18. Property Tax in Ukraine

Like most countries that emerged from the former Soviet Union, Ukraine has faced very substantial difficulties in maintaining economic growth while at the same time organizing an effective national government and national fiscal structure and administration. An important aspect of this task has been to establish clearly defined property rights, including those in land, in order to facilitate market activities while also providing an appropriate fiscal base for government. Simultaneously, Ukraine has had to deal with establishing viable local and regional governments and coping with their demands and needs.

Although Ukraine has a unitary system of government, it has 27 regional or oblast level governments (including the Crimean Republic and the Cities of Kiev (Kyiv) and Sevastapol, which have oblast status), as well as close to 500 rayon (district) governments, almost as many municipalities, and many settlements and villages. Rayons and cities are subordinated to oblasts which are in turn subordinated to the central government. On the other hand, the lower levels of local government are controlled by locally-elected councils (radas). In principle, the development of a feasible and appropriate local tax base is an important component of any sustainable long-term solution to the complex problem of establishing a viable intergovernmental fiscal system. This need has clearly been recognized in Ukraine, but as yet little progress has been made in this respect. At present, there is essentially no significant local tax autonomy in Ukraine and almost all local revenue comes from shares of national taxes on a derivation basis. (Since the Budget Code adopted in 2001, however, at least these shares are fixed rather than discretionary, as in earlier years.) Although a 1993 decree On Local Taxes and Duties established a number of “local taxes”, none of these has much revenue potential and, as seen below, none produces much revenue. Moreover, although these local taxes are administered by local tax offices, these offices are under the national State Tax Administration.

Although a new Tax Code which would entail many changes in intergovernmental fiscal relations has been under discussion in the legislature for some time, and possible changes in property taxation have been extensively discussed in this connection, as yet the situation in Ukraine remains highly centralized, with all significant taxes on land and property being entirely under central government control, even though in most cases the proceeds are channeled to local budgets on a derivation basis. This note first discusses the existing system and then outlines briefly the proposed introduction of a real estate tax to replace many of the present local taxes.

Current Taxes and Charges on Land and Property

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1 Prepared by Richard Bird, University of Toronto. I am grateful to Svetlana Budagovskaya, World Bank, Kyiv, for information and helpful comments.
The only “local taxes and duties” affecting land and property are the following minor levies:

1. Fee charged for authorization for the extension of private apartments.
2. Hotel fees charged to persons who stay in hotels, motels, and other premises of residential type as well as to legal entities that rent hotel space.
3. Resort fees charged to persons who visit holiday resort areas.
4. Fees charged to legal entities for permission to establish facilities in densely-populated areas and to individuals who receive permission to build residential constructions in such areas. These fees are based on the size of the area used for construction purposes.
5. There is a similar fee charged to legal entities which operate in the central parts of densely populated areas and in buildings of historical or architectural value.

While there is no information on exactly how much is collected from these minor fees, the figures for “local taxes” shown below suggest that, as might be expected, these charges are of little importance. In 2000, for example, less than UAH 0.5 million was collected for all local taxes and charges.

Much more important are land payments and taxes imposed by the central government, as follows:\(^2\)

Although both a land tax and a real estate tax are specifically enumerated as state taxes, in fact the main tax on land is the 1992 law On Payment for Land which imposes a tax on legal entities and physical persons who own or use land.\(^3\) Unlike Russia, there is no tax on buildings as such (other than the small local fees noted above). Land tax rates vary depending upon the land is intended to be used in agriculture or not. Agricultural land is taxed at rates depending upon what it is used for – arable land and plantations or hayfields and pastures – and upon its fertility according to the land cadastre.\(^4\) Non-agricultural land is taxed at rates depending upon the category of the settlement – number of inhabitants -- and its location within the settlement. Rates varied (in 1999) from UAH 0.015 (in localities with populations less than 200) to 0.21 per square meter (in cities over one million), or 1% of land valuation. This tax is to be self-assessed and paid by legal entities by July 15. With respect to physical persons, for whom the tax is payable on August 15 and November 15, the tax is levied by the tax office.\(^5\)

\(^2\) Parenthetically, it should perhaps be noted that Ukrainian statistics sometimes show “property taxes” as a revenue source. As a rule, this item refers solely to taxes on vehicles. Land tax revenue is sometimes labeled as “royalties for use of natural resources.” The “fixed” taxes noted below are usually classified as “other tax revenues.”

