

Real Estate Taxation in Poland and its Influence on Spatial Development

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1 ABSTRACT

Taxes are the price we pay for public goods, and property taxes in particular are the price for local infrastructure. Theory says that in order to compensate for the „unearned” income, tax contributions should be proportional to the gains from public investments. However, in practice this issue turns out to be very complex, and different countries have very differentiated property taxation systems. For example, either the whole property (land with improvements) or only land may be subject to taxation. Also, the tax rate may be based on property value, on its size or on both of them. In some countries, for example in Poland, apart from regular real estate tax, other taxes or fees may be occasionally imposed, what makes the issue even more complicated.

Depending on specific regulations, real estate taxation may cause various social and spatial redistributive effects. Generally speaking, the lower is the tax in relation to the value of public investments, the higher the attractiveness for private investments will be. The aim of this paper is to look at the relationship between real estate taxation and spatial development processes in Poland. In the first part of the paper the question will be addressed, how just and effective is the current system of taxation, or, in other words, what redistributive effects are likely to occur? In the following part possible alternative solutions will be considered, which can be drawn both from the experience of other countries and from theory. Finally, in the conclusion some remarks will be made on the role of real estate taxation in urban development and urban policy.

2 REAL ESTATE TAXATION IN POLAND

2.1 Historical context

Taxes on property are probably the oldest form of taxation. It was a common rule in the Middle Ages that only the landowners should bear the cost of national defence. Obviously, most taxes in that time were paid by the gentry, but as the rulers realized how much income does urban land generate, also the merchants and artisans were asked to pay their contribution to the crown. Not to mention that the privilege to own land in a city (i.e. to gain “citizen” rights) was related to the obligation to defend it. In Poland a medieval property tax was called “szos” (the name is derived from a similar German tax “schoss”).

In more recent times (after WWII), real estate taxation in Poland has been influenced by the socialist ideology. The aim was to achieve a communist society, where there would be no private property, and consequently no market, values nor prices. Yet, socialism – the official ideology of Polish People's Republic – was only “the way towards” communism, so the actual socio-economic system was somewhat mixed. In contrast to the other countries of the Soviet Block, the expropriation of private landowners was only to some extent successful (the capital city of Warsaw is a notable exception). However, the government often failed to recognize differences in land value, which obviously brought many negative consequences. “Planning disasters”, like the location of a heavy-polluting steel plant close to the historical city of Cracow, are only the most spectacular of them.

However, in spite of the doctrinal neglect of property values, a decree was passed in 1946 by the responsible minister (a decree was a typical for that period form of legislation, a substitute for a bill), which stated that real estate should be taxed according to the rental value. The rates of property tax were set on a high level: from 20% up to 30%, but only private property was subject to taxation, while the state-supported cooperative ownership was tax exempt. Having in mind the general political climate of that time, such form of taxation might be seen as a means of repression against the private sector. The same decree also allowed local authorities to introduce a number of additional property taxes: a dwelling tax paid by tenants, an “urban tax” for the purpose of covering the costs of road construction, and also a curious “tax on excess housing space”.

The system of real estate taxation under socialism was quite complicated, and especially in the early years it was frequently modified. For the purpose of this paper it is interesting to ask when and how taxation based on value has been substituted by taxation based on size. This change did not take place at once, but rather in

several steps. Notably, a decree from 1955 stated that vacant land should be taxed on the base of size, not value, and a 1975 bill applied this rule also to non-rented buildings. There were also several other more or less significant modifications, but until 1990 the system remained mixed. Then the political conditions changed, and in 1991 the new non-socialist government passed a bill on local taxes ¹, stating that the tax should be based on property size, not on value. Having in mind the official aim of creating a free-market economy, such regulations might seem a little odd, but at that time the property market has not been well developed yet, so the bill might have been seen as a temporary solution. However, this system of taxation remained largely unchanged in force until today.

