

**CASE REPORTS**

**EU28 legal and fiscal readiness  
for the adoption of an on-tax  
financing mechanism  
– EuroPACE**

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## List of Abbreviations

ADEME	Agency for Environment and Mastering of Energy
AFS	Annual Financial Statement
ALAL	Association of Local Authorities
APTA	Austrian Property Tax Act
ARERA	Italian Regulatory Authority for Energy, Networks and Environment
ASIC	Aradippou Smart Industrial City
BID	Business Improvement District
CEE	Central and Eastern Europe
CEI	Center for Monitoring Business Activities in the Energy Sector and Investments
CGS	Clean Growth Strategy
CoE	Council of Europe
EAC	Electricity Authority of Cyprus
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EE	Energy Efficiency
ENEF	Energy Efficiency Fund
ENFIA	Uniform Tax on the Ownership of Real Estate
EPBD	Energy Performance in Buildings Directive
EU	European Union
GHG	Greenhouse Gas
HMRC	Her Majesty's Revenue and Customs (HM Revenue and Customs)
HRI	Home Renovation Incentive
ICT	Information and Communication Technologies
IEA	International Energy Agency
IMF	International Monetary Fund
IMI	Imposto Municipal sobre Imóveis
LABEEF	Latvian Baltic Energy Efficiency Facility
LCA	Local Councils Act
LMDF	Luxembourg Microfinance and Development Fund
LPT	Local Property Tax
MF	Ministry of Finance
MiFID	Markets in Financial Instruments Directive
MS	Member State
NREAP	National Renewable Energy Action Plan
NTCA	National Tax and Customs Administration of Hungary
NZEBs	Nearly Zero-Energy Buildings
OECD	Organisation for Economic Co-operation and Development
PACE	Property Assessed Clean Energy
PPP	Public-Private Partnership
RES	Renewable Energy Source
RMI	Readiness Map Index
RUE	Rational Use of Energy
SAO	State Audit Office
SDGs	Sustainable Development Goals
SEAP	Sustainable Energy Action Plan
US	United States
UTCS	Union of Towns and Cities of Slovakia
WB	World Bank

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# Executive summary

The European Union (EU) is currently facing a number of challenges concerning the supply of secure, clean, and affordable energy. By using energy more efficiently, European citizens can lower their energy bills and reduce their reliance on external suppliers of energy sources, while at the same time protecting the environment. As global climate negotiations have progressed, in 2016, the European Commission (EC) presented a set of legislative proposals (“Clean Energy for All Europeans”) that aimed at preparing the EU energy sector to achieve new ambitious policy goals. The package provides the legislative framework to stimulate the needed investments to make Europe a global leader in promoting renewable energies and tapping energy efficiency (EE) potentials, while at the same time making energy affordable for all citizens. Additionally, the Energy Performance in Buildings Directive (EPBD) promotes nearly zero-energy buildings (NZEBs), mandatory for all new buildings from 31 December 2020. In June 2018, the EU announced its intention to increase energy and greenhouse gas (GHG) emissions targets for the period up to 2030, reinforcing its commitment to the Paris Agreement and demonstrating its leadership in this area. Its latest goals foresee a share of at least 32% renewable energy consumption by 2030 and an indicative target for an improvement in EE at the EU level of at least 32.5% (compared to projections), which corresponds to a reduction of greenhouse gas emissions by at least 40% compared to 1990 levels.

At the same time, according to Eurostat, 26% of the total final energy consumption in the 28 EU Member States (MS; EU28) in 2016 corresponded to residential consumption, thereby making up a non-negligible share of about 5% of total consumption expenditures in the EU. EU buildings, residential and non-residential, account for approximately 40% of energy consumption and 36% of CO<sub>2</sub> emissions. About 35% of the EU's buildings are over 50 years old and almost 75% of the building stock is energy inefficient, while only 0.4-1.2% (depending on the country) of the building stock is renovated each year. Current developments aiming to increase EE do not reflect ambitious political goals.

The statistics vary, but in general, EU citizens spend approximately 90% of their time indoors; and while time spent in workplaces, schools, and public spaces is relevant, it is the time spent in our homes that accounts for two-thirds of this time in total. The aim of this paper is to present an ingenious financial mechanism – EuroPACE – which could increase the quality of this crucial residential category.

EuroPACE is an innovative financial mechanism inspired by an American building improvement initiative called Property Assessed Clean Energy (PACE). The innovative character of the EuroPACE mechanism is that financing through EuroPACE is linked to the taxes paid on a prop-

erty. In other words, the financing lent by a private investor is repaid through property taxes and other charges related to the buildings. EuroPACE is therefore in line with the EC's objectives of (1) putting EE first, (2) contributing to the EU's global leadership, and (3) empowering consumers to enable MS to reach their energy and climate targets for 2030. Last but not least, EuroPACE could contribute to the democratisation of the energy supply by offering cash-flow positive, decentralised EE solutions.

The EuroPACE mechanism engages several stakeholders in the process: local government, investors, equipment installers, and homeowners. To establish the EuroPACE programme, several conditions must be satisfied, each of which are relevant for different stakeholder at different stages of the implementation. For the purpose of this report, we divided these criteria into two categories: key criteria, which make the implementation possible, and complementary criteria, which make the implementation easier. For the time being, it is a pure hypothesis to be tested with potential EuroPACE implementation.

One ought to remember that residential on-tax financing is a concept in its infancy in the EU. Therefore, the methodology to evaluate the readiness of a country to implement on-tax financing is complex and consists of six stages:

1. Identification of fiscal and regulatory conditions;
2. Data collection;
3. Weighting;
4. Grading;
5. Country SWOT analysis;
6. Qualitative assessment.

Based on the knowledge gathered from the American PACE scheme, as well as from the pilot study being performed in the Spanish city of Olot, the fiscal and regulatory conditions required to successfully implement EuroPACE have been divided into four areas. These areas correspond to the EuroPACE criteria and are addressed to the different stakeholders of the EuroPACE mechanism.

All together, 112 tables were prepared – 4 for each of the 28 MS. Moreover, to assess country readiness, we have defined a weighting of different criteria. Although all of the criteria assessed in each of the four tables are important to implement EuroPACE, our initial assumption is that three criteria will most likely be crucial in the successful development of the scheme. The three criteria are: (1) property related taxes; (2) an effective foreclosure mechanism; and (3) property liens.

When all of the tables were filled in and the grading for each country was completed, the total points acquired were counted and compared. This rating served as the basis for the preparation of the EuroPACE readiness map.

One should remember that given the innovative character of this study, such type of methodology will never be objective and purely comparable. Therefore, in order to validate the evidence, a qualitative assessment has been carried by the EuroPACE Steering Committee Group. This type of quality check helped to assess the credibility of information obtained, but also helped in creating the criteria for the identification of the seven most suitable countries for



further analysis in the next part of the EuroPACE project. In a subsequent part of this research, a detailed analysis of the possibility to develop EuroPACE will be carried out for these seven countries. Later on, it will include the identification of leader cities where EuroPACE could be implemented.

It is also important to note that the rating of a country is relative to the rating of the other countries. Furthermore, even a suitable country (indicated with green) may require some legal changes and other conditions in order to develop EuroPACE effectively.

Apart from a cumulative assessment, each EU28 MS received a colour coding and a rating per criteria or area. This provides a visual analysis of each country's situation in the key areas required for implementing on-tax financing. By combining the ratings given to these four key areas, a map was created reflecting the possibility of EuroPACE implementation. On this basis, a Readiness Map Index (RMI) was produced using the information gathered at the country level in the four areas.

The RMI results can be summarised as follows:

RMI	Country assessment
28-23	Very adequate countries (9): Austria, Denmark, Germany, Luxembourg, the Netherlands, Portugal, Romania, Slovenia, and Spain – countries where all, or at least two of the three key criteria have been met; oftentimes, those in which on-tax financing has already been piloted
22-19	Moderately adequate countries (10): Belgium, Bulgaria, Finland, France, Hungary, Ireland, Italy, Poland, Sweden, and the UK – predominantly countries with stable and well-institutionalised property-tax systems, but with weak enforcement procedures or insufficient experience in cooperation with the private sector
18-11	Less adequate countries (6): Czechia, Estonia, Greece, Latvia, Lithuania, and Slovakia – predominantly countries in which the administration and collection of property-related taxes is centralised
10-0	No-go options (3): Croatia, Cyprus, and Malta – countries with no property-related tax in place

The study and ranking compiled revealed some overarching trends:

- There is no perfect EuroPACE candidate in the EU for the time-being, and all MS will need to adjust their legislation to some extent. Even Austria, the country that gathered the highest number of points (26/28; 92.86%), failed when trying to implement a BID, as the relevant legislation enabling BIDs was found unconstitutional.
- Property taxation across the EU is well established, as there are only three countries that do not levy taxes on property (Croatia, Cyprus, and Malta). Particularly in Croatia, negotiations are being held in order to introduce property taxation. However, the social perception of an additional burdensome tax is negative, which resulted in protests in early 2018 that have put negotiations on hold.
- In other EU MS, property taxes vary significantly from each other. In some countries (i.e. France), property tax is a well-established concept with a long-standing tradition; in oth-

ers, particularly in Central and Eastern Europe (CEE), property-related taxes are newer, having been established in the early 1990s after entering the market economy.

- Municipalities in all EU MS are familiar with SEAPs and other internationally recognised climate-oriented plans and commitments, but the degrees of their implementation differ. For example, municipalities in wealthier countries (i.e. Nordic countries and Austria) are more engaged in such initiatives, while, typically, in countries with smaller GDPs, municipalities are less active in this respect. This trend is also visible in smaller countries where the central government is more in a position to act. However, it can be concluded that the pace of joining climate-oriented associations and creating ambitious EE-oriented strategies by local governments is rapidly growing: every year municipalities in various countries proactively adopt additional EE strategies and plans, which confirms their commitments to ambitious climate goals. Oftentimes, they cooperate with private actors to achieve these climate goals.
- In general, in all EU MS, enforcement procedures exist and are well defined. Depending on the country, the procedures are more or less institutionalised and effective. In countries like Denmark, interest rates exist and foreclosures can be considered extremely effective. Conversely, in Italy, while enforcement procedures are technically in place, they are viewed as time consuming and complicated. Moreover, even though it is difficult to assess all the data per category, senior liens proved to be the least common among EU MS of all the key EuroPACE criteria when compared to the US. This issue might also not be easy to resolve given banks' strong positions across the EU, as eventually mortgages could become less important in the prioritisation of pledged assets.
- Various countries across the EU, including Germany, France, and Slovenia, to name a few, plan to reform their property-tax systems in the near future. This increases uncertainty, but also opens the window of opportunity for legislation oriented towards on-tax financing soon.

