Application of Immovable Property Tax in The EU Baltic Sea Region Countries

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Abstract. The Baltic Sea Region is continuously developing as one of the economically most prosperous and dynamic regions, and a centre of new global economy. Assessment of tax policy of a certain country is a core issue for an entrepreneur prior to starting business in the EU Baltic Sea Region or cooperation with any of the countries located in the particular region. Tax policy is one of the indicators of the state competitiveness and economic development that help potential investors assess the fiscal stability of the country. The research aim is to analyse the tax burden and structure in the EU Baltic Sea Region countries and to assess the peculiarities for application of immovable property tax. The research leads to the conclusion that objects taxable with immovable property tax, tax rates and procedure for setting tax rates significantly differ in the EU Baltic Sea Region member states. Immovable property tax is determined consistent with the policy, priorities, and development targets of each country. Hence, the EU Baltic Sea Region countries have also different tax systems - tax burden coincides with the economic potential of a country, i.e. a heavier tax burden corresponds to a larger GDP amount per capita. Tax structure varies between direct and indirect taxes. Countries encountering a larger share of the shadow economy (Latvia, Poland, Lithuania, Estonia) have a larger share of indirect taxes, while countries encountering a smaller share of the shadow economy (Denmark, Sweden Finland) have a larger share of direct taxes. The research concludes that in the future, tax burden in Latvia, Lithuania, Estonia, and Poland should be shifted from personal income to immovable property, since it is difficult to avoid paying of immovable property tax and it leaves a less impact on the economic growth of the country.
Key words: EU Baltic Sea Region, tax structure, tax burden, immovable property tax.
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Introduction

Several Latvian (Zvejnieks A., 2006; Vitola I., 2006; Sproge I., 2007; Pocs J., 2008; Vanags J., 2010 etc.) and foreign (Alm J., 1999; Mikesell J.L., 2007; Bird R. M., Slack E., 2004 etc.) scientists have studied the policy of immovable property tax, tax application and improvement issues. Almy R. (2001), Baker K., Hinze S. (2010), Arnold J.M. (2008) and other scientists have researched individual aspects related to the immovable property tax.

Topicality and choice of the research theme is based on the lack of scientific papers, which provide the study on the application of immovable property tax in the EU Baltic Sea Region countries among relatively few studies aimed at immovable property tax issues.

The research is based on the **hypothesis** that differences in tax burden, structure, and procedure for the application of immovable property tax in the EU Baltic Sea Region countries are based on the policy, various priorities, and development targets of each country.

The following research **aim** is set to verify the hypothesis: to analyse the tax burden and structure in the EU Baltic Sea Region countries and to assess the peculiarities for application of immovable property tax.

The following **tasks** are advanced to achieve the set aim:

1) to analyse tax burden and structure of the EU Baltic Sea Region countries;
2) to study the application of immovable property tax in the EU Baltic Sea Region countries;
3) to compare revenues from immovable property tax and its burden in total tax revenues in the EU Baltic Sea Region countries.

The research is mainly based on the monographic descriptive method as well as the methods of economic analysis and statistical data analysis. The Eurostat database, which provides data on tax burden and structure in the EU Baltic Sea Region countries for the period of 2001-2010 and revenues from the immovable property tax and its burden in total tax revenues for the period of 2005-2009, is used as one of the main sources of information for the research purpose.

Research results and discussion

The Baltic Sea Region is continuously developing as one of the economically most prosperous and dynamic regions. The Baltic Sea Region is a highly heterogeneous area in economic, environmental and cultural terms; yet, the countries concerned share many common resources and demonstrate considerable interdependence. This means that actions in one area may very fast transfer the consequences to other parts, or the entire region. Geographically, the region is united by the Baltic Sea. The Baltic Sea Region comprises 11 countries: Denmark, Germany, Iceland, Norway, Sweden, Finland, Estonia, Latvia, Lithuania, Poland, and the North-western region of Russia (Baltijas juras …, 2011).