2.2 Property tax today

Real estate tax in Poland is imposed on most property, except from rural land and forests, which are subject to special taxes. These taxes are not covered by this paper, and neither are taxes on transfer of property, since it is assumed that they have no or only marginal impact on spatial development. Property tax rates are set by municipal councils, but they must not exceed maximal rates which are published by the Ministry of Finances. These rates are updated yearly on the base of consumer price index. For the year 2012 the maximal rates are as follows (table 1):

Maximal property tax rates (PLN per sqm):	Land	Buildings
Commercial use	0.84	21.94
Housing	0.43	0.70
Other (including facilities of public purpose)	0.43	4.45-10.24

Table 1. Maximal property tax rates for various uses in the year 2012. Source: Ministry of Finances. 1 EUR = ca. 4 PLN

It is worth noting the large difference between the rates for commercial and housing buildings. However, these data tell us only a little if they are not related to income and property price data. According to the Central Statistical Office (Główny Urząd Statystyczny, GUS), the average salary in Poland amounted to 3435 PLN in 2010. Yet, one must have in mind the income gap between urban and rural areas, which is up to about 50%. A similar gap can be observed in the case of property prices. Substantial price increases have occurred following the EU accession, especially in the largest cities. Prices of land for construction vary depending on region from 30 to 280 PLN/sqm in the case of housing and from 40 to 250 PLN/sqm in the case of services. Obviously, in the capital and other important centres the prices are much above the average: land for housing costs 1200 PLN/sqm in Warsaw and 650 PLN/sqm in Poznań. ² Housing prices have nearly reached Western-European levels: in a regional centre like Poznań it is difficult to find a dwelling below 4000 PLN/sqm, and in Warsaw prices as high as 6000 PLN/sqm are considered a bargain (certainly, such dwellings can be found only at the outskirts). Prices in medium-sized cities are up to 50% of the capital level, and in rural areas it is a common practice to cut the costs by own work input. ³

On the base of the available data we can roughly estimate that in the case of housing use, the property tax may reach about 0.1% of value in small cities and rural areas. In large urban agglomerations, however, the tax burden will be much below that level, even if tax rate was set to maximum, which is typically the case. In either case, the property tax burden makes up only a marginal share of the average household budget. Yet, assuming that the local governments aim to maximize their profits, urban and suburban households will be generally better off than the rural ones. The case with commercial buildings is a little different, since the tax rate is over 30 times higher than the respective rate on housing. In small cities and rural areas the tax burden may even exceed 1% of property value, but in the largest cities, and especially in the CBDs, it will be typically below that threshold.

¹ Ustawa z dnia 12 stycznia 1991 o podatkach i opłatach lokalnych (Act on Local Taxes and Fees). All legal acts and other sources of law in Poland can be found at: www.isap.sejm.gov.pl.

² Data on land prices were estimated by consulting company "Promocja", www.sekocenbud.pl.

³ A reliable source of housing price data is The Polish Bank Association (Związek Banków Polskich, www.zbp.pl). However, these data cover only the largest cities. Moreover, the averages tend to be elevated by the prices of expensive apartments, which in fact make up a rather small share of the market. For the purpose of this paper, these data have been confronted with offers available on the internet.

Municipalities may differentiate tax rates according to location, age, technical standard of the building, and the kind of commercial/social activity. However, it is very unlikely that the municipalities ever use this option, since it would require them to run a rather costly quasi-valuation procedure at own cost, and even then they would not be allowed to raise the rates above the maximum. Finally, it is worth noting that the bill contains a very long catalogue of tax exemptions. Among others, all universities and colleges are exempt from the tax, and probably the most curious exemption has been granted to the Polish Association of Allotment Holders, which appears to be a surprisingly strong lobby institution (many allotments are located on valuable urban land). Other tax exemptions may be granted by the municipal council.