# Part A

## Introduction

The European Union (EU) has established several policies to achieve the general objective of secure, clean, and affordable energy. One of these policies concerns improving energy efficiency (EE) in buildings. Reducing greenhouse gas emissions is particularly important as the threat of global climate change urges a significant reduction in emissions from energy production and consumption in order to keep the increase in the global average temperature well below 2°C above pre-industrial levels.<sup>1</sup>

As global climate negotiations have progressed, in 2016, the European Commission (EC) presented a set of legislative proposals (“Clean Energy for All Europeans”) that aimed at preparing the EU energy sector to achieve these policy goals.<sup>2</sup> The package provides the legislative framework to stimulate the needed investments to make Europe a global leader in promoting renewable energies and tapping EE potentials, while at the same time making energy affordable for all citizens. Additionally, the Energy Performance in Buildings Directive (EPBD) promotes nearly zero-energy buildings (NZEBs), mandatory for all new buildings from 31 December 2020.<sup>3</sup> In June 2018, the EU announced its intention to increase energy and greenhouse gas (GHG) emissions targets for the period up to 2030, reinforcing its commitment to the Paris Agreement and demonstrating its leadership in this area. Its latest goals foresee a share of at least 32% renewable energy consumption by 2030 and an indicative target for an improvement in EE at the EU level of at least 32.5% (compared to projections), which corresponds to a reduction of greenhouse gas emissions by at least 40% compared to 1990 levels.<sup>4</sup>

At the same time, according to Eurostat, 26% of the total final energy consumption in the 28 EU Member States (MS; EU28) in 2016 corresponded to residential consumption, thereby making up a non-negligible share of about 5% of total consumption expenditures in the EU. EU buildings, residential and non-residential, account for approximately 40% of energy consumption and 36% of CO<sub>2</sub> emissions. About 35% of the EU’s buildings are over 50 years old and almost 75% of the building stock is energy inefficient, while only 0.4-1.2% (depending on the country) of the building stock is renovated each year.<sup>5</sup>

1 The current report of the Intergovernmental Panel on Climate Change (IPCC) suggests that the temperature should not exceed 1.5°C: <http://www.ipcc.ch/report/sr15/>

2 European Commission, 2016

3 Nearly zero-energy buildings: <https://ec.europa.eu/energy/en/topics/energy-efficiency/buildings/nearly-zero-energy-buildings>

4 2030 Climate and Energy Framework: [https://ec.europa.eu/clima/policies/strategies/2030\\_en](https://ec.europa.eu/clima/policies/strategies/2030_en)

5 EU Energy Efficiency, Buildings: <https://ec.europa.eu/energy/en/topics/energy-efficiency/buildings>

The statistics vary, but in general, EU citizens spend approximately 90% of their time indoors; and while time spent in workplaces, schools, and public spaces is relevant, it is the time spent in our homes that accounts for two-thirds of this time in total.<sup>6</sup> The aim of this paper is to present an innovative financial mechanism – EuroPACE – which could increase the quality of this crucial residential category.

The structure of the report is the following. Part A provides an overview of the specific financial instrument at stake, the methodology used to assess its potential application in the EU, and a testable hypothesis of its scalability. It presents the European suitability assessment for EuroPACE implementation in all EU countries. Grading of the countries together with the European readiness map is followed by conclusions and policy recommendations. Part B of the report includes an analysis of the various aspects of the fiscal and legal systems in each EU MS based on country grading and SWOT analyses.

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<sup>6</sup> The Regional Office for Europe of the World Health Organization: [http://www.euro.who.int/\\_\\_data/assets/pdf\\_file/0020/248600/Combined-or-multiple-exposure-to-health-stressors-in-indoor-built-environments.pdf](http://www.euro.who.int/__data/assets/pdf_file/0020/248600/Combined-or-multiple-exposure-to-health-stressors-in-indoor-built-environments.pdf)

## Barriers to increasing energy efficiency

Much research has been done to analyse the triggers enhancing EE. However, current developments aiming to increase EE still do not reflect ambitious political goals. In the end, the economic instruments provided by the government are still seen as the key stimuli in the EE debate, as by lowering upfront costs, they can make investments more interesting.

Perhaps even more has been written about the EE investment gap. Sanstad and Howarth (1994), Howarth and Sanstad (1995), Greene (2011), and Allcott and Greenstone (2012) provide various explanations for under-investment in EE. They all agree that when it comes to EE in residential buildings, numerous market and behavioural failures can impede such investments. As contributing to this debate is beyond the scope of this report, only one aspect of this discourse will be discussed.

According to Alberini, Gans, and Towe (2016), subsidies and rebates increase the lead deficit and can lead a rebound effect. Furthermore, they encourage free-riding and, in general, are not cost-effective. This was confirmed by Fuchs and Gertler (2014) in their study evaluating a subsidy programme in Mexico. The overall conclusion is that households that receive grants and subsidies are less eager to make subsequent investments. Moreover, the externality benefit from reduced energy does not compensate for the reduction in consumer utility, due to the higher taxes to finance the program.

This does not mean that schemes based on taxes are free from drawbacks. For example, they produce negative distributional effects and their impact is limited if the price elasticity of energy demand is small. Nevertheless, contrary to the findings in the previous case, Galarraga, Abadie, and Kallbekken (2016) find that, in Spain, a tax scheme on dishwashers, refrigerators, and washing machines ensured greater energy savings than a subsidy scheme. Still, given the complexity of tax schemes, governments are not particularly willing to introduce them.

At the same time, bank loans for the purpose of residential retrofits are still not widely available. The few banks that are willing to provide loans for EE retrofits in homes (houses, apartments, or buildings), provide funding at high rates and usually for a short-term (up to 5-7 years). This is due mainly to the capital requirements from Basel and the Markets in Financial Instruments Directive (MiFID) banking regulations.<sup>7</sup> To put it simply, for banks, lending to homeowners for EE retrofits is not an interesting business. Furthermore, this kind of operation is also not interesting for investment funds either because it is not secured (no asset as guarantee); hence, the risk perceived is high and therefore the cost of capital is expensive as compared to mortgage rates.

A solution to the previous situation would be to attach financing to the property, which could secure the funding, as the property would be the guarantee. Consequently, lenders could provide capital at lower rates. Studies such as that pursued by Allcott and Greenstone (2017), who conducted research on the impact of EE schemes, prove that the market for home energy audits

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<sup>7</sup> For more information see: [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions_en)

and retrofits, which in Europe is still not fully developed, would almost entirely disappear in the absence of government interventions, even if only in the form of guarantees.

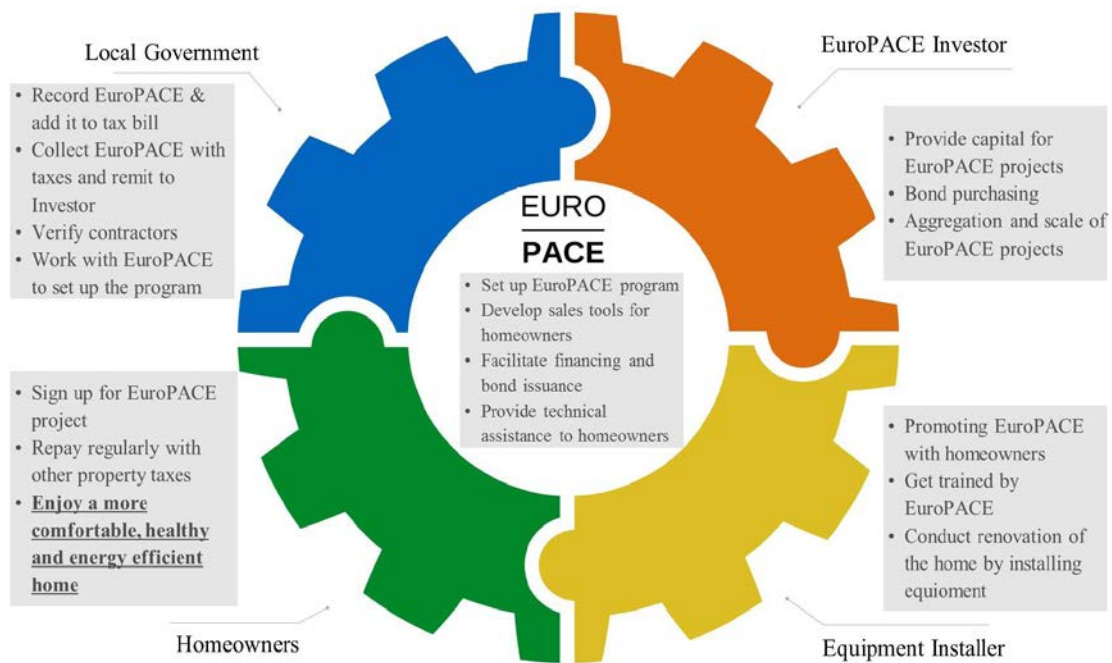
EuroPACE answers all these needs while at the same time being directly in line with the EC's objectives of (1) putting EE first, (2) contributing to the EU's global leadership, and (3) empowering consumers to enable MS to reach their energy and climate targets for 2030. Last but not least, EuroPACE could contribute to the democratisation of the energy supply by offering cash-flow positive, decentralised EE solutions.

## Legal aspects of the implementation of EuroPACE

EuroPACE is an innovative financial mechanism inspired by an American building improvement initiative called Property Assessed Clean Energy (PACE). The innovative character of the EuroPACE mechanism is that financing through EuroPACE is linked to the taxes paid on a property. In other words, the financing lent by a private investor is repaid through property taxes and other charges related to the buildings.<sup>8</sup>

The EuroPACE mechanism engages several stakeholders in the process: local government, investors, equipment installers, and homeowners. The roles and interactions of the stakeholders are depicted in Figure 1 below.

