0.2	0.1	0.3	0.1-0.2	0.10	0.1-0.2	2.0	0.5
Ryazan	0.3	0.3	0.3	0.3	0.30	0.3	2.0	0.5
Novosibirsk	0.1	0.1	0.1	0.1	0.10	0.1	2.0	0.5
Yaroslavl	0.1-0.2	0.1-0.2	0.15	0.15	0.15	0.15	2.0	0.5
Tver'	0.1	0.1	0.3	0.1	0.10	0.1	2.0	0.5
Saransk	0.3	0.1-0.3	0.3	0.3	0.30	0.1	2.0	0.5
Ivanovo	0.1-0.3	0.3	0.1-0.3	0.1-0.3	0.10	0.1-0.3	2.0	0.5
Rates by the Taxation code	From 0.1 to 0.3					2	0.5	

The legislation establishes the transition period for taxation by cadastral value: during the first four periods (2016-2019) the tax is calculated by Eq. 1 which stipulates the annual increase of the tax by 20% of the difference between the new and the former tax. Note that in 2020 the full sum of the tax will be paid:

$$\text{Tax sum} = (\text{Cvt} - \text{Ivt}) \times k + \text{Ivt} \quad (1)$$

Where:

- k = Annual corrective coefficient (in 2016; 0.2, in 2017; 0.4, in 2018; 0.6, in 2019; 0.8)
- Cvt = Cadastral value tax
- Ivt = inventory value tax

According to experts, cadastral value can exceed the inventory one 25 times. Thus, if the property is levied by inventory value, it should be levied at higher rates. But the taxation code, stipulating the inventory value taxation, leaves unchanged the rates stated as early as in 1991 by the Russian Federation Law "On natural persons' property taxes", while the coefficient-deflator is minor (for example, in 2015 it is equal to 1.147) and actually does not influence the tax value. In our opinion, the situation, when the authorities can choose the taxable base, results in the social injustice of this tax. As was stated above, the legislators have stipulated the 5 years transition period for the cadastral estimation system. We believe that such a long period drives the population into unequal conditions as in different territories the Russian citizens will pay taxes according to different rules which will lead to significant differences in the sums paid.

The large duration of the transition period is due to the fact that, according to the new law, the list of taxable objects with cadastral estimation is extended which demands considerable expenses of labor and time. In our opinion, the taxable objects should not include summer

houses, country cottages and utility constructions in small holdings, if their area does not exceed 50 m² (they were not levied according to the former legislation) as the expenses for their stocktaking, assessment and levying are too large. These expenses may exceed the tax yield from such objects.

As analysis shows the tax rates established in municipal entities from the list of regions where the market tax on natural persons' property is introduced from 2015, generally reflect the peculiar features of the territory and the living standard of the population (Table 2).

The new order of natural persons' property tax computation keeps all the previous tax deductions. However an uncertainty of the former list of deductions was repeated in the new one. For example, one item in the list of categories of citizens receiving the tax deductions mentions invalids of groups I and II while another item stipulates a deduction for all pensioners who receive pension according to the Pension Law. But invalids of groups I and II are also pensioners so they should not be highlighted separately. Besides, this may lead to the situation, when pensioners of group III will not be aware that they can get a tax deduction as they are also pensioners.

Within the frameworks of the Program for Demographic Growth in the Russian Federation, the list of categories of citizens receiving the tax deductions should be expanded. In our opinion, the following categories of citizens should be released from the dwelling tax: orphaned children, families with three or more children under 18, families with handicapped children. It should be noted that many municipalities have introduced this deduction in their territories. For example, in Kazan, Ufa, Yaroslavl, Ryazan, Syktyvkar and some other municipal entities large families are exempted from the tax. A deduction for orphaned children was adopted in Novosibirsk, Ufa, St. Petersburg, etc. A deduction for families with handicapped children is applied in Ufa

and some other municipal entities of Bashkortostan. Ideally, this tax should not be applied to all children under 18 (full-time students under 24). This deduction is adopted in Yaroslavl, for example. However, this deduction cannot be applied in the Russian Federation, as it will result in sharp decrease of the local budgets.

In order to enhance the social protection of the population, the municipal entities can be recommended to exempt families with children from the tax, if the income per capita is less than subsistence living in their territory. Nowadays such a deduction is applied in Ryazan.

In our opinion, all the above deductions should be introduced at legal level at federal level, so that each citizen enjoys the equal social conditions, independently on where one lives.

As was stated above, the Taxation Code provides deductions for such taxable objects as a dwelling house, dwelling premises, utility constructions or edifices, garages and carports. In our opinion, garages and carports should be excluded from the list of tax-deductible real estate as they are not first-necessity objects.

CONCLUSION

The transition to the new rules of natural persons' property tax is aimed at strengthening the income base of the local budgets and at increasing the tax yield to the municipal authorities' budgets.

The cadastral assessment of property which is applied in foreign countries and will be applied in Russia for computing the natural persons' property tax, more correctly reflects the actual value of the property.

In our opinion, computing the tax according to the new rules will, on the one hand, increase the tax burden on the population in general but on the other hand, will lead to a more just taxation system as the owners of a more expensive real estate will pay a larger tax. Yet, it should be noted that the new taxation system does not provide full social protection to some categories of tax-payers (large families and families with handicapped

children). The 5 years period granted to the regions for the transition from inventory value system of tax computation to the cadastral value system leads to inequality in taxation of the population of different territories.

In our opinion, improvement of the new rules of natural persons' property taxation will allow to make the tax more just, eliminating the infringement upon the interests of less socially protected segments of the population and to increase its yield.

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