2.3 Property tax in the fiscal system

As shown above, the actual burden of the property tax in Poland is very low in the case of housing, and moderate in the case of commercial use. Altogether, the property tax makes up a rather small share of all public revenue in Poland. Other taxes, in particular value added tax (VAT), excise duties, personal income tax (PIT), and corporate income tax (CIT) bring much more revenue. However, most of this revenue is collected by the state budget, while the property tax is especially important for the municipalities (table 2):

Tax/recipient:	Municipalities (gminy)*	Counties (powiaty)	Regions (województwa)	State	Total
VAT	-	-	-	107.9	107.9
Excise duties**	-	-	-	55.7	55.7
PIT	23.2	2.8	0.9	35.6	62.5
CIT	2.0	0.1	3.9	21.8	27.8
Property tax	15.1	-	-	-	15.1

Table 2: Revenue from selected taxes (billions PLN) in Poland by recipients (2010). Source: Ministry of Finances and Central Statistical Office. * Including large cities with county status. ** Total excise duties on energy sources, alcohol and tobacco.

The fiscal system in Poland is a centralized one. The most important taxes are collected directly by the government. Local self-governments (municipalities) charge several taxes, among them a vehicle tax, an inheritance tax, and even a dog tax, but the property tax is by far the most important of them. Municipalities also receive a proportional share of PIT and a much smaller share of CIT. Sub-regional and regional self-governments (counties and regions) may not impose taxes on their own, but only receive a small share of income taxes. All levels of self-government are also supported by subsidies from the state. In 2010 the municipalities received about 34.5 billions PLN of the general subsidy (subwencja ogólna), which is mainly intended to finance the system of primary education. Also, since the EU accession the self-governments, mainly the municipalities, have received structural funds for investment purposes. In the period from 2006 to 2009, total transfers to municipalities exceeded 12 billions PLN.

A remarkable observation can be drawn from the comparison of the tax burden of different production factors. Traditionally three factors of production are differentiated: land, capital and work (recently, there has been a tendency to add technology as a fourth factor). From these three, work is by far the most heavily taxed one: apart from personal income tax, there are also health care and social security contributions, which in fact yield even more revenue for the public finances. On the other hand, land is taxed on a very small rate, even compared to buildings, which are classified as capital assets. Large differences in the tax burden may lead to a tendency to reduce the usage of the most taxed factor (in this case, employment) on the one hand, and use excess amounts of the less taxed factors on the other. A study on the impact of taxation structure on economic growth in OECD countries has shown that countries with higher income taxes tend to perform worse than average. On the other hand, taxes on immovable property turned out to be the most “growth-friendly” (Arnold 2008).

3 REAL ESTATE TAXATION AND SPATIAL DEVELOPMENT

3.1 Spatial development in Poland

Property sector in Poland has developed very rapidly in the last years. This is a catching-up development following many years of stagnation. Large scale state-subsidized housing construction programs of the 1970s ended up in the financial and economic crisis of the 1980s, from which the property sector was slowly recovering over the next decade. State financing ceased, and private financing was not available in sufficient amounts. This situation started to change when foreign capital flowed into Poland as the country moved on the path of European integration. With increasing purchase power, and especially due to better financing conditions (low cost mortgages), the property sector got a new impulse. The accession of Poland to the European Union (2004) symbolically marked the transition towards consumption society. Translated into the spatial language: new residential complexes, office “parks” and shopping facilities, all equipped with large amounts of parking space, and sometimes – but rather exceptionally – accompanied by other functions, for example parks or cultural facilities, have spawned in and around the largest cities. For Polish cities, which under socialism remained rather compact, land consumption has now become an issue.

The system of spatial planning in Poland has been criticised many times for its inability to manage urban growth. Municipalities have been charged with the main responsibility for spatial policy, which they under the given circumstances can hardly fulfil. Local authorities have a very imperfect set of planning instruments at their disposal, and they are not very keen to use them, for economic reasons, as will be explained in the following part of the paper, and sometimes also for political ones. Planners and professionals are, at least at the basic level, familiar with contemporary trends in planning. Applying for European funds has popularized the usage of “western” planning vocabulary, so the documents and strategies are filled with terms like “sustainability”, “revitalisation” etc. However, the actual developments are rather quite far from that (Radzinski, Beim, Modrzewski 2010).