Figure 1: The eco-system of a EuroPACE programme

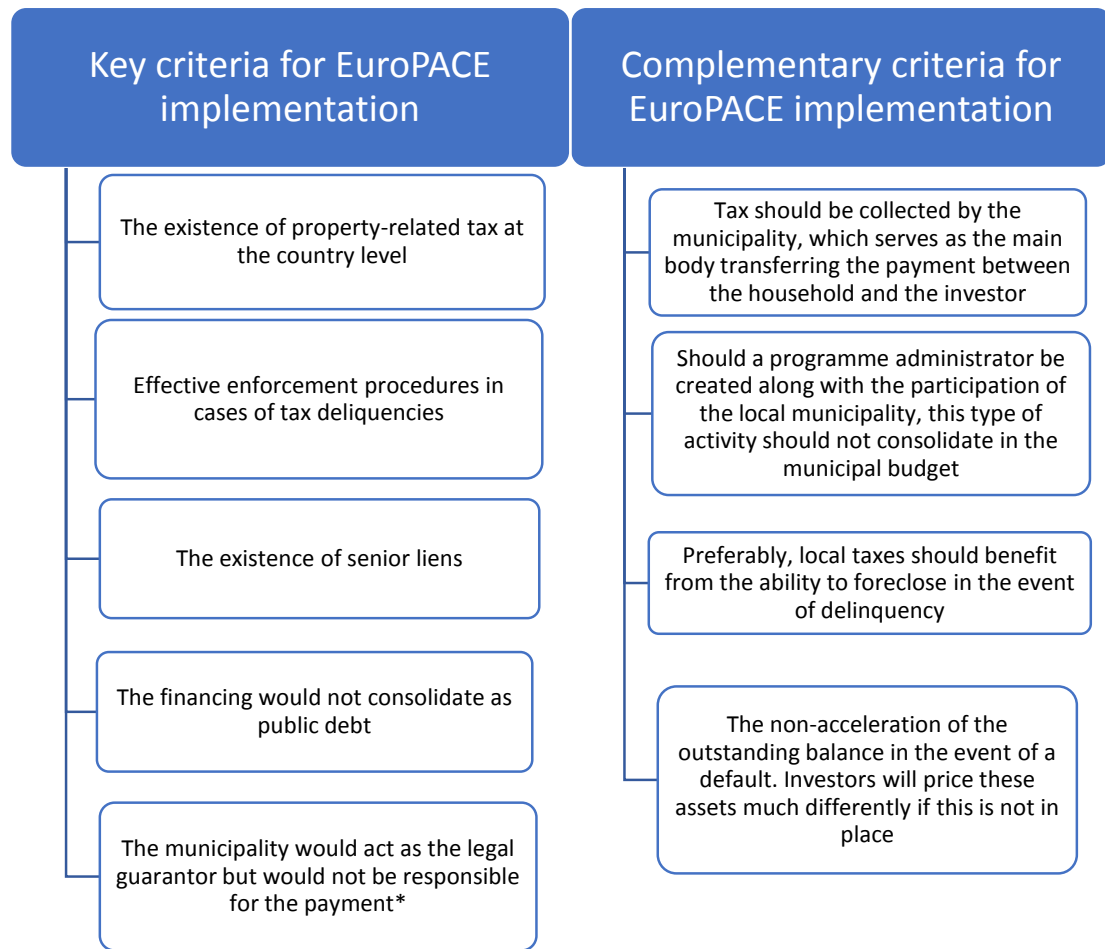


To establish the EuroPACE programme, several conditions must be satisfied, each of which are relevant for different stakeholder at different stages of the implementation. We divided these criteria into two categories: key criteria, which make the implementation possible, and complementary criteria, which make the implementation easier. These criteria, which are summarised in Figure 2 below, serve as a starting point for the detailed identification of the fiscal and regula-

8 For more information on PACE financing see: <https://pacenation.us>

tory conditions presented in the methodology, data collection, and the preparation of the EuroPACE Readiness Map at the EU level.

Figure 2: EuroPACE criteria



\* As confirmed by various researchers, including Fischbacher, Schudy, and Teyssier (2015), guarantees whereby governments or energy providers share not only the risks, but also the chance to benefit from future savings related to EE renovations reduce the perceived risk of the investment.



## **Aim of the report**

The overall aim of the report is to assess the key and complementary criteria that make the implementation of EuroPACE possible in each of the EU28 MS. The specific objectives of this study are as follows:

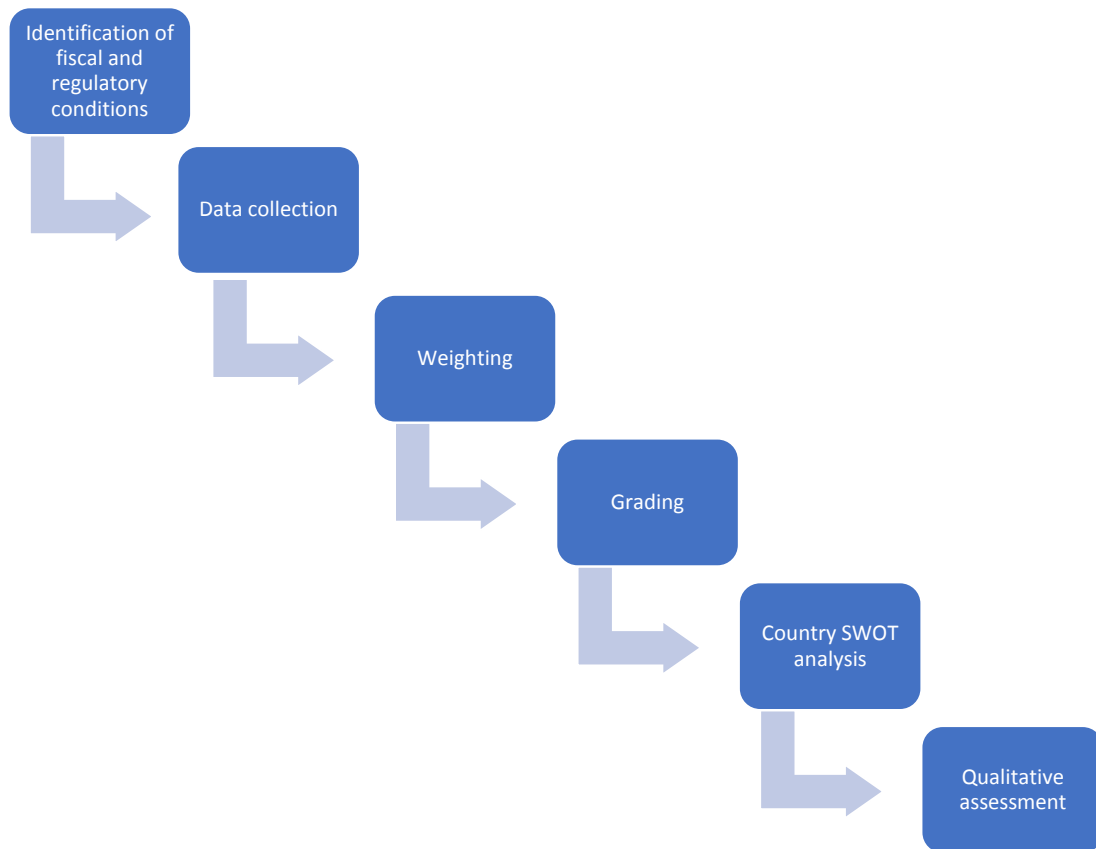
- Analyse the legal and fiscal conditions in each EU MS relevant for the effective implementation of the EuroPACE mechanism.
- Grade each of the EU28 MS together with a readiness map illustrating their preparedness for the implementation of EuroPACE.
- Assess the enablers and barriers to the implementation of EuroPACE in each of the EU28 MS through country SWOT analyses.
- Provide recommendations on the suitability of the EU28 for the adoption of an on-tax financing mechanism.

Currently, there is no single holistic analysis on the possibility of the implementation of an on-tax financing mechanism for the EU28. This report aims at filling that gap.

## Methodology

Residential on-tax financing is a concept in its infancy in the EU. Therefore, the methodology to evaluate the readiness of a country to implement on-tax financing is complex and consists of six stages.

Figure 3: Stages of methodology



### Step 1. Identification of fiscal and regulatory conditions

Based on the knowledge gathered from the American PACE scheme, as well as from the pilot study being performed in the Spanish city of Olot, the fiscal and regulatory conditions required to successfully implement EuroPACE have been divided into four areas. These areas correspond to the EuroPACE criteria depicted in Figure 2 and are addressed to the different stakeholders of the EuroPACE mechanism.

## Areas assessed

### Area 1. Suitability of the legal framework for on-tax financing

As EuroPACE is added to property taxes, this area (A1) assesses the suitability of the legal framework for the on-tax financing mechanism. Property taxes differ in many aspects between countries, but issues such as the existence of a property-related tax, the regular collection of property taxes, or a relatively low level of exceptions in the tax collection mechanism are essential for the legal implementation of EuroPACE.

Table 1. Assessment criteria for the suitability of the legal framework for the on-tax financing mechanism

	Variable	Definition	Maximum score
1.1	<b>Examples of existing on-tax financing schemes nationally or locally</b>		<b>1</b>
	An on-tax financing scheme has already been piloted or tested in the country.	This criterion measures whether the mechanism of on-tax financing (i.e. in the form of Business Improvement District – BID) has been used in a country, even if only in the form of a pilot study. A previously tested on-tax financing scheme is assumed to have a positive impact on the EuroPACE implementation in that particular country.	1 if yes; 0 otherwise
1.2	<b>Existence of property-related taxes</b>		<b>4</b>
	Property-related taxes (or other taxes linked to property, which are suitable for EuroPACE implementation) exist.	This criterion measures whether property-related taxes exist in a given country. EuroPACE can be expressed as additional charge to the property tax; thus, its existence and collection would represent a positive element.	1 if yes; 0 otherwise
	The existence of local charges or bills attached to the property (i.e. waste management fees).	This criterion measures the existence of other bills attached to the property (i.e. waste management fees), which can be used for EuroPACE implementation, as was done in the United States (US) with property assessments.	1 if yes; 0 otherwise
1.3	<b>Collection of property-related taxes</b>		<b>1</b>
	Local authorities <sup>1</sup> are responsible for the collection mechanism of taxes and charges attached to the property (even if subcontracted to third parties).	This criterion measures whether municipalities are responsible for tax collection (even if this task is subcontracted to third parties). If local authorities perform the collection mechanism (apart from the smallest EU MS), it is assumed to have a positive impact on the implementation of EuroPACE.	1 if yes; 0 otherwise

<b>1.4</b>	<b>Municipality rights towards local taxes</b>		<b>2</b>
	The local or regional administration has the legal authority to change the tax rate of property-related taxes within a range.	This criterion measures whether municipalities have the right to change the local tax rate within a range established by national law, without the need to change national legislation. This characteristic is assumed to have a positive impact on the implementation of EuroPACE.	1 if yes; 0 otherwise
	The local or regional administration has the right to establish new local taxes and fees.	This criterion measures whether the local authority has the right to establish an entirely new local charge, bill, or tax without changing national legislation. This characteristic is assumed to have a positive impact on EuroPACE implementation.	1 if yes; 0 otherwise
<b>1.5</b>	<b>Tax collection exceptions</b>		<b>2</b>
	Differences are observed in tax collection rates at the regional or local level (urban versus rural).	Between-regional exemptions in property-related tax collection (urban versus rural) do not exist. This characteristic measures: whether different rules concerning property-related tax collection are applied in different regions, whether between-regional exemptions and differences in tax rates exist, and whether the type of region determines the property tax rate. Tax exemptions should apply to different regions or land (in federal countries) or in an urban versus rural setup. The existence of broad tax exemptions has a negative impact on EuroPACE implementation; therefore, the rating in this case is zero. The more tax exemptions are identified, the more difficult it is to implement EuroPACE smoothly.	1 if yes; 0 otherwise
	Differences are observed at the individual property level based on the property size or property value, among others.	Tax exemptions at the individual or property level do not exist. This characteristic measures whether property tax exemptions at the individual or property level exist. For example, there are countries where the elderly or families with three or more children exempted from property tax, or countries where the value of the property determines the property tax rate. If there are no significant exemptions in the implementation of a property tax at the individual level, its impact on EuroPACE is positive. The more tax exemptions that are observed, the more difficult it is to implement EuroPACE smoothly.	1 if yes; 0 otherwise
<b>MAXIMUM SCORE</b>			<b>10</b>

A country can receive the maximum rating of 10 when the following criteria are met: examples of on-tax financing exist; property taxes and bills related to the property exist; the tax is collected on a regular basis and can be adjusted by the local administration; and tax collection exceptions across the country are rare or non-existent. However, if the grade for variable A1.2

equals 0, the country is automatically excluded, as this variable is seen as indispensable for EuroPACE implementation.