Eight of the eleven Baltic Sea Region countries are the EU Member States – Germany, Denmark, Poland, Lithuania, Latvia, Estonia, Finland, and Sweden, and

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particularly these countries are profoundly studied in the research. This choice is based on the fact that cooperation among the EU Member States of the Baltic Sea Region is considered as essential instrument for the establishment of a single EU policy. The EU Strategy for the Baltic Sea Region adopted at the European Council meeting of the EU Member States in October 2009 also evidences the statement. The Strategy aims to advance the cooperation among the Baltic Sea Region countries and to increase global competiveness of the Region as well as to coordinate the efforts of the EU Member States belonging to the Region, organisations and financial institutions of the Baltic region, and other stakeholders for the achievement of the set aim. The Strategy advances four objectives: to promote environmental sustainability in the Baltic Sea Region, to raise the economic growth and welfare of the Baltic Sea Region, to facilitate accessibility and attractiveness of the Baltic Sea Region as well as to enhance safety and security of the Baltic Sea Region.

The EU Strategy for the Baltic Sea Region is intended as the internal EU strategy, while external cooperation projects are developed to cooperate with those countries of the Region that are outside the European Union. The Strategy enables a more complete use of the EU, regional, national, and international financial support for a joint implementation of projects significant to the entire Region (ES strategija …, 2011).

Analysis of tax burden and structure in the EU Baltic Sea Region countries

Taxes are a pecuniary burden laid upon individuals or property owners to support specific facilities of the government. Taxes fulfil two essential functions – fiscal and regulative. The fiscal function is implemented through the provision of the state treasury with financial resources to finance the state expenditure for covering the public necessities (defence, provision of the public policy, education etc.). It is possible to influence the behaviour of economic subjects and socio-economic processes in the state through changes in tax elements; thus, implementing the regulative function of taxes. Both fiscal and regulative functions are closely interconnected. Therefore, the government may not apply only one function, for example, to think on the budget revenues; it shall consider also the possible changes in the economy (Ketners K., 2009).

Taxes may be classified by different features: by the taxable object, taxes are divided into consumption, income, and property taxes; by the method applied for setting taxes – proportional, progressive, and regressive taxes; by the government level imposing taxes – state, regional, and municipal taxes (Ketners K., 2009).

Most frequently taxes are classified either by the method for setting the taxable base or an economic function. The first method foresees the breakdown of taxes into direct and indirect taxes. Indirect taxes are taxes levied by the state on expenditure of a consumer including these taxes into the price of goods and services, contrary to direct taxes that are levied on the income or property of an entity. Indirect taxes are regressive measures, since they are not based on the ability to pay principle. The EU envisages the following direct taxes: property taxes (immovable property tax, motor vehicles tax, capital tax, wealth tax, and property registration tax) and income taxes (personal income tax, corporate income tax, tax on inheritance and gifts, capital increase tax, distributable profit tax, capital transfer, and deduction tax).

Consistent with the economic functions, taxes may be classified into consumption, labour, and capital taxes. The breakdown of tax revenues by the economic functions outlines the share of a certain tax group in total tax revenues paid by a consumer for goods and services (consumption taxes), paid by an employee from the salary/wage (labour taxes), and paid by an entity from the earned profit (capital taxes) (Ketners K., 2009).

Since the immovable property tax falls in the category of direct taxes, revenues from direct taxes in the EU Baltic Sea Region countries are discussed in more details for the period of 2001-2010 (Table 1).

The data of Table 1 show that in the EU Baltic Sea Region countries, the highest share of direct taxes of GDP is observed in Denmark, Sweden, and Finland; while the lowest indicators are seen in Lithuania, Latvia, Poland, and Estonia. In 2010, the difference between the highest indicator in Denmark (30.1%) and the lowest indicator in Lithuania (4.7%) equals to 25.4 percentage points.