Most of research on spatial development in Poland has been concentrated on the weaknesses of the planning system itself. On the other hand, very little attention has been paid to the role of fiscal system. It seems like the relationship between taxation and spatial development is underestimated, or even not considered at all. However, without disregarding the role of development plans, I will argue that if we want to understand the nature of urban development processes, we should understand the role of property taxes in the first line.

3.2 Spatial effects of property tax

Before investigating the particular case of contemporary Poland, let us introduce some broader context. It has become an established practice in the developed countries to make the local authorities responsible for the basic infrastructure, like roads, public transit, water-supply, sewage system etc. However, some decades ago we could still find not so few examples of privately financed infrastructure. In the well-known U.S. “streetcar suburbs” it was quite common to have the tram line constructed by the developer. The estate was delivered as a full product, consisting of both housing and transit. Today the rules are somewhat different, although we can still find examples of private financing of infrastructure, and more and more examples of public-private partnerships.

Public financing of infrastructure (either at local, regional or national level) is usually explained with reference to the theory of public goods. It is a specific kind of goods, which, as the theory says, are consumed collectively, i.e. they can be consumed at the same time by a large number of people, and nobody can be excluded from the consumption of these goods, or it is very difficult to do so. These features, the theory follows, make public goods less attractive for market providers, and therefore justify (in some cases) the intervention of government, in order to maximize the overall welfare. Public goods are sometimes referred to as an example of a “market failure” (Klosterman 2003).

And here the problem begins. To say that “the public should pay” actually means that some kind of a tax is necessary. But what tax would be the proper one? In simple terms, we can take one of two approaches here. The first one is to charge tax rates independent on the quantity of individual benefits from public investments. This solution is quite an easy one, because we do not need to ask how much each individual gained. Yet, easy solutions are not always the best ones. The other option is to make the charges proportional to the gains. Such way of taxation aims to make taxes more similar to user fees. Because of the spatial nature

of local public investments, which are mostly punctual or linear (so not evenly distributed), it is hard to assume that anyone gets the same or almost the same. Therefore, the latter approach seems to be more just.

What form of tax would be then practically the most appropriate to pay for the local infrastructure? A reasonable solution seems to be a tax on property value (*ad valorem*). It is quite obvious that public investments, for example in light rail transit, are capitalized in property value, and research has shown that depending on the project such gains may reach from 5% up to 30% (Hass-Klau, Crampton 2004, Doherty n.d.). So, if the respective property owner pays an increased tax rate, he simply returns the subsidy he received. If he still pays the same rate, he *de facto* receives a net subsidy.

In this light we can see that the system of real estate taxation in Poland has got a built-in mechanism of property owners subsidisation. To be sure, municipalities could differentiate real estate tax rates (remarkably, only according to features such as the age of buildings or technical condition, but not the market value), but this is rather a purely hypothetical option. Municipalities, which have very short budgets at their disposal anyway, would have to pay for a quasi-appraisal procedure by themselves, and even in this case they would not be allowed to raise tax rates above the maximums set by law, which, as we have seen, are very low compared to market values. So the local governments have to look for other sources of investment funds, but hardly any are available. It is possible to apply for government grants for special purposes, and in the last years also for EU funds. Altogether, the system of money transfers becomes very complicated.