Other issues related to A1 assessed in some country-specific analyses: *How diverse are the local taxes? Is property tax the most suitable for an additional on-tax financing component? What percentage of local taxes does the property tax or other relevant tax account for? Are there any surcharges? Are local taxes administered and collected by the municipal administration or can the collection mechanism be subcontracted at the local level?*

## Area 2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation

Municipalities play a vital role in the EuroPACE mechanism, as they have an interest in implementing EE solutions and are also relevant actors in the creation of private-public partnerships (PPPs). In order to approximate the experience of municipalities in working on comparable assignments and to assess their readiness to implement EuroPACE, this area (A2) refers mainly to municipalities’ capacities to manage EE projects, particularly in a PPP model. This analysis keeps in mind the basic criteria set in the introductory part of this report, as well as the best practices from PACE in the US. A key market enabler is considered a situation where the municipality has experience working with the private sector to implement broadly defined investment programmes. Another enabler is linked to the existence of EE programmes and policies in buildings.

**Table 2. Assessment criteria for the municipal capacity for implementing an on-tax financing mechanism and municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

	Variable	Definition	Maximum score
2.1	Experience working with the private sector to implement investment programmes related to infrastructure, buildings, or public lighting, among others.	If the majority of local or regional authorities within a country have already informally co-worked with a private sector organisation or in a more institutionalised form of PPP, this characteristic is assumed to have a positive impact on the implementation of EuroPACE. Institutionalised partnerships between the municipality, investors, and other contractors is one of key determinants of EuroPACE.	1 if yes; 0 otherwise
2.2	Existence of a Sustainable Energy Action Plan (SEAP) or other EE strategy for the municipality.	If the majority of municipalities within a country already have a developed EE strategy and/or SEAP at the local level, this characteristic is assumed to have a positive impact on the implementation of EuroPACE. It is assumed that the past experience and interest of municipalities in EE actions is a facilitator for EuroPACE objectives. <sup>2</sup>	1 if yes; 0 otherwise

2.3	Existence of EE financing, either in the form of grants, subsidies, tax deductions, or technical assistance at the local level.	If the majority of municipalities within a country benefit from diverse modes of financing for EE solutions, this characteristic is assumed to have a positive impact on the implementation of EuroPACE.	1 if yes; 0 otherwise
<b>MAXIMUM SCORE</b>			<b>3</b>

Local authorities receive the maximum number of points when the following criteria are met: they have some experience working with the private sector to implement investment programmes related to infrastructure, buildings, or public lighting, among others; a SEAP or other EE strategy for the municipality is in place; and programmes such as financing or deductions for EE projects have already been tested at the local level. This is because given austerity measures, grants might not always be available; thus, the opportunity for the development other innovative financial instruments will be greater.

Other issues related to A2 assessed in some country-specific analyses: *Are there regional institutions representing or gathering the interests of a group of municipalities when it comes to EE strategies or investments? Are there any toolkits or guidelines prepared by the central administration for municipalities interested in pursuing partnerships with the private sector?*

### **Area 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Area 3 (A3) concerns information on the enforceability of local taxes and/or property taxes and an assessment of charges, defaults, and delinquencies. This area also assesses the roles and responsibilities of the local authorities that provide guarantees (including senior liens) to investors. In particular, A3 focuses on the progress made towards fair, standardised, and transparent administrative processes as well as possible penalties, tax liens, and, eventually, foreclosure procedures in cases of the non-payment of taxes. A fully developed guarantee mechanism over the payment of property taxes is considered as a key market enabler.

Table 3. Assessment criteria for the enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

	Variable	Definition	Maximum score
3.1	<b>Property-related tax collection</b>		<b>4</b>
	Property-related tax is collected well and on a regular basis, with a high collection rate of more than 90%.	The bigger the collection rate is across the country, the more secure the mechanism. Another prerequisite applies to regular tax collection, which must be at least annual.	1 if yes; 0 otherwise
	Foreclosures related to tax delinquencies and defaults exist.	This aim of this point is to assess whether there exists an established, transparent, and executive foreclosure mechanism in cases of delinquency and default on property-related taxes. This is paramount for the EuroPACE implementation; therefore, it is rated at 3 points.	3 if yes; 0 otherwise
3.2	<b>Characteristics of local authorities' finances</b>		<b>3</b>
	Local authorities possess a fully autonomous budget.	Local authorities (whether at a municipal, county, or regional level) possess a fully autonomous budget. Local authorities are fully in charge of the structure of their expenses.	1 if yes; 0 otherwise
	Earmarked budgets or project-related funds exist at the local authority level.	If the local authority has the right to create separate budgeting lines for their activities, this characteristic is identified as an important criterion for EuroPACE implementation.	1 if yes; 0 otherwise
	Local authorities' finances are controlled by independent bodies	Local authorities must be indebted within set levels and their finances should be controlled by independent third-party bodies.	1 if yes; 0 otherwise
3.3	<b>Measures aimed at enforcing local tax collection</b>		<b>2</b>
	Additional interest rates and penalties for deliberate non-payments exist.	This criterion assesses whether additional interest rates in cases of deliberate non-payment are available, which may increase investor confidence.	1 if yes; 0 otherwise
	Standardised and transparent administrative processes exist.	This criterion assesses whether transparent administrative procedures supporting the enforcement of tax collection exist, and if they can be used to take the invested money back.	1 if yes; 0 otherwise
3.4	<b>Mortgage and property ownership characteristics</b>		<b>4</b>
	Property title search (land/estate registry) and evidence of legal ownership of the property and approval in case of voluntary EuroPACE assessment.	Property title search and evidence of any lien on the property. This point assesses if the property title search exists and if liens on a property appear when a title search is performed.	1 if yes; 0 otherwise

	The municipality has the authority to impose a senior lien on the property.	The municipality has the authority to impose a senior lien on the property. This criterion assesses whether, in exceptional circumstances, a municipality can act as a tax authority and impose a senior lien on the indebted property.	3 if yes; 0 otherwise
<b>MAXIMUM SCORE</b>			<b>13</b>

We give a maximum rating when the following criteria are met: local governments have adequate systems in place to ensure property tax collection occurs on a regular basis and that there is a high collection rate; local authorities can autonomously use the tax collected, even if they are under the control of independent accounting bodies; additional fees and penalties are in place in cases of the deliberate non-payment of local taxes; there are public records of the legal ownership of buildings; and municipalities have the right to impose senior liens on properties.

Other issues related to A3 assessed in some country-specific analyses: *If implementing EuroPACE, will the related debt be considered a public debt? Is the level of municipal debt controlled, and, if so, how? Can municipalities be indebted? Is there a digital, online, or SMS system to collect the property tax? Is there a system with property deeds? Is there a legal framework for a surcharge for late payments? Do municipalities share a tax code or rules and then each is vested with the power to implement it? What is the level of "litigation" concerning property tax? Do tax payers tend to challenge tax issues in court? Can mayors serve as tax authorities in particular cases? What is the recourse mechanism if the local (other than property tax) fees are not paid? Do taxes stay within the local budgets or is some part transferred to the central government? Are the taxes collected linked to a specific public service, and therefore cannot be used for anything else? Or, do taxes end up in a "common budget line" and, afterwards, the municipality decides how to administer them depending on the actual needs?*

#### **Area 4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Area 4 (A4) refers to the political, institutional, and social perceptions and acceptance of property-related taxes. It is difficult to compare the attitude towards property taxes, as these vary significantly among the countries analysed. There is a vast set of secondary country-specific data on the impact local taxes have on elections and on local and national debate in general. While in some countries politicians barely mention the importance of local taxes, in other, increases in local taxes lead to mass protests and can determine the results of local (or central, if the government is fully in charge of local taxation) elections. In principle, it can be concluded that the more stable and institutionally continuous the tax is, the easier it will be to use it as a basis for EuroPACE implementation. Apart from studying whether society finds the property taxation fair and politicians propose its amendments in debates proceeding elections, this area analyses the possible "window of opportunity" to modify the tax base, depending on the upcoming local and



central elections. According to the theory of political cycles, particularly in developed countries,<sup>9</sup> policy makers' equilibrium decisions depend on both their reputation and the proximity of the next election. Typically, incentives to influence election results are stronger when it is closer to the election (for a given reputation level). The information on the next elections can thus be useful for planning purposes and is covered in the country analyses. Consequently, this area presents the most fluctuating criteria and the grading has been adjusted accordingly.

**Table 4. Assessment criteria for political, institutional, and social perceptions and acceptance for EuroPACE development**

	Variable	Definition	Maximum score
4.1	Institutional continuity and the stability of property-related taxes.	If the property tax is an entirely new concept or its legal basis is amended on a regular basis, it cannot be considered a continuous mechanism, which could be problematic for EuroPACE development.	1 if yes; 0 otherwise
4.2	General perception towards property-related taxes – acceptance reflected in documented situations where the topic of property taxes has been the subject of political debate.	Acceptance reflected in documented situations where the topic of property taxes has been the subject of political debate. This criterion assesses the general impact local taxes have on public life. The more frequent these are in political discourses, the better.	1 if yes; 0 otherwise
<b>MAXIMUM SCORE</b>			<b>2</b>

We give the maximum number of points when the following criteria are met: the property tax is well institutionalised, stable, and reforms do not happen after every election and there is an ongoing debate on property taxes at the local or regional and national level and tangible examples of situations where the topic of property tax reform or increases have determined the results of local elections. As this is the only category assessing the demand side and possible acceptance of EuroPACE as an additional tax surcharge, which in the initial phase is not imperative for the implementation of on-tax financing, the rank is therefore respectively smaller than those of previous variables. In summary, the relatively low tradition (the tax is new) or the lack of public debate on property taxes does not necessarily exclude the possibility of developing a EuroPACE initiative. Therefore, in cases where the rating equals 0, the country should not be automatically seen as unsuitable for EuroPACE.

Other issues related to A4 assessed in some country-specific analyses: *What do politicians say about local and property taxes in particular? When does the current government term end? Is there a*

<sup>9</sup> i.e. Martinez, L. (2009), A theory of political cycles, *Journal of Economic Theory*, Volume 144, Issue 3, May 2009.

*window of opportunity to change the legislation in the near future and if yes, when and why? Do local (property taxes) have any “non-fiscal” functions, and if yes, what are these?*

## **Step 2. Data collection**

The information for this particular analysis was collected through the desk research of regulatory and legal documents, available market studies, and other relevant assessments. Country experts prepared or reviewed the national reports, so that the findings reflect their experience on the ground. As already mentioned, this approach has some drawbacks, which are related to the lack of a fully objective comparison system between all countries. However, this approach also provides valuable insights relevant for potential recommendations. Last but not least, 16 finance ministries<sup>10</sup> were contacted to validate the information gathered during the research phase and 14 replies were received.

All together during this Step, 112 tables were prepared – 4 for each of the 28 MS.

## **Step 3. Weighting**

Once this information was collected, data analysis commenced. The research included an examination and comparison of the countries with respect to their: property tax schemes, the possibility to introduce an on-tax financing mechanism, and the legislative capacity of local governments to put in place secured on-tax financing, among others.