Analysing the difference between the revenues from direct taxes in 2010 compared with 2001, Denmark shows the highest increase (0.6 percentage points), while Finland has experienced the highest decrease (-3.4 percentage points). In turn, the comparison of 2010 and 2008 data, which coincide with the beginning of the global economic crisis, presents the decrease in the share of direct taxes in the entire EU Baltic Sea Region countries (Table 1). A more profound analysis of macroeconomic indicators of each EU Baltic Sea Region country could be required to explain the reasons for such a decrease. In general, the decline might be explained by a sharp decrease of internal consumption, decrease of wages/salaries and corporate profit, increase of unemployment and shadow economy as well as structural changes in the tax base.

Usually the tax burden calculated in per cent of the Gross Domestic Product is used as the key indicator of tax policy, which shows the share of GDP redistributed by means of the state tax policy (Ketners K., 2009).

Determination of the tax burden is one of the key indicators of the state tax policy. There is a generally accepted opinion that business tax burden is an essential factor affecting decision-making when companies choose their address for legal registration. The role of this factor is essentially significant within the EU context on the conditions of free capital movement.

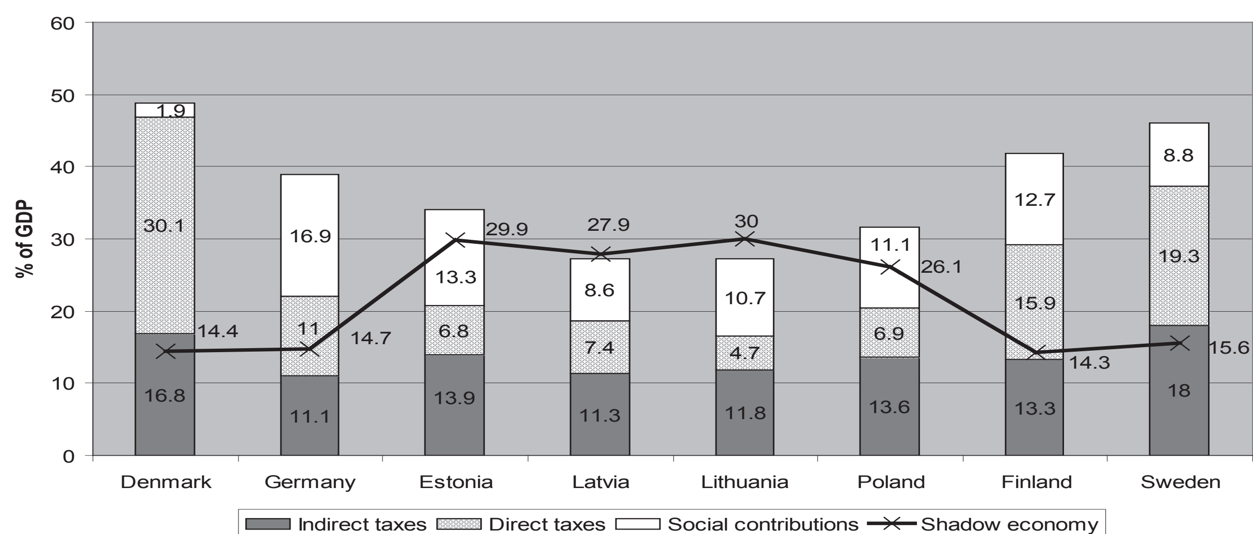
The analysis of the tax burden (Figure 1) for the year 2010 in the EU Baltic Sea Region countries outlines quite a lot of variation. The highest tax burden is observed in Denmark (48.8%), followed by Sweden (46.1%), Finland (41.9%), and Germany (39%). The lowest tax burden is observed in Lithuania – 27.2%. This aspect greatly coincides with the economic potential of a country, i.e. a heavier tax burden corresponds to a larger GDP amount per capita. The explanation is rather simple: the possibility to transfer a larger share of GDP for financing of general public needs increases with the growth of the economic potential. The share of indirect taxes in the Baltic States