This system is ineffective and, as I will argue, has got negative impact on spatial development. By enacting a local development plan (*miejscowy plan zagospodarowania przestrzennego*), local authorities take the legal obligation to supply the necessary infrastructure. In order to do this, they need to pay for the acquisition of land for public purposes (unless they already own it, which is a rare case), and then for the construction work. Even the first step may turn out to be too expensive, and the authorities are well aware, that the investment (unless it is a large shopping centre – see below) will bring only a small increase in direct tax revenue. There might be also some indirect gains from personal income tax or corporate income tax, if new inhabitants or companies are attracted, but these will typically appear after some time, and they will likely be not large enough to cover all the public expenditures. Therefore, it is not easy to predict that in the absence of economic stimulus the authorities are generally not very keen to invest in infrastructure. In particular cases investment decisions may rely more on political factors, than on the economic ones. Local authorities avoid enacting local development plans, using some kind of “incremental planning” instead, which does not cause financial obligations for them (Beim, Modrzewski 2011). The most evident result of such policy are infrastructure shortages in suburban areas (fig. 1), especially in the field of public transit, which lead to automobile dependency and congestion.



Fig. 1. Typical infrastructure shortages in suburban districts of Poznań. Photo: A. Radzimski.

Shopping centres are a special case, since the tax rate for commercially used buildings is much higher than the respective rate for housing. Poland has experienced a huge increase in retail space in the course of last years. This process started already in the 1990s with supermarkets and discounters, but recently growth can be observed especially in the sector of large multifunctional facilities (shopping malls). They first appeared in the largest cities, and now are also growing in the mid-size ones. Total sales area usually varies between 20,000 and 50,000 sqm, but larger objects can also be found. Shopping malls make up a significant share of the property tax revenue, which is a strong argument for the local councils, who decide upon the approval of such facilities (fig. 2). Another potentially important source of tax revenue are office centres, but the office market in Poland is mostly developed in Warsaw, and to a much smaller extent in the regional cities (Cracow, Wrocław, Poznań, Gdańsk).

An important disadvantage of the current property tax is that it allows landowners to keep their land idle for long periods of time. Persons or companies who dispose over free capital may buy land, either in the expectation of price increases, or just because it is perceived as a low-risk investment. Such “frozen” properties cannot be used in the productive sectors of economy, so apart from the spatial effects, such “investment strategy” may become an impediment to economic growth. Moreover, not only land market seems to be affected by the taxation system, but also the housing market. Although there are no exact data, it is estimated that several thousands of dwellings built in last years have never been inhabited so far. It is very probable that speculative buying by private persons and investment funds played a role in the unprecedented increase of housing prices in the years 2006-2009.



Fig. 2. Shopping mall: not the prettiest part of the cityscape, but a good source of the property tax revenue. Photo: A. Radzimski.

3.3 Instruments of property value capture

As already mentioned, the current form of the property tax in Poland does not allow to capture an increase of property value caused by public investments. There are, however, special quasi-taxes that have been invented for this purpose. These are the charges on property value increase due to 1) zoning regulations, and 2) division, or subsequent merging and division of property, or the construction of new infrastructure. The first one is charged by the municipality if a more profitable land use has been allowed in the local development plan (for example, housing instead of agriculture). In this case a part of property value increase might be repaid to the municipality in the form of a planning charge, or planning rent (*renta planistyczna*), as it is usually called. However, there are two limitations that greatly reduce the applicability of this instrument. Firstly, the municipality may decide how high the charge will be, but it must not exceed 30% of the value increase. It is worth noting that in the opposite case – when the property value has decreased due to zoning regulations – the owner may claim from the municipality full compensation, purchase or exchange of the property. Secondly, the charge may be levied only if the owner has sold (or donated) the property within the

period of five years after the plan has been enacted.⁴ As we can see, both these regulations put the municipality in an underprivileged position.