To assess country readiness, we have defined a weighting of different criteria. Although all of the criteria assessed in each of the four tables above are important to implement EuroPACE, the on-going EuroPACE pilot taking place in Olot concludes that three criteria will most likely be crucial in the successful development of the scheme (see Figure 2 for reference). These three elements receive 3 points to each of them, instead of the normal 1 point assigned to the others. The three criteria are: (1) property related taxes: property-related taxes that might be suitable for financing energy efficient home renovation; (2) an effective foreclosure mechanism: the aim is to assess if the property-related taxes that might be suitable for EuroPACE financing provide a consolidated, effective, and well-functioning foreclosure mechanism in cases of property-tax delinquencies or defaults. This is a key element that distinguishes on-tax financing from other types of mechanisms to finance energy efficiency in buildings, like unsecured consumer loans. In terms of credit risk, this is the most relevant element. At the same time, it is unrelated to a mortgage foreclosure as the key focus is on property-related tax delinquencies only; and (3) property liens: the third key element that needs to be addressed concerns the possibility of registering a lien on the property associated with the EuroPACE financing. In practice, even when there is a mortgage on the building, the municipality can still have its own “administrative lien” on it, which will be senior to the mortgage.

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<sup>10</sup> Or other central bodies responsible for property taxation (i.e. Revenue Commissioners in Ireland).

#### Step 4. Grading

Taking into account the criteria and weighting of each of them, the readiness of the different EU MS has been assessed. The maximum number of points a country could receive is 28. The table below presents the results of the analysis.

RMI	Country assessment
28-23	Very adequate countries (9): Austria, Denmark, Germany, Luxembourg, the Netherlands, Portugal, Romania, Slovenia, and Spain – countries where all, or at least two of the three key criteria have been met; oftentimes, those in which on-tax financing has already been piloted
22-19	Moderately adequate countries (10): Belgium, Bulgaria, Finland, France, Hungary, Ireland, Italy, Poland, Sweden, and the UK – predominantly countries with stable and well-institutionalised property-tax systems, but with weak enforcement procedures or insufficient experience in co-operation with the private sector
18-11	Less adequate countries (6): Czechia, Estonia, Greece, Latvia, Lithuania, and Slovakia – predominantly countries in which the administration and collection of property-related taxes is centralised
10-0	No-go options (3): Croatia, Cyprus, and Malta – countries with no property-related tax in place

It is important to note that the rating of a country is relative to the rating of the other countries. Furthermore, even a suitable country (indicated with green) may require some legal changes and other conditions in order to develop EuroPACE effectively.

Apart from a cumulative assessment, each EU28 MS received a colour coding and a rating per criteria or area (see graphs in Part B). This provides a visual analysis of each country's situation in the key areas required for implementing on-tax financing. By combining the ratings given to these four key areas, a map was created reflecting the possibility of EuroPACE implementation. On this basis, a Readiness Map Index (RMI) was produced using the information gathered at the country level in the four areas.

#### Step 5. Country SWOT analysis

Given the fact that there are substantial differences in the property tax legal framework, as well as in municipal capacities to implement EuroPACE, a detailed EU-wide comparison was impossible. For this reason, country SWOT analyses have been carried out, as a complementary element to the EU-wide readiness map presentation. As a result, the analysis of the country situation lays out the possible strengths and weaknesses as well as the opportunities and threats, which allows for the formulation of some initial recommendations aimed at helping to facilitate EuroPACE implementation.

### **Step 6. Qualitative assessment**

As stated above, the methodology adopted for the creation of the Readiness Map is complex and innovative and is based on data gathering for 28 MS by different country experts. This type of methodology will never be objective and purely comparable. Therefore, in order to validate the evidence, a qualitative assessment has been carried by the EuroPACE Steering Committee Group. This is the group of people that have been working with PACE and EuroPACE on a daily basis for several years: those that have been trying to implement EuroPACE on the ground in the Spanish city of Olot and those that have been performing continuous talks with all the stakeholders involved in the creation process of EuroPACE mechanism.

This type of quality check helped to assess the credibility of information obtained, but also helped in creating the criteria for the identification of the seven most suitable countries for further analysis in the next part of the EuroPACE project. In a subsequent part of this research, a detailed analysis of the possibility to develop EuroPACE will be carried out for these seven countries. Later on, it will include the identification of leader cities where EuroPACE could be implemented.

## Results and the EuroPACE readiness map

When all of the tables were filled in and the grading for each country was completed, the total points acquired were counted and compared. This rating served as the basis for the preparation of the EuroPACE readiness map. The map below presented shows which countries are fully, moderately, or less ready for the development of a EuroPACE initiative, as well as those that should be excluded for the time being. A short summary of the findings follows.



Figure 4: Readiness Map Index

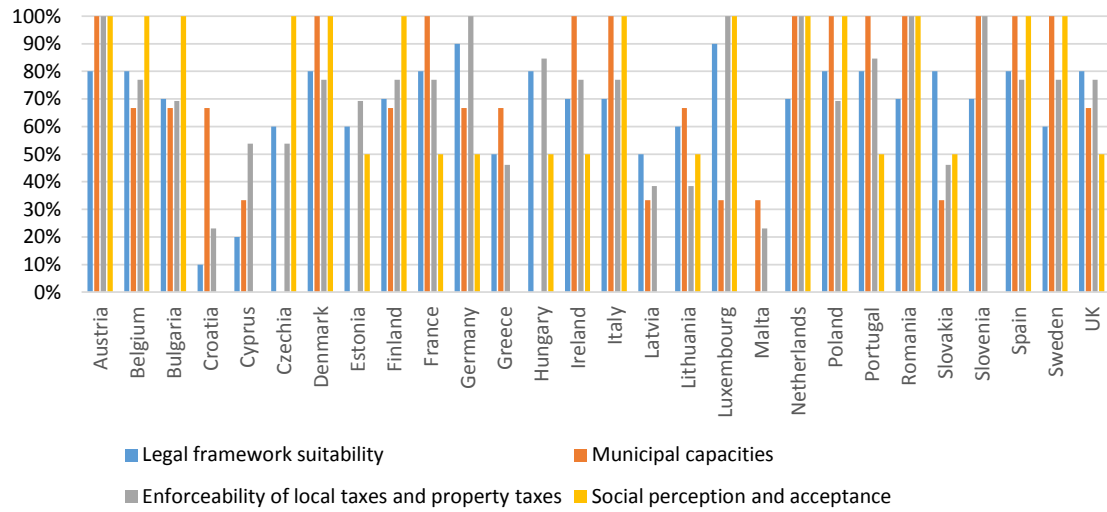
Country	Legal framework suitability	Municipal capacities	Enforceability of local taxes and property taxes	Social perception and acceptance	Total	10
Austria	8	3	13	2	26	92.86%
Belgium	8	2	10	2	22	78.57%
Bulgaria	7	2	9	2	20	71.43%
Croatia	1	2	3	0	6	21.43%
Cyprus	2	1	7	0	10	35.71%
Czechia	6	0	7	2	15	53.57%
Denmark	8	3	10	2	23	82.14%
Estonia	6	0	9	1	16	57.14%
Finland	7	2	10	2	21	75.00%
France	8	3	10	1	22	78.57%
Germany	9	2	13	1	25	89.29%
Greece	5	2	6	0	13	46.43%
Hungary	8	0	11	1	20	71.43%
Ireland	7	3	10	1	21	75.00%
Italy	7	3	10	2	22	78.57%
Latvia	5	1	5	0	11	39.29%
Lithuania	6	2	5	1	14	50.00%
Luxembourg	9	1	13	2	25	89.29%
Malta	0	1	3	0	4	14.29%
Netherlands	7	3	13	2	25	89.29%
Poland	8	3	9	2	22	78.57%
Portugal	8	3	11	1	23	82.14%
Romania	7	3	13	2	25	89.29%
Slovakia	8	1	6	1	16	57.14%
Slovenia	7	3	13	0	23	82.14%
Spain	8	3	10	2	23	82.14%
Sweden	6	3	10	2	21	75.00%
UK	8	2	10	1	21	75.00%

The study and ranking compiled revealed some overarching trends:

- There is no perfect EuroPACE candidate in the EU for the time-being, and all MS will need to adjust their legislation to some extent. Even Austria, the country that gathered the highest number of points (26/28; 92.86%), failed when trying to implement a BID, as the relevant legislation enabling BIDs was found unconstitutional.

- Property taxation across the EU is well established, as there are only three countries that do not levy taxes on property (Croatia, Cyprus, and Malta). Particularly in Croatia, negotiations are being held in order to introduce property taxation. However, the social perception of an additional burdensome tax is negative, which resulted in protests in early 2018 that have put negotiations on hold.
- In other EU MS, property taxes vary significantly from each other. In some countries (i.e. France), property tax is a well-established concept with a long-standing tradition; in others, particularly in Central and Eastern Europe (CEE), property-related taxes are newer, having been established in the early 1990s after entering the market economy.
- Municipalities in all EU MS are familiar with SEAPs and other internationally recognised climate-oriented plans and commitments, but the degrees of their implementation differ. For example, municipalities in wealthier countries (i.e. Nordic countries and Austria) are more engaged in such initiatives, while, typically, in countries with smaller GDPs, municipalities are less active in this respect. This trend is also visible in smaller countries where the central government is more in a position to act. However, it can be concluded that the pace of joining climate-oriented associations and creating ambitious EE-oriented strategies by local governments is rapidly growing: every year municipalities in various countries proactively adopt additional EE strategies and plans, which confirms their commitments to ambitious climate goals. Oftentimes, they cooperate with private actors to achieve these climate goals.
- In general, in all EU MS, enforcement procedures exist and are well defined. Depending on the country, the procedures are more or less institutionalised and effective. In countries like Denmark, interest rates exist and foreclosures can be considered extremely effective. Conversely, in Italy, while enforcement procedures are technically in place, they are viewed as time consuming and complicated. Moreover, even though it is difficult to assess all the data per category, senior liens proved to be the least common among EU MS of all the key EuroPACE criteria when compared to the US. This issue might also not be easy to resolve given banks' strong positions across the EU, as eventually mortgages could become less important in the prioritisation of pledged assets.
- Various countries across the EU, including Germany, France, and Slovenia, to name a few, plan to reform their property-tax systems in the near future. This increases uncertainty, but also opens the window of opportunity for legislation oriented towards on-tax financing soon.

Figure 5: EU countries suitability for EuroPACE implementation, by category





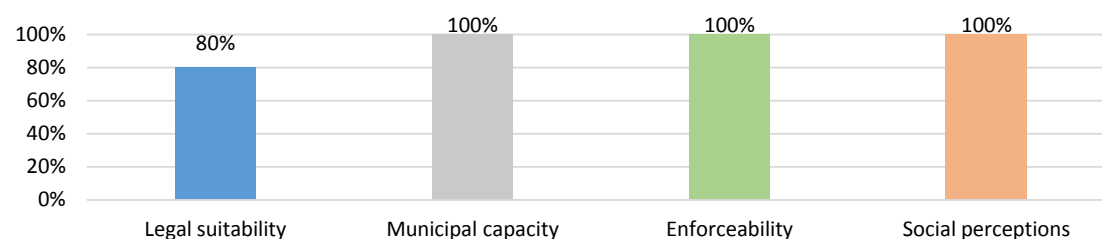
## Part B: Country descriptions

The purpose of Part B is to alphabetically present the country schemes important from the perspective of EuroPACE. Each country description is a separate piece of information which presents a more detailed description of the property-related tax systems and municipal capacities believed to be useful for EuroPACE development. The structure therefore follows the methodology presented in Part A. The country descriptions are summaries of the results gathered during the research phase in the previously-presented tables compiled for each MS by the team, researchers, and in-country experts.<sup>11</sup>

Each country description includes a grading on its suitability for EuroPACE implementation, adequate graph and a SWOT analysis presenting the strengths, weaknesses, opportunities, and threats related to its legal and fiscal set-up. The descriptions also include four short summaries presenting information on property-related taxes, municipal capacities, the enforceability of local taxes, and the social perceptions towards them, and conclude with the main take-aways on the three key EuroPACE criteria and possible recommendations for next steps.

