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Recurrent Property Tax Control in the Czech Republic

Abstract: The aim of this article is to investigate the possibilities for tax offices in the Czech Republic to control recurrent property tax returns and the data contained therein. The hypothesis that the recurrent property tax control in the Czech Republic is unproblematic and that there is no need for any amendments in related tax law regulation has been mostly confirmed. However, there are still several minor issues (e.g. the renewal of cadastral records) where amendments to the existing legal regulation would be helpful. There are also other much more problematic issues in the property tax regulation to be improved. The role of the immovable property tax in the Czech Republic is mostly marginal; the revenue is very low. The paper follows the IMRaD structure; in the research part, we firstly summarise recurrent property tax regulation *de lege lata* from the theoretical perspective. Secondly, we describe existing practical problems of recurrent property tax control as these problematic issues have been identified from structured interviews with tax office clerks. In the discussion, we critically analyse substantive and procedural tax law concerning the recurrent property tax with regard to controls carried out by the tax office, combining the theoretical background with practical experience. Synthesising the knowledge gained, we identify the strengths and weaknesses of *de lege lata* regulation and suggest amendments *de lege ferenda*.

Keywords: property tax, recurrent property tax, tax assessment, tax control, tax return

Introduction

The recurrent property tax is the most frequently found property tax worldwide. It is usually collected on an annual basis. In most countries, it is the most impor-

tant financial source for the budgets of self-government units.¹ Like other taxes, the principle of self-application is used for recurrent property tax;² this means that the taxpayers are obliged to file the tax return stating all data necessary to assess and calculate the tax and to pay the calculated amount themselves without any assistance from the tax administrator. Only if the tax return is not filed or if the tax office has any doubt about the correctness and completeness of the information does the tax office start formal proceedings. It is then up to the tax office to verify all the data in the return so that the tax is assessed and paid correctly.

The aim of this article is to investigate the possibilities for tax offices, primarily in the Czech Republic, to control recurrent property tax returns and the data contained therein. The Czech Republic is chosen not only because of the theoretical and practical knowledge of the author but especially because of the specifics of Czech property tax regulation. Czech taxpayers are actually not obliged to file the tax return every year (for every taxable period), only if there are changes influencing the tax duty subjectively affected by the taxpayer. That is, if there are changes in national law, local by-laws, or other objective changes, there is no need to file a new tax return, and the tax office assesses the tax without any assistance from the taxpayer. This is also why there are only tens of appeals against a tax assessment in the whole country in every taxable period.³ Based on these facts, we hypothesise that the recurrent property tax control in the Czech Republic is unproblematic, and there is no need for any amendments in related tax law regulation.

To confirm or disprove the hypothesis and reach the article's aim, we have decided on an IMRaD (Introduction, Methodology, Research, Discussion) structure for the paper. In the research part, we firstly summarise recurrent property tax regulation *de lege lata* from the theoretical perspective. Secondly, we describe existing practical problems of recurrent property tax control as these problematic issues have been identified from structured interviews with tax office clerks. In the discussion, we critically analyse substantive and procedural tax law concerning the recurrent property tax with regard to controls carried out by the tax office, combining the theoretical background with practical experience. Synthesising the knowledge gained, we identify the strengths and weaknesses of *de lege lata* regulation and suggest amendments *de lege ferenda*.

1 J.M. Youngman, Tax on Land and Buildings, (in:) V. Thuronyi (ed.), Tax Law Design and Drafting, vol. 1, Washington 1996, pp. 264–291; M. Radvan, J. Kranecová, Is Ad valorem Property Taxation a Solution for the Czech Republic, (in:) M. Radvan, R. Franzsen, W.J. McCluskey, F. Plimmer (eds.), Real Property Taxes and Property Markets in CEE Countries and Central Asia, Maribor 2021, pp. 47–78.

2 M. Radvan, Czech Tax Law (4th ed.), Brno 2020, pp. 13–14.

3 There is no official evidence of appeals, and this is an estimation based on discussion with officials from tax offices.