Table 1

Direct taxes in the EU Baltic Sea countries in the period of 2001-2010, % of GDP

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Difference in percentage points	
											2010/2001	2010/2008
Denmark	29.5	29.3	29.6	30.4	31.9	30.7	30.1	29.9	30.2	30.1	+0.6	-0.2
Germany	11.0	10.7	10.6	10.2	10.3	10.9	11.3	11.5	11.0	11.0	0	-0.5
Estonia	7.2	7.5	8.0	7.9	7.0	7.1	7.6	7.9	7.5	6.8	-0.4	-1.1
Latvia	7.6	7.8	7.6	7.9	7.9	8.5	9.2	9.7	7.2	7.4	-0.2	-2.3
Lithuania	7.8	7.5	8.0	8.7	9.0	9.6	9.2	9.3	6.0	4.7	-3.1	-4.6
Poland	6.7	6.9	6.6	6.4	7.0	7.5	8.6	8.6	7.5	6.9	+0.2	-1.7
Finland	19.3	19.2	18.1	17.8	17.9	17.7	17.8	17.9	16.5	15.9	-3.4	-2.0
Sweden	20.8	19.6	20.2	20.9	22.0	22.2	21.2	19.8	19.7	19.3	-1.5	-0.5

Source: authors' summary and calculations based on Taxation Trends ..., 2010 and Government Finance ..., 2011



Source: authors' construction based on Government Finance ..., 2011

Fig.1. **Tax burden, tax structure and the share of shadow economy in the EU Baltic Sea Region countries in 2010, % of GDP**

and Poland exceeds the share of direct taxes; while in Denmark, Finland and Sweden, the situation is quite opposite, i.e. the share of direct taxes exceeds the share of indirect taxes. In Germany, both shares are equal and it has the highest share of social contributions among the EU Baltic Sea Region countries. Social contributions are very low in Denmark (1.9% of GDP) as most welfare spending is financed out of general budget revenues, basically direct taxation. Nevertheless, Denmark is an exception in this aspect; relatively low share (compared with direct and indirect taxes) of social contributions in total tax revenues is visible also for Sweden (8.8% of GDP). Whereas, in Latvia considering the demographic peculiarities, the share of social contributions (8.6% of GDP) exceeds the share of direct taxes (7.4% of GDP) (Government Finance ..., 2011).

Lower level of remuneration and corporate profit simultaneously reducing the possibility to receive direct tax revenues in the budget is characteristic to the new Member States being the Baltic Sea Region countries. This is evidenced by the GDP per capita indicator consistent with the purchasing power parity standards and the average wage. In 2010, the highest GDP per capita by purchasing power parity standards was visible in Denmark (123%), Sweden (119%), Germany (116%), and Finland (115%). The same indicators for the Baltic States and Poland were almost twice lower. The lowest indicator was presented by Latvia (51%). The highest average labour remuneration per one employed person was observed in Germany (EUR 53659.9), Sweden (EUR 50666.7), Finland (EUR 47544.5), and Denmark (EUR 44801.0). The indicators for Lithuania (EUR 21082.5), Poland (EUR 19203.7), Estonia (EUR 18424), and Latvia (EUR 16199.1) were more than 2.5 times lower. The analysis leads to a conclusion that the EU Baltic Sea Region countries having higher

share of direct taxes experience a higher living standard – larger GDP per capita and higher average wage (European Commission …, 2011).

The World Economic Forum analysis on the competitiveness indices of the EU Baltic Sea Region countries for the period of 2009-2010 shows that the EU Baltic Sea Region countries having a higher tax burden are ranked in higher positions by competiveness indices, while the countries having a lower tax burden are ranked in much lower positions. Hence, in 2009-2010, Denmark is ranked in the 5th position according to the competitiveness index (in 2010, the total tax burden equals to 48.8% of GDP), Sweden – in the 4th position (in 2010, the total tax burden– 46.1% of GDP), Finland – in the 6th position (in 2010, the total tax burden – 41.9% of GDP), and Germany – in the 7th position (in 2010, the total tax burden – 39% of GDP). Latvia, which in 2010 had the second lowest tax burden in the EU Baltic Sea Region, is ranked in the 68th position according to the competitiveness index (The Global …, 2011).

