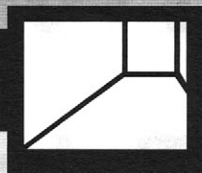


Perspective



Under starters orders

A problem of two halves, land value tax implementation in Germany needs political will and an administrative framework.

Kathrin Renner explains how the EU economic giant has one half of the solution and needs the other

LVT HAS BEEN put on the back burner in Germany following the departure of Minister Müntefering of the German Government's construction department.

Müntefering ran into opposition from the Ministry of Finance, which claims LVT would be unfair. Germany's September general election means that despite an urgent need for reform, the issue of fiscal reform won't surface until next year.

The German property tax system is based on vastly inaccurate land valuations and punishes development. It uses capital improved values and represents between 10 and 20 per cent of revenue for local authorities. The land and the improvements are assessed and taxed together, and the resulting *Einheitswerte* is the basis of the tax. Its last re-valuation took place 38 years ago in the former West Germany and 67 years ago in eastern Germany. That these valuations are outdated is not lost on the federal constitutional court which criticised the undervaluation of property in comparison with other assets in 1995.

The valuation amounts to only around 5-30 per cent of the real market value. The system gives no economic reason for the owner to make better use of sites, and government institutions agree that fundamental change needs to take place.

Despite the political setbacks, there

are grounds for optimism. In Germany, independent committees at local level annually map local unimproved land values. The committees are able to give *Bodenrichtwerte* the average values for valuation zones. These could be used as a base rate for calculating LVT in the area, which means some local authorities will need to create more valuation zones to produce accurate land value maps. *Bodenrichtwerte* are already being used as a basis for inheritance tax. A pilot study into the viability of LVT was carried out in 2000. The local authorities taking part said there shouldn't be any obstacles to acceptance because the *Bodenrichtwert* is well established. They added that a pure land valuation would mean significantly lower administrative costs. They also forecast a reduction in vacant and under-used sites and consequently less urban sprawl.

The administrative machinery is in place to levy an LVT to replace the property tax – a tax that hits recent land development more heavily and relies on substantially outdated assessments of building values. All that is required now is the right politicians in place to see LVT through.

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