Concerning the state of scholarly literature in this field, most articles on property tax legal regulation in the Czech Republic have been published by Radvan.⁴ However, the issues connected to recurrent property tax control in the Czech Republic have never been investigated. Also, worldwide, tax control aspects are very often neglected.⁵ A good research background comes from discussions with leading experts in this area, such as Youngman, Franzsen, McCluskey, Bahl, etc. On the other hand, tax audit in general is a very frequently treated topic. Pistone's 'General Report' probably sums up the area of tax control best;⁶ in the same book, tax control in all developed European countries is discussed by individual writers from each nation. An interesting contribution to joint and simultaneous audits has been written by Čičin-Šain, while the area of e-control is well analysed in the work of Teszner.⁷

1. Research

1.1. Recurrent property tax regulation *de lege lata*

The recurrent immovable property tax in the Czech Republic is regulated by the Immovable Property Tax Act.⁸ There are officially two, but in practice four, parts to immovable property tax: land tax and building tax, and also flats and non-residential premises (space) taxes as a part of building tax. This distinction is necessary because these taxes are assessed individually (with different taxpayers, different tax bases, and different tax rates). But the total sum of these taxes creates one immovable property tax written down in one tax return.⁹

4 E.g. M. Radvan, Major Problematic Issues in the Property Taxation in the Czech Republic, 'Analyses and Studies of CASP' 2019, vol. 8, no. 2, pp. 13–31; A. Maksimovska, A. Stojkov, M. Radvan, T. Rogic Lugaric, Composite Index of Local Fiscal Stability, Efficiency, Sustainability, and Livability: Central Eastern versus South Eastern European Countries (Working Paper WP22AM1), 'Lincoln Institute of Land Policy' 2022, <https://www.lincolninst.edu/publications/working-papers/composite-index-local-fiscal-stability-efficiency-sustainability> (accessed 24.02.23); M. Radvan, Municipal Charges on Communal Waste: Do They Compete with the Immovable Property Tax? 'Journal of Financial Management of Property and Construction' 2019, vol. 24, no. 1, pp. 1–19; M. Radvan, J. Kranecová, *Is Ad valorem...*, *op. cit.*

5 For details on CEE and Central Asia Countries, see M. Radvan, R. Franzsen, W.J. McCluskey, F. Plimmer (eds.), *Real Property Taxes...*, *op. cit.* For details on African countries, see R. Franzsen, W. McCluskey (eds.), *Property Tax in Africa: Status, Challenges, and Prospects*, Boston 2017.

6 P. Pistone, General Report, (in:) P. Pistone (ed.), *Tax Procedures*, Amsterdam 2020, pp. 3–111, especially pp. 33–63.

7 N. Čičin-Šain, Joint and Simultaneous Audits, (in:) P. Pistone (ed.), *Tax Procedures...*, *op. cit.*, pp. 151–176; K. Teszner, E-Tax Administration in the Contemporary Polish System of Financial Law, (in:) M. Radvan (ed.), *System of Financial Law: System of Tax Law. Conference Proceedings*, Brno 2015, pp. 171–191.

8 Act No. 338/1992 Sb., as amended.

9 The following text is a shortened version of the chapter on immovable property tax in M. Radvan, *Czech Tax Law*, *op. cit.*, pp. 49–58.

The object of land tax is created by land in the territory of the Czech Republic registered in the Real Estate Cadastre. The objects of the building tax are buildings in the territory of the Republic connected to the land with fixed foundations and so-called engineering structures such as chimneys. Flats and non-residential premises registered in the Cadastre are also liable to tax. The land tax is not imposed on certain land, e.g. land within the area of the ground plan of the building which is built on, protective forests and forests of special determination, water-covered areas except for commercial ponds, etc. Apartment block buildings, in respect of which the tax is payable on the individual apartments and associated non-residential premises, are not liable to the building tax.