### Austria ■

Very adequate country for EuroPACE implementation – overall grading for suitability: 92.86%



<sup>11</sup> Given the length and complexity of the tables, it was not possible to include them in this report. If you are interested in receiving the full country-specific tables, please email: [case@case-research.eu](mailto:case@case-research.eu).

## SWOT Analysis

Strengths	Weaknesses
Local authorities are responsible for the collection mechanism and have the right to change property-related tax rates. State legislation may authorise municipalities to impose certain levies on by a resolution of the municipal council. There are no exceptions at the regional level in tax collection.	PPPs do not play an important role in Austria. Furthermore, due to problems with capital markets, interest in PPP projects has waned again in recent years.
Opportunities	Threats
Austrian municipalities are active players in sustainable energy actions, with over half belonging to the Climate Alliance. Moreover, several EE programmes have been identified in the country. Therefore, a new initiative, such as EuroPACE, could be easily welcomed.	There was an attempt to implement a measure similar to on-tax financing—a BID—in the city of Linz, but the project was never realised because of the lack of a legal basis for it. Furthermore, as several EE programmes already exist in Austria, EuroPACE may face competition in this respect.

### 1. Suitability of the legal framework for on-tax financing

Although BID measures have been discussed at length across the country, particularly in the city of Linz, the Linz City Council representative confirmed via e-mail (response received in September 2018) that no single BID project has been realised due to the lack of a legal basis for it.

Nevertheless, the basis for a potential EuroPACE assessment is reliable, as according to Paragraph 1 of Article 1 of the Austrian Property Tax Act (APTA) (*Grundsteuergesetz*), all domestic real estate is subject to property tax. There are different collection rates among municipalities and the basic federal rate depends on the property. The tax is levied and collected by the municipalities, which are also fully entitled to the tax revenue. In accordance with the APTA, the collection rate shall be determined by the municipality. This authority to change the rate within a specified range is additionally confirmed by the Fiscal Equalisation Law (*Finanzausgleichsgesetz*).

Other property-related levies exist, particularly for the use of the municipal drinking water supply and sewage systems. The municipality may also combine the collection of these fees with the collection of other charges or fees for services provided by the municipality and, in this case, may prescribe the payment of the fees via the person obliged to pay the other charges or fees on the due dates. According to the Fiscal Constitutional Law (*Finanz-Verfassungsgesetz*), state legislation may authorise municipalities to regulate and levy certain charges on the basis of a resolution of the municipal council.

Moreover, the respective local tax office decides on the existence of permanent exemptions from real estate tax. The tax rate depends on the tax base, which results in significant differ-

ences at the individual property level. Last but not least, the municipalities may grant some temporary exemptions from property tax.

## **2. Municipal capacities to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

Recently, the involvement of private investors in infrastructure development was enhanced by means of a large-scale project. The construction, operation, and maintenance of 52 kilometres of the motorway and highway network in the eastern region (A5, S1, S2) was transferred to a private concessionaire in December 2006.

Austrian municipalities are also active players in sustainable energy actions. More than 950 municipalities (of 2,098 municipalities in total) are active in the Climate Alliance.<sup>12</sup> Moreover, 772 municipalities are implementing climate protection projects on their own.<sup>13</sup> In addition, 206 municipalities and towns are identified as energy efficient.<sup>14</sup> The administrative capacities with regards to the EE-oriented projects of Austrian municipalities are confirmed by European Investment Bank loans for energy projects, which have been used heavily since 2007.<sup>15</sup> The *KOMMUNALKREDIT PUBLIC CONSULTING GMBH* grants environmental subsidies to municipalities.<sup>16</sup> The current results demonstrate that local authorities are efficient in their management. Approximately 900 cities, municipalities, and regions are participating in the National Action Programme for Mobility Management (*klimaaktiv mobil*).<sup>17</sup> Furthermore, there are numerous financing and funding opportunities at the EU, federal, and state level, which municipalities are successfully administering on their own.<sup>18</sup>

## **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Property tax is well collected annually. Default surcharges must be paid if a levy is not paid in due time. Failure to pay may result in additional fines or imprisonment. These regulations are implemented following a transparent and standardised process. The land register is a public register maintained by the district courts, in which land plots are registered. The register records ownership as well as rights pertaining to or charges upon real estate property. Paragraph 11 of the APTA provides for a statutory lien on the land plot for property tax claims. Accordingly, as a creditor of property tax, the municipality has a right of separation for the property tax debts.

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12 For more information see: <https://www.klimabuendnis.at/gemeinden/klimabuendnis-gemeinden>

13 For more information see: <https://www.klimaundenergiemodellregionen.at/>

14 For more information see: <http://www.e5-gemeinden.at/index.php?id=19>

15 For more information see: <https://www.e-control.at/presse/aktuelle-meldungen/eib-darlehen-fuer-oesterreichische-energieprojekte>

16 For more information see: <https://www.umweltfoerderung.at/gemeinden.html>

17 For more information see: [https://www.umweltfoerderung.at/fileadmin/user\\_upload/media/publicconsulting/kamobil\\_Leistungsbericht2017.pdf](https://www.umweltfoerderung.at/fileadmin/user_upload/media/publicconsulting/kamobil_Leistungsbericht2017.pdf)

18 For more information see: <https://www.help.gv.at/Portal.Node/hlpd/public/content/100/Seite.1000400.html>

Concerning the municipal budget, the municipality has the right, within the limits of general federal and state laws, to own, acquire, and dispose of assets of all kinds, to operate economic enterprises and, within the framework of the financial constitution, to manage its budget independently. The Court of Auditors (*Rechnungshof*) has auditing competence for municipalities with a population of 10,000 or more,<sup>19</sup> while internal audit controls smaller municipalities. In addition, any person interested can gain online access to the information on the budget of any Austrian municipality.

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

The property tax law dates from 1955.<sup>20</sup> It is collected regularly and is considered a stable fiscal mechanism. An important discussion took place before its last amendment in 2016. The potential increase of the standard tax base for the property tax attracted significant attention from the media and was part of the political debate. As public consultations took place, the public perception of the amendments was positive.

#### **Country summary and take-aways:**

- With the highest grading received, Austria is a perfect candidate for EuroPACE development.
- Based on previous trials to introduce BIDs, the biggest uncertainty is related to the potential need to change the constitution in order to apply on-tax financing across the country.
- The APTA details a stable and well-functioning property tax which is imposed on residential buildings.
- Effective foreclosure procedures exist. Procedures are clear, and all information is available in the property title search.
- Property liens exist and are well documented in the land registries.

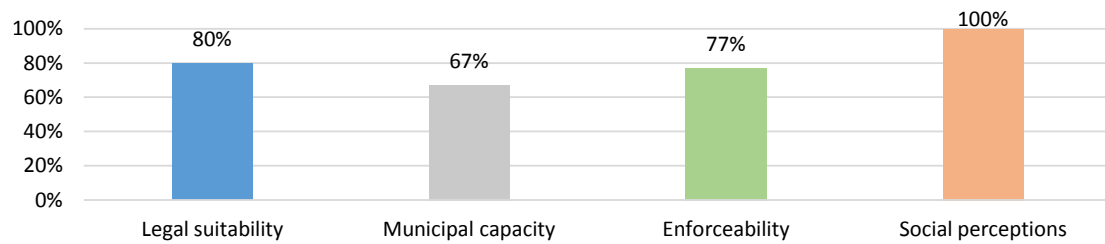
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19 For more information see: [http://www.rechnungshof.gv.at/fileadmin/downloads/2010/berichte/teilberichte/kaernten/kaernten\\_2010\\_08/Kaernten\\_2010\\_08\\_3.pdf](http://www.rechnungshof.gv.at/fileadmin/downloads/2010/berichte/teilberichte/kaernten/kaernten_2010_08/Kaernten_2010_08_3.pdf)

20 For more information see: <https://www.help.gv.at/Portal.Node/hlpd/public/content/229/Seite.2290000.html>

**Belgium** 

Moderately adequate country for EuroPACE implementation – overall grading for suitability: 78.57%



**SWOT Analysis**

Strengths	Weaknesses
The overall legal framework is well structured and property tax exists and is collected by the municipality. The collection rate and enforcement procedures are clear and well described for home-owners and investors.	In Belgium, PPPs are not very popular, with some municipalities criticising this mechanism. This might bring difficulties in the establishment of public-private collaboration.
Opportunities	Threats
In Belgium, 75% of buildings are not energy efficient. Municipalities implement SEAPs, “Smart Cities” projects, as well as other localised projects. There are national action plans and policies, which, indirectly, may positively affect the implementation of EuroPACE.	There are several tax exemptions and reductions of the property tax at the individual and regional level. In Wallonia, for example, people with low incomes have the right for a reduction, while those whose property has been unoccupied for more than 180 days in a year have the right for an exemption. Unclear rules could limit investment potential.

**1. Suitability of the legal framework for on-tax financing**

To the best of our knowledge, on-tax financing has not been tested in the country yet. However, there is a stable property-related basis for potential EuroPACE assessment, called the *précompte immobilier/onroerende voorheffing*. Moreover, waste management fees are added to property tax.<sup>21</sup>

21 For more information see: <https://www.rtl.be/info/belgique/societe/comment-les-communes-determinent-elles-les-taxes-liees-a-la-gestion-des-dechets--843612.aspx>

All municipalities collect the tax, but there are differences in the rates depending on the municipality. Nevertheless, the main difference among regions is noticed as far as the additional municipal taxes (*taxe additionnelle à l'impôt des personnes physiques*) are concerned. This tax is calculated on the basis of property tax and takes into account income tax. Its amount may vary considerably between municipalities. There are also tax exemptions and reductions of the property tax at the individual level. In Wallonia, for example, persons with low incomes have the right for a reduction, while those whose unfurnished property has been unoccupied for more than 180 days in a year have the right for an exemption.<sup>22</sup> In Flanders, tax exemptions are similar as in Wallonia but are also extended to other types of property. Similar rules apply to the Region of Brussels Capital Region.<sup>23</sup>

The property tax amount varies among municipalities. For example, in Tournai, taxes are fixed for individuals at EUR 65 per year for one-person households and at EUR 110 per year for households of more than one person.<sup>24</sup> In Rochefort, taxes are EUR 110 for one-person households and EUR 130 for households of more than one person.<sup>25</sup> The tax rate in Brussels is even higher.<sup>26</sup> Municipalities and namely, the “*Receveur Communal*” (communal agent in charge of tax perception), are responsible for the collection mechanism of taxes and charges attached to the property. They also have the right to decide the rate, exemptions, and means of payment. Moreover, municipalities have the right to establish new local taxes and fees without the need to change the national legislation (Article 170 of the Belgian Constitution).