This leads to a conclusion that tax burden is not the main factor determining the development of a country. Competitiveness indices, GDP, the average salary, inflation, unemployment, shadow economy, and other rates shall be analysed to determine the economic development of countries.

Shadow economy plays a significant role in the low share of direct taxes in case of Latvia, Poland, Lithuania, and Estonia, since the shadow economy actors do not pay direct taxes (income taxes) at all. The analysis on the share of the shadow economy (Figure 1) outlines that in 2010, the highest share of shadow economy of GDP among the EU Baltic Sea Region countries was observed in Lithuania (30%), Estonia (29.9%), Latvia (27.9%), and Poland (26.1%). Finland (14.3%), Denmark (14.4%), Germany (14.7%), and Sweden (15.6%) had almost twice lower share of the shadow economy (Schneider Fr., 2010). According to Figure 1, the share of shadow economy in Latvia and Lithuania exceeds the tax burden in these countries. Large share of shadow economy is visible also in Estonia and Poland, which is only slightly lower than the tax burden of the mentioned countries. Therefore, these are the countries among the EU Baltic Sea Region countries, which should think of reduction of the share of shadow economy. Redistribution of the tax burden could be as one of the possible solutions. The structure of direct taxes should be revised in Latvia, Lithuania, Estonia, and Poland and in future, the tax burden should be redirected from personal income tax to immovable property tax, since it is impossible to hide a taxable object and hence, to avoid paying of the tax. This positive aspect of immovable property tax would significantly reduce shadow economy and increase the share of direct taxes in total tax revenues. This is also outlined in the studies of foreign researchers, like *Jens Matthias Arnold, a researcher at the OECD, who* analyses the growth of the OECD countries *in his paper* "Do Tax Structures Affect Aggregate Economic Growth" and compares it with the tax structure – aspects on which the tax impact is laid on. Depending on aspect whether taxes are basically imposed on property, consumption, or private income, he noticed a difference in the growth rates of countries and the following correlation: the more taxes were imposed on immovable property and less – on private income, the faster economics developed in these countries. The difference is quite considerable, annually around 2%, thus, within 10-20 years, the difference in revenues of these countries may increase extremely significantly (Arnold J., 2008).

Immovable property tax in the EU Baltic Sea Region countries

The European Union has not set a single procedure for the application of immovable property tax in its Member States. Each country may specify its own procedure for the application of immovable property tax consistent with the policy, priorities, and advanced development targets of the country.

Immovable property tax is a state tax administered by local governments and revenues gained from immovable property tax are transferred to the municipal budget. Usually immovable property tax revenues are an essential source for municipal budget revenues thanks to the relatively simple tax administration and fixing of it to a certain territory. Taxable objects may be land plots, buildings, and constructions. Immovable property tax is collected annually and the tax base is the value of immovable property, which is defined consistent with the land cadastre data, statistics on land market transactions, or budgeted revenues. Usually, the tax base is 40-50% of maximum market value of an object. There are different types for setting and application of immovable property tax rates. In some countries, fixed immovable property tax rates are set by the legislation (Latvia), or the rates are set by the local government within the limits prescribed by the legislation (Estonia); in some other countries, a fixed tax rate is applied to a certain part of immovable property taxable objects, while the local government may decide on levying the tax for the other part of the property (Sweden, Lithuania, Denmark, Finland). Still, there are countries, where local governments have the rights to set the immovable property tax rate. This phenomenon is characteristic to Germany, which is a country of federal tax system. The structure of tax system in a federal country is determined by the political system of the country and includes relatively independent elements – regions that have individual rights to set immovable property tax rates. In several countries, immovable property tax is set in terms of money according to the area of land or flat (premises). Hence, it is possible to apply norms on premises and impose a tax on "excessive" areas. Immovable property tax reliefs are usually applied by local governments in their administrative territories (Ketners K., 2009).