The other charge, which is called “adjacent fee” (opłata adiacencka, the name is probably derived from the English/French adjective “adjacent”), is an example of what is known in the literature as “betterment fee”. It may be claimed by the municipality in several situations. Firstly, if the property value has increased due to division or subsequent merging and division of properties. Such actions are usually undertaken in order to make land more suitable for construction. In this case the charge must not exceed 30% of property value increase, and may be imposed over three years after the changes took place. In contrast to the planning rent, the charge may be levied even if the owner has not sold the property. Secondly, the charge applies when new infrastructure has been built with the means of the government, self-government or the European Union. Also in this case the deadline is three years, but the limit is higher, namely up to 50% of property value increase. Yet, the definition of infrastructure for fiscal purposes is rather narrow. It generally includes only technical infrastructure, so that schools, kindergartens or parks, which may greatly contribute to property value, are excluded. Moreover, only some kinds of technical infrastructure are included: roads, water supply, sewage system, electricity, heat, gas and telecommunication lines. Also, as the name suggests, only “adjacent” properties are charged, while indirect effects, for example resulting from the construction of a major road, are not included.

Both charges described above are rather problematic tools for the municipalities. It is quite obvious that to apply such “extraordinary” fiscal instruments is politically very unpopular. Also, this form of taxation bears a high transaction cost, since each charge must be based on valuation. An analysis has shown that the cost of property appraisal may take up to one third of the revenue from the fees (Czochański, Dziubińska 2008). Therefore, we should not be surprised that the municipalities show some restraint in imposing the charges. For example, in the city of Poznań the revenue from both charges in 2010 amounted to 1.7 mln PLN, i.e. less than 0.01% of total revenue. For comparison, total revenue from the property tax amounted to 296 mln PLN (13%), and total spending on public roads exceeded 400 mln PLN. Also, the city spent 6.8 mln PLN on the spatial planning office, a special administration unit which elaborates local development plans and other planning documents.⁵ So the revenue from planning rent has actually not even covered the costs of elaborating plans. In another large Polish city – Łódź – the charge on gains from infrastructure has been set to null. Such decisions can hardly be justified from the point of view of public finances, but they should be rather judged according to the above mentioned criterion of “political popularity”.

3.4 Private financing of infrastructure

The overall efficiency of real estate taxation in Poland is low. Since the municipalities do not get enough return on their investments, they are in result short on money, and also short on infrastructure. So, if the public sector turns out to be unable to fill the task, perhaps the private sector should come into play? Indeed, such process is really taking place, but on a rather small scale. In middle-class suburban districts more and more privately or partly privately financed streets and pavements can be found, not to mention private kindergartens (fig. 3). Such solutions based on consensus typically work on the scale of a small (and rather rich) neighborhood. However, problems occur as we move up to the scale of a large district, or to the city and agglomeration scale.

In these scales several solutions are considered which would facilitate private financing of infrastructure. These are in particular: 1) contracts with developers, 2) public-private partnerships. Although there are no specific regulations of city-developer contracts in the planning law, it is possible to apply general rules of the civil law. Yet, neither the public side nor the private side have shown much interest until now. The few examples have demonstrated that the position of municipalities in such a contract is weak. Once the developer has already finished his project without respecting the contract, it is very hard to get him to fill his obligations. In the case of public-private partnerships, some municipalities have shown initial interest. A wide range of facilities has been considered for public-private partnerships, including underground car parks, tram lines, and even social housing. Yet, the response of investors has not been very enthusiastic so far.

⁴ Ustawa z dnia 27 marca 2003 roku o planowaniu i zagospodarowaniu przestrzennym (Spatial Planning and Development Act).

⁵ Data have been drawn from the budget report of the City of Poznań, published in the Public Information Bulletin (Biuletyn Informacji Publicznej, bip.poznan.pl, 20.02.2012)

4 WHAT ARE THE ALTERNATIVES?

Everything said before leads to the conclusion that it would be reasonable to replace the current system of taxation, with constant “base” tax and “extra” taxes on value gains, with one ad valorem tax. But this point is only the beginning of discussion, not the end. Both in theory and in practice we can find many forms of real estate taxation, and the choice of the proper one is not so obvious. Let us have just a short overview.