Although numerous kinds of land and buildings are liable to land tax, they can be tax-exempt. There are many reasons and conditions for immovable property to be exempt from taxation. The most common condition is not using the property for running a business. The legislator was motivated in creating exemptions primarily by public interest, ecological aspects, and international treaties. In several cases, the tax return does not have to be filed, while other claims for exemptions must be set up in the tax return. Some property is tax-exempt permanently, others just for several years. Most exemptions are set out directly in the Property Tax Act; however, municipalities are free to grant additional exemptions.

In most cases, the payer of the tax is the owner; sometimes the leaseholder of the land can be the taxpayer. This rule is used mainly for land registered in the Real Estate Cadastre in a simple way. If the landowner is unknown, the user is the taxpayer. If two or more people should be the taxpayers of one property in co-ownership, they usually pay the tax jointly and severally. If one of them pays the tax, the tax duty of the other is fulfilled, but one person can file the tax return only for themselves, for their part of the property. The tax office calculates the tax for the other co-owner(s) in this situation.

The immovable property tax is calculated differently for each type of property. For agricultural land, commercial forests, and ponds used for fish farming, the value-based system is used. The tax base of agricultural land (arable land, hop fields, vineyards, gardens, orchards, and permanent grass growth) is the price of land determined as a multiple of the actual area of the land in square metres and the average price per square metre of the land laid down in a decree. The tax rate is different: lower (0.25%) for permanent grass growth and higher (0.75%) for other agricultural land. In the case of the tax base of commercial forests and ponds, the taxpayer can choose between the price of the land as determined under the price regulations valid on 1 January of the taxable period and the actual area in square metres multiplied by CZK 3.80. The tax rate is always 0.25%.

For all other properties, the area-based system (the actual area in square metres) is used. The tax rate per square metre differs: the lowest is applied for built-up areas, courtyards and other areas (CZK 0.20), and the higher for flat structures (CZK 1 or

5) and development land (CZK 2, multiplied by a coefficient called location rent according to the number of inhabitants in the municipality; moreover, the municipality can increase or reduce a basic coefficient set in the act by a generally binding ordinance). The building tax is also based on the built-up area in square metres; for flats and non-residential premises, the tax base is the so-called adjusted floor area (the floor area multiplied by a coefficient of 1.2, or 1.22 if there is any land used together with the unit).

The tax rate is different for separate kinds of buildings. The standard tax rate for residential buildings and flats is CZK 2. The standard rate is increased by CZK 0.75 for each additional above-ground floor (the so-called increased tax rate) and then multiplied by a location rent. If a minor part of the residential building is used for running a business, there is an additional tax of CZK 2 for each square metre used for business purposes. The standard tax rate for non-residential structures differs: CZK 6 for cottages and family houses used for individual recreation (holiday houses), CZK 8 for garages, CZK 2 or 10 for structures and non-residential premises for business activities (lower for structures used for primary agricultural production, forestry, and water management, higher for other business activities), and CZK 6 for other structures. The standard rate is increased by the increased tax rate and then multiplied by the so-called municipal coefficient (1.5, if set by a generally binding ordinance of the municipality). If a property located in a national park or a first-category protected countryside zone is used for family recreation, another coefficient of 2 is used. The final tax (except for agricultural land) can be multiplied by the local coefficient between 1.1 and 5 if set by a generally binding ordinance of the municipality.

Generally, the principle of substantive truth is used to determine the type of land or building, i.e. the key is how the predominant part of the property is used. However, the substantive truth principle is now valid only for the building tax. For the land tax, the type of land registered in the Cadastre is decisive since the 2021 taxable period, regardless of whether it corresponds to the actual situation.

The immovable property tax is administered by the tax office for the district where the property is situated. The taxable period is a calendar year and the decisive day is 1 January, i.e. the tax is assessed according to the situation on 1 January of the calendar year in which it is assessed, and changes to the facts relevant to the tax that occur during the tax period (a new owner, another use, additional floors, etc.) are not taken into account. The tax return must be filed by the taxpayer by 31 January of the taxable period. However, as stated above, Czech taxpayers are actually not obliged to file the tax return every year for every taxable period, but only if there are changes influencing the tax duty subjectively affected by the taxpayer. That is, if there are changes in national law, local bylaws, changes in the tax rate, the average price of land, the coefficients, or other objective changes, there is no need to file a new tax return, and the tax office assesses the tax without any assistance from the taxpayer.