Positive aspects of the immovable property tax – it is impossible to hide a taxable object, the tax base is easy determinable (information from the cadastre, market statistics on selling similar objects, insurance value), or it is possible to apply a progressive scale. Drawbacks of the tax relate to the necessity to identify the purpose for utilisation of the immovable property – social needs, charity, the only place of residence etc. (Ketners K., 2009).

The analysis on peculiarities for applying immovable property tax in the EU Baltic Sea Region countries (Table 2) shows that the cadastral value is used as the basis for setting immovable property tax rate in all countries of the Region, except for Poland. In Sweden and Denmark, a method of capitalisation is used to determine the cadastral value. This method includes the analysis and determination of revenues from rent

Table 2

Application of immovable property tax in the EU Baltic Sea Region countries

Country	Tax base	Taxable object	Tax rate, %	Coefficient applied by a local government	Price for sqm
Latvia	Cadastral value	Land Buildings Engineering constructions Natural agricultural land Residential buildings	1.5 1.5 1.5 3 0.2-0.6	- - - - -	- - - - -
Lithuania	Cadastral value	Land Buildings Engineering constructions	1.5 0.3-1 0.3-1	- - -	- - -
Estonia	Cadastral value	Land	0.1-2.5	-	-
Sweden	Cadastral value	Buildings Residential buildings Engineering constructions	0.5-1 0.75 0.2-2.8	- - -	- - -
Denmark	Cadastral value	Land Buildings	1.0-3.4 0.4-2.8	- -	- -
Finland	Cadastral value	Buildings Residential buildings Engineering constructions	0.6-1.35 0.32-0.75 0.6-2.85	- - -	- - -
Germany	Cadastral value	Buildings	0.35	2.8-6.0	-
Poland	Value of one sqm of property, PLN	Land Buildings Residential buildings	- - -	- - -	0.41-0.80 4.27-21.05 0.67

Source: authors' construction based on Taxes in Europe, 2011

Table 3

Amount of immovable property tax and its share in total tax revenues in the Baltic Sea Region countries for the period of 2005-2009

Country		2005	2006	2007	2008	2009	Difference 2009/2005
Denmark	share,%	1.82	1.83	1.88	2.03	2.27	+0.45
	amount, mln. DKK	14 348.96	14 842.14	15 601.27	17 000.16	18 102.53	+ 3 753.57
Germany	share,%	1.17	1.13	1.11	1.10	1.14	-0.03
	amount, mln. EUR	10 250	10 400	10 710	10 810	10 940	+690
Estonia	share,%	0.95	0.80	0.70	0.93	0.97	+0.02
	amount, mln. EEK	506	517	552	755	755	+249
Latvia	share,%	2.34	1.95	1.65	1.50	2.10	-0.24
	amount, mln. LVL	61.60	66.40	74.20	70.70	73.07	+11.47
Lithuania	share,%	1.11	1.03	0.90	0.84	1.13	+0.02
	amount, mln. LTL	230.1	253.3	262.8	281.3	299	+68.9
Poland	share,%	3.60	3.39	3.08	3.18	3.44	-0.16
	amount, mln. PLN	11 614	12 139	12 622	13 899	14 700	+3 086
Finland	share,%	1.04	1.08	1.10	1.14	1.32	+0.28
	amount, mln. EUR	725	785	850	914	974	+249
Sweden	share,%	1.85	1.75	1.74	1.60	1.76	-0.09
	amount, mln. SEK	25 128.30	25 206.70	25 864.60	23 953.70	25 327.20	+198.9

Source: authors' construction based on Taxes in Europe, 2011

or lease which an owner of the property could receive within a year. Denmark and Sweden have strictly set the procedure for accounting of rent payments. The other countries determine the cadastral value based on the method of comparing transactions, which analyses real estate market information on cases of dispossession. Determination of the cadastral value does not include an individual assessment of each object, but a bulk assessment, which is based on the application of standard procedures for calculation of the value of an object for taxation purposes. This allows evaluating of a large number of objects with relatively low costs (Taxes in Europe, 2011).