The German “grundsteuer” is based on property value set by the financial administration (einheitswert), which is then multiplied by the usage-specific rate (grundsteuermesszahl) and a location-specific factor set by the municipality (hebesatz). With over 10 bln EUR total revenue, this tax is the third most important source of revenue for municipalities, after “gewerbesteuer” – a special local tax on businesses, and the local share of personal income tax (15%). In the United Kingdom there was a long-established system of property taxation called „rates“. In 1989 in Scotland, and in 1990 in England and Wales rates on housing were substituted by a „community charge“ (also known as „poll tax“), whereas commercial properties continued to be taxed according to the rates. In Northern Ireland rates on housing still remain in force. In 1993 the unpopular community charge has been substituted with „council tax“, a modified version of the rates. Local authorities are allowed to set the rates (not to be confused with the old tax system) of council tax, but the calculation of the tax burden is quite complicated. In the strongly centralized British administration system, the council tax is the only revenue that the municipalities work out on their own. Business rates are collected by the government and then redistributed according to the size of population, and most of the municipal revenue comes from government subsidies. For comparison, municipalities in the United States are to a larger extent self-financing, although the share of property tax in local revenues declined from over 80% in 1932 to less than 50% nowadays.⁶ American households typically spend more on property tax than the European ones (median property tax on housing paid in 2010 amounted to 1236 USD, according to the data of the Tax Foundation), but instead they enjoy lower taxation in other fields, particularly on the goods and services.



Fig. 3. Inscription under the sign: „Private area. Entrance only for the residents of Italia estate“. Photo: A. Radzimski.

Despite all the differences, a common feature of all the systems mentioned above (and many others too) is that the tax is levied on the value of the whole property (land with improvements). This is probably the most widespread option, but not the only one. In some countries, like Denmark, Estonia or Australia, the property tax is a land value tax. It means that for fiscal purposes only the value of land is considered, without

⁶ Data drawn from: History of Property Taxes in the United States, <http://eh.net/encyclopedia/article/fisher.property.tax.history.us> (30.04.2012).

buildings or any other improvements that the owner had undertaken. This form of taxation has got also a group of proponents among urban economists. One of them puts forward some arguments for the land value tax (LVT): “Current tax policies tend to discourage the development of urban land, because the fruits of those developments are directly taxed. To the extent that those policies are replaced by policies that tap geo-rent, the landowner is incited to develop his land. Recall, an underused site pays the same geo-rent tax as a developed site. The untaxing of production combined with the tapping of geo-rent will induce infilling of the city center, making for a more compact city, agreeable to mixed use and pedestrian activity. Hence, the demand-side push for sprawl is diminished” (Foldvary 2005, p. 124).

The proponents of LVT claim that such tax would have a better influence on urban development than the most common form of taxation. They argue that the landowners would be less likely to hold sites idle, and so the pressure on suburban development would be reduced. They also propose to compensate the increased burden of taxation by lowering other taxes, in particular personal income tax. Foldvary follows: “Today, government works are financed in large part by taxes on labor, profits, sales, and non-land real estate. The owners of land receive an implicit subsidy. This implicit subsidy is of great empirical importance, yet is not discussed in microeconomics textbooks, and is usually ignored in the tax analysis in public finance” (Foldvary 2005, p. 116).

More skeptical towards the idea of a pure land value tax are the authors of a study published by the World Bank (Maurer and Paugam 2000). In their opinion, there are several problems related to the implementation of this tax, for example the acceptability of rates, which would be higher than in the case of whole property taxation. However, they agree that high taxation of buildings is a factor that supports suburban growth instead of infill development. Therefore, they suggest that the transition economies in Central-Eastern Europe should not follow the path of the West, but rather use a double rate system instead. In this system the tax rate imposed on land is higher than the rate imposed on improvements. It is worth noting in this context that one of the transition economies (Estonia) has already adopted a land value tax.