If the tax is assessed without the tax return or if there is no doubt about its correctness, the tax is assessed by means of a collective prescription list. In practice, the tax office just announces that taxpayers have 30 days to come to the tax office and check their tax duty; only rarely does anybody come. When the term for the appeal is over, the tax office then sends an order with the tax duty by post to every taxpayer. The immovable property tax is generally payable in one payment, no later than 31 May of the current taxable period.

Only if the tax return is not filed or if the tax office has any doubt about the correctness and completeness of the information stated in the tax return the tax office starts formal proceedings. Typically it is a simple tax audit¹⁰ (sometimes called as a procedure to remove doubts or reproach proceedings) or a regular tax audit (especially if the tax return was not filed), always finishing with the personal decision called tax assessment.¹¹ The revenue from the immovable property tax is the income of the municipality in whose district the property is situated.

1.2. Existing problems of recurrent property tax control

Although the administration and determination of land tax and tax on buildings are based on the same principles, individual structural elements are specific. The object of the immovable property tax is land registered in the Real Estate Cadastre, apart from exceptions established by law. Buildings are subject to property tax when they are completed or occupied. In this regard, the legislator refers to the legal regulation regarding construction procedures, according to which the building is taxable if it is completed and suitable for use. It is therefore not necessary that the building is actually used, but it is sufficient that it can be used. Whether the building is completed or under construction is recorded in the Cadastre.

How the land or building is used is essential for determining the tax because the tax base and rate depend on this. In the case of land, the tax rate and base are determined according to its type. While in the past, there was a strong tendency for the tax administrator to proceed from the actual state of affairs in the event of a discrepancy between the recorded and the actual situation, 2021 was a turning point in this regard. An amendment to the law explicitly defines that for land tax purposes, the decisive factor is the type of land registered in the Real Estate Cadastre, regardless of whether it corresponds to the actual state. According to the explanatory report for the amendment, this change was made to eliminate legal uncertainty for taxpayers

10 M. Radvan, R. Boháč, K. Brychta, Czech Republic, (in:) P. Pistone (ed.), *Tax Procedures*, *op. cit.*, pp. 408–409.

11 M. Radvan, *Czech Tax Law*, *op. cit.*, pp. 93–94; D. Czudek, *Tax Inspection – Unlawful Interference*, 'Public Governance, Administration and Finances Law Review in the European Union and Central and Eastern Europe' 2018, vol. 3, no. 2, pp. 90–99.

and to strengthen the importance of the information provided in the Cadastre.¹² If the tax administrator has indications that the actual state is different from the state registered in the Cadastre, there is only one legal tool at his/her disposal, namely an announcement to the Cadastre. However, until the change is made in this public list, the tax administrator does not have the opportunity to reflect the actual state of affairs in the tax proceedings.

The situation is different for buildings, where the purpose for which the taxed property is used is decisive for determining the tax, specifically the tax rate. In simple terms, the law distinguishes between a residential building, a cottage or a building of a family house used for family recreation, a garage, a building and flat used for business, and a category marked as other taxable buildings and flats. To find out the relevant rate, the tax administrator has at his/her disposal the Register of Territorial Identification, Addresses, and Real Estate, where the method of use of the building object is indicated. This register distinguishes for example between a garage, a family house, or a building for family recreation. However, even such a building can be used for business, which cannot be deduced from the register. The tax administrator does not have a direct control mechanism for this category of data declared by the taxpayer, but it must be based on information available from his/her activity (i.e. other tax obligations), the context of the location of the building, knowledge of the environment, and other available sources (e.g. a commercial register, Google Maps). At the same time, it is not excluded that a local investigation is conducted or, in the case of specific doubts, the taxpayer is summoned to remove the doubts. In the case of determining the tax rate for buildings and flats used for business, which differ depending on the type of business, judicial practice has concluded that what business activity the building was actually used for at the relevant time is decisive.¹³ Therefore, the tax cannot be based only on the approval decision. It follows that in the case of the way buildings and flats are used, the principle of material truth is preserved, which only supports the conclusion that the amendment concerning the type of land is not conceptual.