Taxable objects significantly differ by the EU Baltic Sea Region countries. For example, in Estonia, immovable property tax is levied only on the land; while in Germany, the tax is levied only on buildings. Immovable property tax is applicable to residential buildings in Latvia, Sweden, Finland, and Poland. Latvia has the largest set of taxable objects; here immovable property tax is levied on the land, buildings, engineering constructions, and residential buildings (Taxes in Europe, 2011).

The EU Baltic Sea Region countries outline considerable differences in the techniques applied for setting immovable property tax rates; basically depending on the legislation of a certain country and economic experience. Fixed and variable tax rates are set depending on the method applied by each country. Local governments have the rights to impose fixed tax rates. Besides, local governments may set additional coefficients. For example, Germany has set a general immovable property tax rate levied at 0.35% and local governments depending on the type of use of immovable property determine additional coefficients ranging between 2.8 and 6.0 that are used for multiplying the fixed rate (Taxes in Europe, 2011). Some countries apply proportional tax rates. For example, in Latvia, residential buildings are levied at 0.2% of the property cadastral value, if the property cadastral value does not exceed LVL 40 000; at 0.4% of the property cadastral value, for the part of the property cadastral value that ranges between LVL 40 000 and LVL 75 000; and at 0.6% of the property cadastral value that exceeds LVL 75 000 (Par nekustama ipasuma nodokli, 2011).

Local governments have the rights to state tax reliefs to socially vulnerable taxpayers – retired persons, disabled persons; besides some countries (Sweden, Denmark, and Germany) prior to conferring tax reliefs, consider the family status of a taxpayer and their income level. For example, Sweden, to protect residents against high taxes, has set limits of payments, i.e. the amount of immovable property tax may not exceed 4-5% of a person's income (Taxes in Europe, 2011).

Immovable property tax reliefs are applied in all the EU Baltic Sea Region countries. In addition, there are types of immovable property that are fully or partially exempted from tax payment. The EU Baltic Sea Region countries apply tax exemptions to the objects used for cultural, education, public needs, state administration, and religious purposes. There are countries, which apply the exemption from immovable property tax for a certain period. This is done to promote certain types of economic activities. For example, in Sweden, immovable property tax shall not be paid 5 calendar years after the construction of a new residential building, while immovable property tax rate is reduced by 50% for the next 5 years. In Germany, immovable property tax shall not be paid 10 calendar years after the construction of a new residential building (Taxes in Europe, 2011). However, in Latvia, immovable property tax shall not be paid only one year after construction or reconstruction of a building to be used for economic purposes (Par nekustama ipasuma nodokli, 2011).

In Denmark and Germany, immovable property tax is included in corporate income tax or personal income tax, if the property is rented or hired (Taxes in Europe, 2011).

Poland is the only EU Baltic Sea Region country, which applies the value of one square metre and not the cadastral value for calculations of immovable property tax. Every year the government of Poland updates and states the value of immovable property per one square metre for each taxable object – land, buildings, residential buildings (Taxes in Europe, 2011). On the one hand, such administration of immovable property tax is simple and understandable; while on the other hand, economically, this leads to disregarding of the real estate market development and uneven distribution of tax burden.

The amount of collected immovable property tax revenues as well as the share of immovable property tax in total tax revenues greatly differ among the EU Baltic Sea Region countries (Table 3).