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

In Belgium, PPPs are not very popular. Given that 75% of buildings are not energy efficient,<sup>27</sup> municipalities try to implement SEAPs (337/589 Belgian signatories currently) as well as other localised projects.<sup>28</sup> There are also national action plans and policies, which indirectly impact local EE initiatives. Overall, EE financing is concentrated at the regional level – for example, Wallonia benefits from an Energy Fund and other similar solutions. This demonstrates the preparedness of administrative capacities to manage technical EE-oriented programmes.<sup>29</sup>

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22 For more information see: [https://finances.belgium.be/fr/particuliers/habitation/precompte\\_immobilier/reduction/region-wallonne#q5](https://finances.belgium.be/fr/particuliers/habitation/precompte_immobilier/reduction/region-wallonne#q5)

23 For more information see: <https://fiscalite.brussels/fr/le-precompte-immobilier>

24 For more information see: <https://www.tournai.be/services-aux-citoyens/taxes-et-redevances-communales/taxe-enlèvement-et-traitement-des-immondices.html>

25 For more information see: <https://www.rochefort.be/commune/services/finances/reglements-fiscaux/releve-des-taxes-et-redevances/taxe-sur-la-gestion-des-dechets-menagers-et-assimiles>

26 For more information see: <https://fiscalite.brussels/fr/le-precompte-immobilier>

27 For more information see: [https://www.belfius.be/common/FR/multimedia/MMDownloadableFile/PublicSocial/Themes/energy\\_efficiency/thema\\_analyse\\_Short.pdf](https://www.belfius.be/common/FR/multimedia/MMDownloadableFile/PublicSocial/Themes/energy_efficiency/thema_analyse_Short.pdf)

28 For more information see: [https://www.espace-environnement.be/wp-content/uploads/2015/08/brochure\\_energie.pdf](https://www.espace-environnement.be/wp-content/uploads/2015/08/brochure_energie.pdf)

29 For more information see: <https://energie.wallonie.be/fr/financement-d-entreprises-innovantes.html?IDC=7625>

### 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

Property taxes are collected yearly and sanctions for tax delinquencies are strict. The non-payment or belated payment of property taxes are liable to penalties. Foreclosures<sup>30</sup> related to tax delinquencies exist and can be considered effective; however, they are the last resort as additional interest rates and penalties in the case of non-payment are in place.<sup>31</sup> Penalties correspond to a 4% interest rate of the due tax per month of delay. The Ministry of Finance (MF) states the transparency and standardisation of the administrative processes supporting tax collection enforcement as being a crucial principle of its functioning.

Property title search and evidence of legal ownership of the property exists and is accessible at the notary who signed the property title.<sup>32</sup> It is also accessible through the land register, which is divided into three units: the land register (*kadaster/cadastre*), the registration offices (*registratiekantoren/bureaux de l'enregistrement*), and the mortgage depositories (*hypotheekbewaringen/conservations d'hypothèques*). These three sources of information are regrouped in the Federal MF's national property documentation centre. The consultation of these documents requires the payment of a fee, which is based on the type of document and the nature of the information required.<sup>33</sup> According to the best of our knowledge, as the municipality cannot always impose a senior lien on a property with a commercial mortgage, some information securing investors' interests might not be covered by these registries.

Finally, Belgian municipalities possess autonomous budgets in the limits of the law and are in charge of the structure of their expenses.<sup>34</sup> Also, their project-related funds can be earmarked.<sup>35</sup> The Court of Auditors (*Cour des Comptes*) ensures the financial control of budgets at the levels of the region, communities, and provinces, but not at that of the municipalities, which is executed by the regions themselves.<sup>36</sup>

### 4. Political, institutional, and social perceptions and acceptance of EuroPACE

Property tax in Belgium is a long-standing concept, having been implemented since 1876. Its contemporary form, *precompte immobilier*, was implemented in 1962. It is, therefore, a stable mechanism accepted by the tax payers.<sup>37</sup>

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30 For more information see: <https://fiscalite.brussels/recouvrement-force>

31 For more information see: <http://socialsante.wallonie.be/surendettement/citoyen/?q=saisie-sur-salaire-procedure-recouvrement-impot-taxe>

32 For more information see: [https://www.cadastre.be/Le\\_Guide/Acte\\_de\\_propri%C3%A9t%C3%A9](https://www.cadastre.be/Le_Guide/Acte_de_propri%C3%A9t%C3%A9)

33 For more information see: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-be-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-be-en.do?member=1)

34 For more information see: [https://finances.belgium.be/sites/default/files/downloads/Book\\_2013\\_Q4f\\_Jurion.pdf](https://finances.belgium.be/sites/default/files/downloads/Book_2013_Q4f_Jurion.pdf)

35 For more information see: <http://www.uvcw.be/articles/4,23,30,2175.htm>

36 For more information see: <https://www.ccrek.be/FR/Presentation/Competences.html>

37 For more information see: [https://www.carhop.be/images/Fiscalit%C3%A9\\_M.T.COENEN\\_2006.pdf](https://www.carhop.be/images/Fiscalit%C3%A9_M.T.COENEN_2006.pdf)

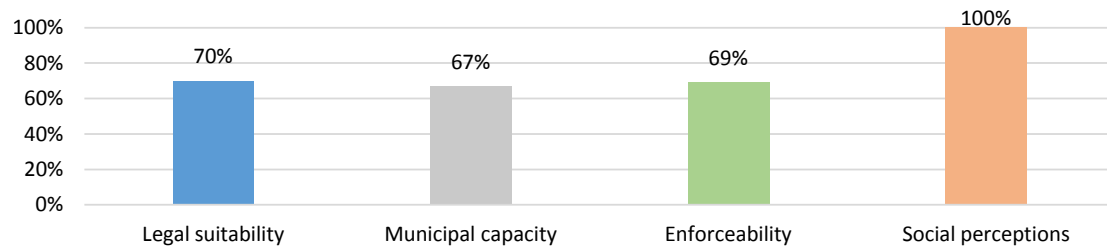
**Country summary and take-aways:**

- With an overall suitability of 78.5%, Belgium is a good candidate for EuroPACE development.
- Various differences in collection mechanisms at the regional and individual property level across the country could pose a threat.
- Belgian property tax is called the *précompte immobilier/onroerende voorheffing* and can be considered stable.
- Effective foreclosure procedures related to tax delinquencies exist and are effective. Property rights in Belgium are well protected by law, and the courts are independent and considered effective in enforcing property rights. Mortgages exist through a reliable recording system operated by Belgian notaries.
- In general, property liens exist, but municipalities cannot always impose senior liens on properties with a commercial mortgage.



**Bulgaria** ■

**Moderately adequate country for EuroPACE implementation – overall grading for suitability: 71.43%**



**SWOT Analysis**

<p><b>Strengths</b></p> <p>In the last five years, Bulgaria's property tax collection rate was the highest in the EU, varying between 101-110% of annual estimates.</p>	<p><b>Weaknesses</b></p> <p>Only a few Bulgarian municipalities have developed strategies for sustainable energy development—for example, just 25 out of 265 municipalities participate in Covenant of Mayors activities.</p>
<p><b>Opportunities</b></p> <p>Municipalities have experience working with the private sector to implement investment projects. Concessions on public municipal property are traditionally assigned to private firms. There is a National Register of Concessions that provides public information on assigned concessions (state and municipal) which could support the application of EuroPACE.</p>	<p><b>Threats</b></p> <p>The average property tax rate (approximately EUR 20-25) is significantly lower than in many EU countries (not including those from Central and Eastern Europe [CEE]). Thus, adding a significantly bigger assessment might be problematic.</p>

**1. Suitability of the legal framework for on-tax financing**

On-tax financing has not been tested in this country yet. However, there is a stable property-related basis for potential EuroPACE assessment, defined as the “local property tax” which is collected by each of the 265 municipalities.<sup>38</sup> There is also an additional garbage fee that is col-

<sup>38</sup> For more information see: the National Statistical Institute/National Register of the Settlements – <http://www.nsi.bg/nrnm/>

lected on a yearly basis, on the same bill as the local property tax.<sup>39</sup> Local governments benefit from the income of these taxes, which are important own-source revenues in the autonomous local budgets. In 2007, local governments were assigned the right to set and change local tax rates within a range determined by the Law on Local Taxes and Fees. At the same time, local governments do not have the power to define or change the local tax base, nor do they have the power to provide additional (or remove existing) legal alleviations for certain taxpayers.<sup>40</sup>

The Law on Local Taxes and Fees provides a clear and transparent methodology for the assessment of the “tax value” of the immovable property, which is applicable for the entire country.<sup>41</sup> The tax valuation process is based on a unified scheme and depends on the basic tax value, determined in the Bulgarian currency (BGN)<sup>42</sup> per square metre of the usable surface of the property, according to its usage (residential or non-residential) and construction (massive, panel, or frame house, among others). In addition, there are “location coefficients”. All settlements are grouped into eight functional types according to the National Classification of the Settlements in the Republic of Bulgaria (1999). As the functional type number increases, the attractiveness of the included settlements decreases and, logically, the location coefficient decreases as well, thus decreasing the tax valuation. Because of this mechanism, in small and rural municipalities with settlements in the categories between III to VIII, more than 80% of the properties are below the taxable minimum, so tax collection is much lower than in urban areas and cities where properties are more expensive.<sup>43</sup> In general, only real estate with a tax valuation of up to BGN 1,680 inclusive (approximately EUR 860) are exempt from the tax.<sup>44</sup> Such estates are extremely rare.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

Bulgarian municipalities have experience in working with the private sector in investment projects. Concessions on public municipal property (mineral waters, Black Sea beaches, and quarries, among others) are traditionally assigned to private firms. There is a National Register of Concessions that provides public information on assigned concessions (state and municipal).<sup>45</sup>

However, only a few Bulgarian municipalities have developed strategies for sustainable energy development – for example, just 25 out of 265 municipalities take part in Covenant of Mayors activities. Nevertheless, municipalities have a demonstrated track record of successfully working on local EE strategies and programmes, as according to the Law on Energy Efficiency, state policy in the field of EE is implemented by both state and local authorities. The programmes are

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39 For more information see the Law on Local Taxes and Fees (1997). Official Gazette No 117/1997. In force since 01.01.1998, art.6 (1)

40 For more information, see the Constitution of the Republic of Bulgaria (1991). Official Gazette No 56/1991, art.60 and art. 62 (1).

41 Law on Local Taxes and Fees (1997). Official Gazette No 117/1997. In force since 01.01.1998, Appendix 2.

42 According to the Currency Board provisions 1 EURO = 1.95583 BGN

43 For more information see: <http://www.minfin.bg/bg/810>

44 Law on Local Taxes and Fees (1997). Official Gazette No 117/1997. In force since 01.01.1998, art. 10.

45 For more information see: National Register of Concessions (in Bulgarian) <https://nkr.government.bg/>

developed taking into account the strategic objectives and priorities of the respective regional development plans. Each year, local governments present reports on the implementation of the programmes for EE improvement to the Agency for Sustainable Energy Development. The reports contain a description of the EE activities and measures and indicate the energy savings achieved. In 2016, a total of 968 EE improvement measures were implemented by municipal and regional administrations.<sup>46</sup>

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Customarily, Bulgarians expect to own property and to pay property taxes. In the last five years, the amounts collected through property taxes have varied between 101-110% of the annual estimates.<sup>47</sup> The compulsory tax collection is performed by public executors under the procedure of the Tax and Insurance Procedure Code.<sup>48</sup> In the procedure for establishing, securing, and collecting local taxes, some municipal administration employees (appointed by the Mayor) have the rights and obligations of the revenue authorities, and in the procedures for the collection of overdue public receivables, they have the rights and obligations of the public executors.<sup>49</sup> They can impose a lien on a building, but this can never be senior to other claims with priority.