\(^3\) Since 1996, there have been 30 amendments to this law. An interesting recent provision is Art. 7.1.2 of a 2002 law On Procedure for Satisfying Taxpayer Liabilities to the Budgets and Government Target Funds” (the “Payments Law”) which specifies that if no person responsible for paying taxes and charges on immovable property can be located, the taxes and charges may be “applied directly to objects of such property.”

\(^4\) The State Committee on Land Resources is responsible for land assessment.

\(^5\) Under other laws, special charges are imposed on the use of forestry resources (essentially based on wood cut), on fresh water resources (essentially on water used), and on mineral resources (essentially on extraction).
Exemptions include enterprises in the state sector as well as cultural, scientific, education and health care organizations and charitable foundations. Those subject to the fixed agricultural tax are not subject to the land tax. In addition, land tax exemptions are often granted as part of the package of tax incentives (e.g. in “free zones”). The estimated revenue cost of land tax exemptions in 2000 was UAH 0.9 million or about 10% of land taxes collected.\(^6\) In 2000, 168,411 land tax payees were registered with the State Tax Administration, of whom 149,537 (88.8%) actually filed tax declarations. The total land tax assessed in that year was UAH 1.6 million, compared to arrears of UAH 0.5 million (26% of total liabilities).\(^7\)

Small businesses that choose to be taxed under a “simplified” tax system introduced in 1998 (On Simplified System of Taxation, Registration and Reporting of Small Business Entities) are not subject to the land tax (or the duties for special utilization of natural resources). Physical persons who employ less than 10 people and have sales less than UAH 500,000 (less than USD 100,000) and legal entities with less than 50 employees and sales less than UAH 1 million may opt for this system. Legal entities under the simplified system pay a single tax of 6% on sales (plus VAT) or 10% (and no VAT). Physical persons are taxed at fixed rates set for different activities by local councils, within the range of UAH 20-200 per month (less than USD 50-500 per year). 23% of proceeds from the single tax goes to local budgets. Reportedly, depending upon the sector, from 45%-65% of businesses can choose to adopt this system, and about half of those eligible have done so. Total collections from this tax in 2000, however, were only UAH 0.5 million. As can be seen in Table 1 below, it seems likely that both the fall in the number of land taxpayers and the stagnation in collections from this source in 1999 may be attributed at least in part to the introduction of the simplified tax.

Along similar lines, a 1998 law On Fixed Agricultural Tax replaced land tax, payment for use of natural resources, and many other taxes. This tax applies to agricultural enterprises including food processors so long as such sales do not exceed 50% of gross revenues. The rates are based on estimated land values per hectare as established in the land cadastre and vary by the type of land between 0.1% and 0.5%. The tax is paid quarterly, and 30% of its proceeds go to local budgets.

Tables 1–3 depict the importance of these various levies from different perspectives. Table 1 shows for 1995-2000, the land tax collections and other information reported by the State Tax Administration which, it will be recalled, collects all local taxes also. STA does not, however, collect all revenues in Ukraine, so Table 2 places the land tax (still based of course on the STA data) in the context of all government revenues and GDP for 1998-2000. Finally, Table 3 shows the importance of all the taxes mentioned above in local budgets in 2000 and 2001. While not all these figures are easily comparable, the picture they reveal – that taxes on land and property are not very important in Ukraine –

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\(^6\) Reportedly, local governments may exempt taxpayers from paying the share of taxes due to local governments (100% in case of land tax), but there seems to be no information on the extent to which this is done.