There have also been attempts to reform the system of real estate taxation in Western Europe, and in particular in Germany. This country has got one of the oldest traditions of institutionalized urban planning, and the German planning system is believed to be one of the best in the world. Yet, even in such a well-planned country urban sprawl remains an unsolved issue. Several years ago a research project commissioned by the federal state of North Rhine-Westphalia ended with a conclusion that in order to develop more compact urban structures and reduce unnecessary mobility it is essential to substitute the *Grundsteuer* with a combined tax, imposed on land value and plot size (Apel et al. 1995). Yet, although some time has passed, the rules of taxation in Germany have not changed. There seems to be no strong political will to bring the subject on the agenda.

In Poland the discussion about a possible *ad valorem* tax, which is usually called “cadastral tax” (*podatek katastralny*, from *cadastre* – property register), returns from time to time. This subject appears occasionally in the media, and the articles usually reflect some fears related to this form of taxation. One of the most often raised concerns is the situation of households with low income living in valuable dwellings in good locations. Indeed, if the burden of the property tax was increased without simultaneously lowering other taxes, then the less affluent groups of society would possibly fall in a serious financial trouble. However, it is quite obvious that media coverage is usually superficial and does not go so far to consider complex changes in the fiscal system. Yet, the media have an impact on the public opinion. To make things clear, if ever any alternative real estate tax is considered, it is the tax on whole property value (land with improvements), with single rate. The proponents argue that it is the most widespread form of real estate taxation in Western Europe, and so a good example to follow. Yet, as we have seen, apart from the single common feature the forms of taxation vary significantly, and also alternative solutions are considered.

From the legal point of view, Poland is partly ready for the introduction of an *ad valorem* tax. According to the Real Estate Management Act (1997) a nationwide property register (*kataster*) ought to be created, including property values for fiscal purposes. There are certified real estate appraisers, who would conduct the valuation (they already appraise properties for a variety of purposes, for example in the case of expropriation). Yet the crucial issue has not been solved – who and how should pay for the valuation procedure. The 1997 Act states that this should be determined in another act – which has not been passed up to now. Another option would be self-appraisal, but to allow this would require legal changes, and such

solution would certainly meet resistance from the professional lobby. Politically the subject of cadastral tax has been out of agenda for a couple of years.

5 CONCLUSION

Much has been written in the last years about that how the system of spatial planning could be improved. Even the European Union became interested in the subject, although the Community is officially not allowed to intervene into the spatial policies of the member states. Research projects are running, conferences are being organized, and documents like Leipzig Charter are being published. Not disregarding all these efforts, one must admit that we are still away from the desirable goal of urban sustainability. Perhaps some element is missing in the puzzle, and there is a good chance that it is a fiscal solution. The costs of public investments are only to a small extent covered by property owners, who are the largest beneficiaries of them. Poland is probably an extreme case, but other countries do likely suffer under the same disease. Local authorities are dependent on subsidies, and a huge bureaucracy is needed to manage the system of money transfers. This causes a confusion among taxpayers and a growing disbelief in the ability of public authorities to fill their tasks.

The system of taxation needs to be simplified, and more money should be managed locally. If people see the “fruits” of their taxes, they can more easily check the efficiency of public spending. If they see that infrastructure costs in low-density suburban locations are too high, they may choose to move closer to the city centre instead. Fiscal changes alone would probably not make cities compact, because a set of factors on both the public and private side are significant. Yet, an important economic stimulus for urban sprawl would be reduced. Certainly, much depends on the particular solutions, and this question is open at this point. Transition countries like Poland should draw lessons from the experience the West, but also consider alternatives. Perhaps also countries with long established systems of property taxation should consider a reform, in order to give the local governments more autonomy. Finally, I would like to stress that I do not believe that taxes would do the planners' work. Planners are creative, and taxes are not. Good urban design has always been and will be welcome, and fiscal solutions would just allow planners to sail with the wind, not against it.

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