The Immovable Property Tax Act defines a relatively wide range of reasons and criteria for buildings and land, the legislator granting certain of them a privileged position compared to others when exempting them from tax. In general, it can be said that buildings and land are exempted from immovable property tax for two reasons: as a result of the person of the owner or based on the purpose for which they are used. Verification of the first category of exemption does not cause any problems for the tax administrator, as data on the property owner can be directly found in the Real Estate

12 Chamber of Deputies of the Parliament of the Czech Republic, Parliamentary Print no. 910/0: The law proposal including the explanatory report, Prague 2020, p. 39, <https://www.psp.cz/sqw/text/orig2.sqw?idd=178782> (24.02.2023).

13 Supreme Administrative Court, 7 Afs 88/2013, 30.04.2014.

Cadastre. The second, more diverse, category is not always easy for the tax administrator. To control such tax exemptions, the tax administrator is forced to use other control mechanisms; in addition to the Cadastre, which plays a fundamental role in controlling immovable property tax, the tax administrator also uses other public lists. These include, for example, the National Register of Health Service Providers, the Public Register of Land, the Official List of Nature Protection, or the Register of Schools and School Facilities. Selected tax exemptions can only be claimed provided that the property (or parts thereof) is not used for business, rented, or leased. However, these facts are based on private law relationships, and the tax administrator does not always have the technical equipment or the personnel to check them. In practice, the tax administrator carries out an inspection very rarely.

By law, however, land and buildings whose purpose and use are not kept in any central records are also exempt from tax. An example is the land of publicly accessible parks, spaces, and sports grounds. To grant this right for exemption, it is decisive whether the land is used by an unlimited type of users, whether it is accessible to anyone, and whether it serves general use. As a result of the absence of public lists of these facts, the tax administrator's standard search procedures, such as a local investigation by a tax office's clerks, verify whether an exemption of this type is rightfully claimed.

Fulfilment of the substantive legal conditions for tax exemption is a category that the tax administrator pays extra attention to when assessing an immovable property tax. The claim for exemption is the most common reason for the tax administrator to use control procedures. Given that the property data used to determine the tax base and rate are available from the Cadastre, any inconsistency with the data declared by the taxpayers in the tax return is detected by the tax administrator immediately. To solve these obvious irregularities, the tax administrator often uses only informal communication with taxpayers when inviting them to make corrections. On the other hand, if the tax administrator believes that the taxpayer has made an unjustified claim for tax exemption, a procedure to remove doubts and a summons to prove this claim will be initiated. Tax control, as the second formalised control procedure, is *de facto* not used in the case of immovable property tax, although the law does not prohibit it. However, the range of data that would need to be checked is considerably narrower compared to other taxes.

To determine the tax, it is generally necessary to multiply the tax base by the tax rate. For determining the property tax base for buildings and land, the area in square metres is crucial. For buildings, it is the area which is built up, and for flats, it is the floor area. In the case of land, the area is usually subsequently multiplied by the price set by law and, in the case of flats, by a coefficient. In the case of buildings and other plots of land, the tax base is the area itself. The tax administrator can find the area of land and buildings by looking at the Real Estate Cadastre. The situation is different for buildings that are part of the land because the Cadastre does not provide their

area in the standard view. To determine the size of a built-up area of buildings, the tax administrator uses another public list, namely the Register of Territorial Identification, Addresses, and Real Estate, which contains, among other things, detailed information about buildings. The tax base is then multiplied by the relevant tax rate, chosen based on how the property is used, as described above.