Characteristics of the share of immovable property tax of the EU Baltic Sea Region countries in total tax revenues of the state consolidated budget reveal the following peculiarities (Table 3). In 2009, the largest share of immovable property tax was observed in Poland (3.44%), Denmark (2.27%), and Latvia (2.10%). The different method for calculation of immovable property tax explains the high share of immovable property tax in Poland. Irrespective of the place of property location (town/city, countryside), immovable property tax is calculated based on the state determined value of one square metre. Thus, the location and market value of the property influence the amount of immovable property tax. Besides, Poland has defined a wide range of taxable objects (land, buildings, residential buildings), and considering the large territory of the country, it is saturated with real estate. The relatively high share of immovable property tax in Denmark may be explained by the highest immovable property tax rate for land (up to 3.4%) in the EU Baltic Sea Region countries. Though, the relatively high share of immovable property tax in Latvia is explained by a wide range of taxable objects (land, buildings, engineering constructions). In Latvia, an increase in the share of immovable property tax in total tax revenues was forecasted from 2010, since exactly in 2010, the immovable property tax rate for land was increased (from 1% to 1.5%), simultaneously widening the range of taxable objects – the government initiated the taxation of residential buildings with immovable property tax. Easier and simpler administration of immovable property tax compared with other taxes explains the widening of the range of taxable objects and increase of the tax rates. The government of Latvia prefers those taxes that exclude possibility to avoid paying of them; hence reducing the share of shadow economy.

In 2009, the lowest share of immovable property tax in total state tax revenues was in Estonia (0.97%), Lithuania (1.13%), and Germany (1.14%). The small share of immovable property tax in Estonia and Germany is explained by the fact that in Estonia, immovable property tax is imposed only to land, while in Germany – only to buildings. The low immovable property tax rate imposed to buildings (0.3-1%) explains the relatively small share of immovable property tax in Lithuania.

Table 3 provides the possibility to analyse the dynamics in the share of immovable property tax in 2009 compared with 2005. In 2009, the share of immovable property tax in total tax revenues has mostly increased in Denmark (+0.45 percentage points) and Finland (+0.28 percentage points) compared with 2005. Denmark and Finland are the only EU Baltic Sea Region countries, which outlined the increase in the share of immovable property tax for the period of 2005-2009. The largest decrease in immovable property tax has been observed in Latvia (-0.24 percentage points) and Poland (-0.16 percentage points).

However, the analysis on the amounts of immovable property tax for the period of 2005-2009 (Table 3) outlines that irrespective of fluctuations in the share of immovable property tax, the tax revenues from immovable property tax in absolute figures have shown an annual growing trend. A decrease in the amount of immovable property tax (in absolute figures) was observed only in 2008 in Latvia and Sweden. In Latvia, the change of immovable property tax rate for land from 1.5% to 1% of the cadastral value explains the decrease in the amount of immovable property tax. The substitution of immovable property tax levied on buildings with the local municipal duty in 2008 explains the decrease in the amount of immovable property tax in Sweden (Taxes in Europe, 2011).

Therefore, fluctuations in the share of immovable property tax may be explained by the changes of other taxes (personal income tax, value added tax etc.) in total tax revenues.

Conclusions, proposals, recommendations

1. The Baltic Sea Region is continuously developing as one of the economically most prosperous and dynamic regions. The cooperation among the Baltic Sea Region countries is considered as significant instrument in the establishment of a common EU policy.
2. The EU Baltic Sea Region countries have different tax systems - tax burden coincides with the economic potential of a country, i.e. a heavier tax burden corresponds to a larger GDP amount per capita. Tax structure varies between direct and indirect taxes. Countries encountering a larger share of the shadow economy (Latvia, Poland, Lithuania, Estonia) have a larger share of indirect taxes, while countries encountering a smaller share of the shadow economy (Denmark, Sweden Finland) have a larger share of direct taxes.
3. Objects taxable with immovable property tax, tax rates and procedure for setting tax rates significantly differ in the EU Baltic Sea Region member states. Immovable property tax is determined consistent with the policy, priorities, and development targets of each country. Immovable property tax revenues range between 0.97% (Estonia) and 3.44% (Poland) of total tax revenues.
4. In the future, the structure of direct taxes in Latvia, Lithuania, Estonia, and Poland should be revised and the tax burden should be shifted from personal income tax to immovable property tax, since it is difficult to avoid paying of immovable property tax. These changes could reduce the share of shadow economy and increase the share of direct taxes in total tax revenues.

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