\(^7\) No information is available on appeals.
seems clear. An additional important piece of information is that local revenues accounted (in 1998) for 14.4% of GDP and 40.1% of consolidated government expenditures. As in other former Soviet countries, the size of the government sector has shrunk over the last decade, but the share of the local sector has remained relatively constant at around 40% of the total. Interestingly, the share of land taxes rose from less than 5% of total local revenues in 1993 and 1994 to 8% by 1998. Table 3 suggests that this trend has been sustained. “Local” taxes and fees, on the other hand, have never yielded more than 3% of local revenues.

Table 1: Land Tax Data from State Tax Administration

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<tbody>
<tr>
<td>Registered Taxpayers</td>
<td>190,426</td>
<td>214,766</td>
<td>190,067</td>
<td>196,846</td>
<td>178,158</td>
<td>168,411</td>
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<tr>
<td>Reporting Taxpayers (as %)</td>
<td>73.7</td>
<td>75.2</td>
<td>91.0</td>
<td>90.1</td>
<td>87.3</td>
<td>88.8</td>
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<tr>
<td>Collections (UAH ‘000)</td>
<td>649</td>
<td>815</td>
<td>1,005</td>
<td>1,105</td>
<td>1,104</td>
<td>1,375</td>
</tr>
<tr>
<td>Arrears (UAH ‘000)</td>
<td>81</td>
<td>166</td>
<td>220</td>
<td>419</td>
<td>332</td>
<td>494</td>
</tr>
<tr>
<td>Exempt enterprises</td>
<td>31,141</td>
<td>23,889</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue loss (UAH ‘000)</td>
<td></td>
<td>1,642</td>
<td>1,004</td>
<td>871</td>
<td></td>
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</tr>
</tbody>
</table>

Source: State Tax Administration. Note that all land tax revenue went to local governments in 1997 and later years, but that in 1995 only 84.2% and in 1996 73.4% went to local budgets.

Table 2. The Revenue Importance of Land Taxes

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<tr>
<th></th>
<th>1998</th>
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<tbody>
<tr>
<td>Land tax (UAH million)</td>
<td>1114.9</td>
<td>1094.5</td>
<td>1376.7</td>
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<tr>
<td>Local taxes and</td>
<td>392.1</td>
<td>440.5</td>
<td>485.3</td>
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Table 3. Local Revenues (for first nine months of 2001)

Total revenues (general fund)  UAH 12.3 billion
   Of which:   Personal income tax  50.3%
               Land payments (tax)  9.5
               Local taxes and fees  3.1
               Simplified tax        2.6
               Fixed agricultural tax 0.4
               Other                 35.1


Proposed Reforms in Land Taxation

A 1998 examination of property tax reform in Ukraine reviewed several earlier unsuccessful attempts to introduce a real estate tax and suggested that, since it would be neither easy nor quick to set up a market value based tax, the best approach might be to begin with a unit value assessment system. This advice still seems sound. Nonetheless, the current draft of the tax code includes a tax on all forms of immovable property, including agricultural land, land plots, buildings and constructions, assuming that valuation data is available for all. As under the current system, however, agricultural land is taxed differently and an attempt is made to impose higher taxes on more valuable land in populated areas. Taxpayers are identified as owners and land users. The tax base for land is value or area, where value has not been established. For buildings, the base is capital value. Building values are to be revised every five years, but the base can be indexed if inflation exceeds 10% in any tax year. The rates of tax on agricultural land are set as a percentage of value adjusted by a coefficient varied by the usage of the land. Farmers would be allowed to credit property tax against enterprise profits tax. The rate on land in populated areas is set at 1% or different fixed rates per square meter if no values, with surcharges applied in cities. Buildings are taxed from 1% to 2%. Local radas are allowed to impose surcharges up to twice the established rate. There are many other

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special rates (for railways, recreational land, water reserves, etc.) Many exemptions are provided in the draft legislation: one estimate, for example, is that 80% of all residential property would be exempted.\textsuperscript{10} Even if the tax in the draft Tax Code is implemented, it thus seems unlikely that Ukraine will have reached the end of its long road to establishing a viable local property tax.