The administration of immovable property tax in the Czech environment is set up in a very pro-client manner. The taxpayer does not have to submit a tax return, except for the exceptions provided by law, when there is a change in the circumstances decisive for determining the tax. In such a case, the tax administrator's decision is based on previously declared data. If these agree with the data in the Real Estate Cadastre, the tax will be assessed in the same amount as for the previous period. The duty of the taxpayer is thus only to pay the tax. But a frequent problem is that an unfiled tax return leads to the omission of payment. Therefore it is becoming more and more common in practice for the tax administrator to notify the taxpayer every year of the requirement to pay, beyond the scope of his/her legal obligation. The form of this notice that has been used for a long time is represented by a receipt (bill and postal order) sent by the Czech Post. However, in recent years, taxpayers have increasingly preferred sending payment data via email. This form of notification must be registered with the relevant tax administrator, either when submitting a tax return or based on a form intended for this purpose. In both cases, however, it is still necessary to keep in mind that the existence of this step cannot be considered a necessary prerequisite for the tax to become due. It is only a manifestation of the pro-client approach of the tax administrator, standing outside the legal framework. However, it brings benefits for the tax administrator and the taxpayer; if the taxpayer pays by the due date, s/he does not have to pay interest on late payments, and the tax administrator saves the costs associated with collecting the unpaid tax.

A situation where the taxpayer does not file a tax return, even though s/he was obliged to, often arises as a result of the renewal of the cadastral record by new mapping, which is carried out by the cadastral office. This process is primarily focused on determining land boundaries and building perimeters, but other data in the Cadastre is also checked. It often happens that there are changes in circumstances that are decisive for the assessment of immovable property tax. Such a circumstance can be, for example, information on the type of land or a new area. The new cadastral record is subsequently announced for viewing in the municipality for at least ten days, and a notice is sent to the owners of the affected properties who do not have permanent residence in the municipality. In addition to statutory duties, Municipalities often warn taxpayers that they may be required to file a tax return for property tax. This initiative of municipalities can be considered a desirable reflection of the interdepartmental cooperation of public administration.

2. Discussion

The immovable property tax is unpopular (not only) in the Czech Republic. Most taxpayers do not have adequate information about the tax, and they do not know that the revenue is the income of municipal budgets, i.e. they get certain benefits from the municipality from paying the tax (typically infrastructure, schools, local police and fire brigade protection, local transportation, facilities for children, etc.). On the other hand, taxpayers' duties concerning the recurrent property tax are limited to just paying the tax, without the duty to file a tax return every year. If there are no subjective changes caused by the taxpayer, the tax office has all the necessary information to assess the tax without their direct assistance. Most of the data is included in the Real Estate Cadastre – a public registry existing since the 18th century. The tax office has direct access to the Cadastre to verify the owner of the property, the type of property, the area of land, etc. Generally, the tax office does not need even the first obligatory tax return, according to the legal regulation for the taxable period following the year when the property was acquired.

However, there are still structural components of the recurrent property tax not recorded in the Cadastre. In the case of taxpayers, it is the leaseholder and the user. However, only rarely is the property registered in a simple way (where almost 100% of the land is digitised) or the landowner is unknown. And this situation is still visible in the Cadastre, so the tax office can easily identify the taxpayer.

2.1. Type of property

This part of this article identifies several more important issues that need to be analysed in more detail. The crucial one is the type of property for tax purposes. The principle of substantive truth to determine the type of land and building should be used, i.e. the key should be how the predominant part of the property is used. Unfortunately, this principle is followed only for buildings, flats, and non-residential premises. For land, the formal truth principle is applied, and the type of land registered in the Cadastre is decisive since the 2021 taxable period, regardless of whether it corresponds to the actual situation. Such a solution is easier for the tax administration. However, there are other administrative tools to unify records in the Cadastre with the actual situation, and the solution of applying the principle of formal truth indicates a certain laziness by the public administration towards taxing property fairly. We also have to ask why the amendment included land only, and not all properties – probably because not every record in the Cadastre concerning buildings includes information on how the property is used. The same statement might be applied to the Register of Territorial Identification, Addresses, and Properties data (the Register). In every case, it is much easier to identify the type of land than the type of building.

In every case, if the tax office has any concerns about the correctness and completeness of the information stated in the tax return (usually, if its data differs from

the Cadastre or the Register), it should start the procedure to remove the doubts. Such a procedure might be seen as too formal, though, and tax offices often prefer informal communication with the taxpayer, usually by phone call. If the situation is still unclear and the doubts were not removed, it is possible to do the local investigation mainly without the assistance of the taxpayer. The tax office can use public satellite maps (Google Maps, *mapy.cz*, etc.) and other, more sophisticated non-public electronic tools (e.g. Geographic Information Systems)¹⁴ or Google Street View. In the case of buildings, it might be more complicated to identify the type without entering the building. Of course, even from the outside, it might be possible to state whether the structure is used as a family house or a summer cottage or if it is used for a business (if there is a sign or an identification of the business on the premises). There should be certain documentation from the building authority, especially if the building is not extremely old. The Trade Licensing Register and the Registrar of Companies might also be helpful in the case of business properties. However, very often, this information might be obsolete and outdated, and it would be necessary to enter the building and decide how the predominant part of the property is used or how many square metres are used for business purposes in a family house.

2.2. Correction components

For the tax office, verifying all subjective (personal) exemptions takes little effort, as the owner (state, region, municipality, etc.) is clear from the Cadastre. However, if there is an additional condition for the exemption, mostly connected with 'beneficial' usage of the property, the tax office has to control the taxpayer's claim for exemption in the tax return. Typically, property owned by another state is exempted only if it is used for diplomatic purposes. Church property is exempted if it is used for religious purposes, etc.; otherwise, the tax must be paid. Some properties are exempted only if they are not rented (e.g. state property) or used for business (e.g. property owned by research institutes or universities). In cases of exemptions granted by the municipality (such as agricultural land except for gardens, exemption as an investment incentive, or property affected by a natural disaster), the tax office has the information on the exemption as the municipality is obliged to send the generally binding ordinance to the tax office.

The way in which the tax office should proceed is generally the same as for the type of property to be taxed, i.e. the tax office should primarily check all possible registries, as stated above. The Trade Licensing Register and the Register of Companies might also be helpful in the case of business properties. The tax office may also

14 S. Powers, Geographic Information Systems, 'Market Value-Based Taxation of Real Property Workshop', Lincoln Institute of Land Policy and CEF, Ljubljana 2017; W. McCluskey, CAMA Modelling: A Practical Exercise, 'Market Value-Based Taxation of Real Property Workshop' Lincoln Institute of Land Policy and CEF, Ljubljana 2017.

use satellite maps and other electronic tools such as Google Street View. If concerns about the data in the tax return remain, the tax office should ask the taxpayer to provide evidence of truthfulness within the procedure to remove doubts. If the doubts are not dispelled, a local investigation is necessary.

2.3. Tax calculation

The tax base and the tax rate are closely connected to the type of property to be taxed. The system in the Czech Republic is still a little old-fashioned, as the (calibrated) area-based system is used for all property except for several types of land. On the other hand, an area-based system is easy to administer: the area is available in the Cadastre, and if any value is needed (the average price per square metre of the agricultural land), the tax office has it from the ministerial decree. The only exception is buildings that are part of the land but which do not fully cover the whole plot; the Cadastre does not provide the areas of buildings. However, the tax office may use the Register, which usually contains, among other things, detailed information on buildings. In the case of older buildings, the information may not be available in the Register; the only possibility for verifying the area is manual measurement within the local investigation. The same process applies to the number of floors of the building, as this fact influences the tax rate.

The correct tax rate to be applied depends on the type of property. Even if the system of tax rates seems to be complicated, after identifying the property type the tax office has an easy role: the office automatically has all necessary information, including all coefficients adopted by municipal bylaws.

2.4. Tax administration

From the taxpayer's perspective, tax administration is mostly easy. Generally, it is necessary to file a tax return only once, when the property is acquired (bought, inherited, or donated) or when some criteria decisive for the recurrent property taxes are subjectively changed (an additional floor is constructed, the usage is changed, etc.). The latest forms for tax returns available online are interactive and easy to complete: when the taxpayer and the property are identified, all necessary inputs to set the correct tax base and the tax rate are added, and the tax is calculated automatically. Every year, the taxpayer only has to wait for an email and/or letter, and then pays the tax. It must be stated that an announcement to the taxpayer is necessary because of the principle of client approach.

It would be reasonable to amend the Immovable Property Tax Act so that the renewal of cadastral records does not mean a duty to file a tax return. Such a renewal is an objective change not influenced by the taxpayer; moreover, the tax office has all changes accessible in the Cadastre.

Conclusion

As is evident from the above, recurrent property tax control in the Czech Republic is unproblematic in the vast majority of cases. However, there are still several minor issues (e.g. the renewal of cadastral records) where amendments to the existing legal regulation would be helpful. The earlier hypothesis has been mostly confirmed. There are other, much more problematic issues in the property tax regulation to be improved. Mainly, the role of the immovable property tax in the Czech Republic is marginal; the revenue is very low.

The immovable property tax is the only tax in the Czech tax system on which the pandemic had virtually no impact in terms of revenue. The collection of this tax shows a constant increase in volume, and it was no different in 2020 and 2021. Behind this trend is not only the long-term addition of new taxable property but also changes regarding the determination of the local coefficient. From 1 January 2021, municipalities can set different coefficients for different parts of the municipality, while this can now take on values in the range of 1.1 to 5. From the available sources, it cannot be concluded that this constant increase in the collection is due to changes in or the streamlining of control mechanisms when, in the case of immovable property tax, these have not been practically affected over the years.

However, it is necessary to add that on the scale of Czech public finances, property tax represents only a marginal item (from OECD data for 2020, the Czech Republic's income from property taxes within the state's GDP is even the lowest in the EU).¹⁵ In efforts to consolidate public finances, the increase in immovable property tax often comes to the forefront of discussions. Although its increase is a desirable step, it is necessary to realise that in the context of Czech public finances, this is only the tip of the iceberg, which can be solved easily but is not a systematic step in solving the state of the country's finances.

The issue of low revenue could be resolved by adopting an *ad valorem* tax base. The Cadastre even has the price data for possible mass valuation. However, there is no political will to change the recurrent property tax structurally. Previous research opened the discussion by introducing the immediate solution for the Czech Republic of retaining the unit (area-based) system. There should be one maximum tax rate in the legislation for every type of property, and municipalities should have the right to introduce their own specific tax rates below that level. As there are more than 6,250 municipalities in the Czech Republic, and many of them are extremely small with a very low number of inhabitants, there should be another rate (a standard rate) in the legislation for those municipalities that do not set their own specific tax rates.¹⁶

15 OECD, Tax on Property, <https://data.oecd.org/tax/tax-on-property.htm> (24.02.2023).

16 M. Radvan, J. Kranecová, *Is Ad valorem...*, *op. cit.*, p. 76.

It would also be reasonable to conduct a thorough economic analysis of exemptions. For example, international comparisons show that structures used for public transportation (airports, bus and train stations, etc.) generate considerable income, and there is no need to exempt them from taxation. Also, inspired by local charges regulation, the taxpayer with a right to exemption but who does not file a tax return would lose the right to exemption.

A more revolutionary solution might be abolishing the duty to file the property tax return. The tax office does not even need this first tax return for the taxable period following the year when the property was acquired: it has all necessary data in the Cadastre and the Register and can proceed without the taxpayer's assistance. Besides information about the current status quo, it would be helpful to use information from building offices, especially concerning new structures and reconstructions. The introduced solution would probably require additional amendments (e.g. the owner should be the only taxpayer). Still, it would not be possible for property used for business purposes; for a business property, it would be necessary to continue to file a tax return.

In the case of any doubts, the tax office could use all existing approaches to verify the data necessary to calculate the tax: it can start the procedure to remove the doubts, the local investigation, or the regular tax audit. Also, informal contact with the taxpayer (by email, phone, SMS, etc.) might be useful. These activities of the tax office may also be beneficial for the Cadastre and other registries to update their data.

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