The Bulgarian property register<sup>50</sup> is owned and managed by the Registry Agency, within the framework of what is called the “personal entry system”. Information is based on the personal files of the transacting parties, namely individuals and legal persons. Only transactions and legal documents are entered in the register.<sup>51</sup> Access to the Bulgarian property register is free and open to all. However, only registered users can obtain information from the website, which guarantees the security of procedures.

Local autonomy is legally protected by the Constitution, which describes the Republic of Bulgaria as “a unitary state with local self-government”.<sup>52</sup> The Constitution gives the municipality the status of a legal entity with respective property rights and the right to independently dispose of its autonomous budget.<sup>53</sup> This statement is further confirmed by the Law on Local Self-Government and Local Administration. Municipal budgets are autonomous in the framework of the consolidated state budget. Mayors organise and manage the drafting, submission to the municipal council (for adoption), and implementation of municipal budgets. However, there are no earmarked budget lines. The MF monitors the ongoing implementation of the consolidated fiscal

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46 Ministry of Energy (2014). National Energy Efficiency Action Plan (updated 2017), p. 52-53, <http://www.seea.government.bg/documents/TRA%20BG%20NEEAP%202017%20EN.pdf>

47 Ministry of Finance of the Republic of Bulgaria. Annual Reports on the consolidated state budget execution (in Bulgarian), <http://www.minfin.bg/bg/4>

48 Tax and Insurance Procedure Code (2005). Official Gazette No 105/2005. In force since 01.01.2006

49 Law on Local Taxes and Fees (1997). Official Gazette No 117/1997. In force since 01.01.1998, art. 4.

50 The Bulgarian Property Register website: <https://www.icadastre.bg/index.aspx>

51 European e-Justice Portal website: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-bg-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-bg-en.do?member=1)

52 Constitution of the Republic of Bulgaria (1991). Official Gazette No 56/1991. In force since 13.07.1991, art. 2 (1).

53 Constitution of the Republic of Bulgaria (1991). Official Gazette No 56/1991. In force since 13.07.1991, art. 136(3), art. 140 and art. 141.

programme. The mayor oversees the implementation of the municipal budget and the municipal accounts for funds from the EU and presents to the MF monthly and quarterly reports.<sup>54</sup> The National Audit Office audits annually the financial statements of municipalities with budgets exceeding BGN 10 million.<sup>55</sup> The municipalities with budgets below BGN 10 million are audited at a frequency specified by the National Audit Office or on the basis of a risk assessment.<sup>56</sup>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

In Bulgaria, property taxation is not a new phenomenon; on the contrary, it has a long tradition. After its liberation from the Ottoman Empire (1878), Bulgaria as a young sovereign state inherited its tax system from the Turkish Empire, where property taxes were the main source of budget revenues. The Land Tax Act (1894) and Communist period (1945-1950) based their calculations on the predecessor. The regulation of property taxation in Bulgaria in the recent the period (1951-2018) in fact did not change much. The current legal framework is, to a large extent, similar to the previous one regarding the basic principles. The property tax yield is comparatively low, representing 1% of Bulgaria's gross domestic product (GDP), 3% of its total consolidated tax revenues, and 15% of its total local revenues.<sup>57</sup> However, the social acceptance of taxes related to property is high. This is because, traditionally, Bulgarians expect to own property and to pay property taxes.

#### **Country summary and take-aways:**

- With a EuroPACE readiness of 71.43%, Bulgaria is a moderately adequate candidate for EuroPACE development.
- The biggest strength is related to the fact that municipalities have vast experience working with the private sector to implement investment projects.
- Bulgarian local property tax is stable and is collected by each of its 265 municipalities.
- Penalties and additional interest rates are in place in cases of non-payment. As a last resort, effective foreclosure procedures exist.
- A municipal lien on a property cannot be senior to claims with priority from other creditors.

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54 Law on Public Finances (2013), Official Gazette No 15/2013. In force since 01.01.2014, art. 11 (3), art. 133 and art. 137

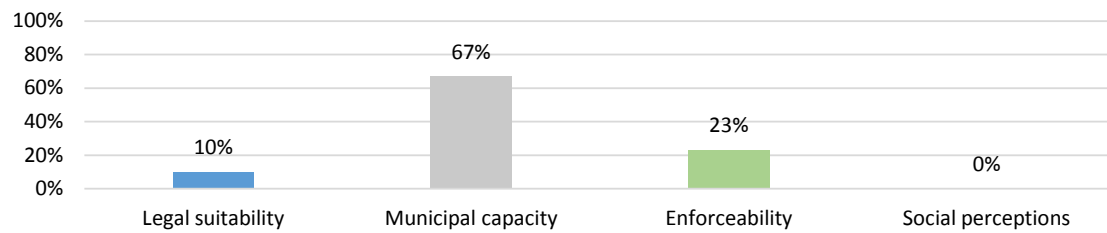
55 Law on National Audit Office (2015), Official Gazette No 12/2015, art. 54 (1)

56 Law on National Audit Office (2015), Official Gazette No 12/2015, art. 54 (2)

57 For more information see: <http://www.minfin.bg/bg/statistics/13>

**Croatia** ■

No-go option for EuroPACE implementation – overall grading for suitability: 21.43%



**SWOT Analysis**

Strengths	Weaknesses
The Centre for Monitoring Business Activities in the Energy Sector and Investments (CEI) could be useful to support EuroPACE planning. The Centre's objective is to find solutions to improve the financial effectiveness of energy sector companies in which the state has shares or holds stock, as well as to support the appropriate and targeted directing of funds to ensure the biggest and most long-term economic returns, stable growth, and the centralised and systematic monitoring of all investments.	There are no real property-related taxes in place.
Opportunities	Threats
Until now, grants have been the main form of incentive for EE provided in Croatia. The intensity rate of grants is usually up to 40% of the eligible cost; however, it may be even higher—up to 80%—if projects are being implemented in heavily underdeveloped areas. The government is actively looking for other instruments that would be less of a burden to the budget, which suggests there could be great potential for EuroPACE when a property-related tax is in place.	There is a lack of documented successful projects managed in partnership with private entities.

## 1. Suitability of the legal framework for on-tax financing

No on-tax financing scheme has been tested in the country yet. There is also no property or real estate tax as such. However, a few types of property-related taxes are collected, such as a tax on holiday homes in seaside resorts. Additionally, a communal fee is paid by the owner or user of a residential area, business space, garage space, building land that serves the purpose of carrying out business, or unbuilt construction land.<sup>58</sup> The amount of the fee is determined by multiplying the value of the unit of account – point, determined in kuna per metre squared, the zone coefficient, and the coefficient of use. The communal contribution is a public grant payable for the construction and use of facilities and utilities infrastructure. According to Article 31 of the Law on Communal Economy, the local self-government unit decides on the communal contribution.<sup>59</sup> Water charges also apply.<sup>60</sup>

## 2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation

Successful examples of large-scale PPP projects are difficult to find for Croatia. However, some progress in this respect may occur soon.<sup>61</sup> The government recently established the Centre for Monitoring Business Activities in the Energy Sector and Investments (CEI), with the objective of “finding solutions for improving the financial effectiveness of companies in the energy sector in which the state has shares or holds stock, and appropriate and targeted directing of funds in a manner ensuring the biggest and most long-term economic return, stable growth, and the centralised and systematic monitoring of all investments in the country.”

As of August 2018, the 21 counties of Croatia are subdivided into 128 towns and 428 municipalities. Of the 428 municipalities, 70 are active in Covenant of Mayors initiatives. Moreover, in accordance with EU regulations (EED 2012/27 / EU), Croatia has adopted a plan for reducing energy consumption that is to be achieved by 2020. The target is expressed in the National Action Plan for Energy Efficiency, and is being revised as needed.<sup>62</sup> The Environmental Protection and Energy Efficiency Fund is implementing energy retrofit programmes that were adopted by the government, and it is co-financing EE measures in buildings, with a view to reducing energy consumption and CO<sub>2</sub> emissions. Financial incentives provided by the fund may be in the form of grants or interest free loans. Still, grants are the main form of incentives provided in Croatia

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58 For more information see: [https://narodne-novine.nn.hr/clanci/sluzbeni/2003\\_02\\_26\\_379.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2003_02_26_379.html); <http://www.mgipu.hr/default.aspx?id=14118>

59 For more information see: Ministry of Construction and Physical Planning, <http://www.mgipu.hr/default.aspx?id=27827>

60 For more information see: [https://narodne-novine.nn.hr/clanci/sluzbeni/2010\\_07\\_82\\_2336.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2010_07_82_2336.html); [https://narodne-novine.nn.hr/clanci/sluzbeni/2010\\_07\\_83\\_2379.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2010_07_83_2379.html); <http://www.voda.hr/hr/vodne-naknade>

61 For more information see: <http://cei.hr/en/public-private-partnership/>

62 For more information see: <https://www.enu.hr/ee-u-hrvatskoj/tko-je-tko-ee-rh/>; <https://www.enu.hr/ee-u-hrvatskoj/20-20-20-i-dalje/nacionalni-akcijski-plan-energetske-ucinkovitosti-napenu/> and <https://esavjetovanja.gov.hr/ECon/MainScreen?entityId=5390>

for EE. The intensity rate of grants is usually up to 40% of the eligible cost; however, it may be even higher – up to 80% – if projects are being implemented in heavily underdeveloped areas of Croatia (e.g. areas of special state care, mountain areas, and islands).

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Given that no property tax as such exists, it is difficult to assess any relevant enforcement procedures. The system of registering real property is based on two separate registers: the cadastre and the land registry, which due to historical reasons, have not been parallelly filled in. As a result, the actual title holders are registered in only one of the registers oftentimes.<sup>63</sup>

Finally, according to the Article 68 of the Law on local and regional self-government, local and regional governments manage revenues independently. Income received has to be proportionate with tasks that are to be performed in accordance with the law, but there is substantial autonomy on separate budget lines.<sup>64</sup> Supervision of the legality of the work of the representative body is performed by the central body of the state administration (Article 78.a).

### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

The Local Taxes Act, as part of the 2016 Croatian Tax Reform, entered into force on 1 January 2017. The law introduced the new Real Estate Tax, which should have entered into force on 1 January 2018. However, the tax announcement provoked criticism and a negative reaction from citizens, so the government postponed the application of the tax until the further notice.

#### **Country summary and take-aways:**

- Municipalities are capable of administering large-scale projects, also in collaboration with the private sector.
- Given the lack of a property-related tax, Croatia is not an option for EuroPACE implementation for the time being.
- On the other hand, we can expect the introduction of some sort of property-related tax; hence, it may be worthwhile to present EuroPACE to the right legislative authorities to consider on-tax financing in their bill planning.
- The government is actively looking for other (than grants) instruments that would not burden the budget so heavily, which provides a great opportunity for EuroPACE once property-related taxes are in place.

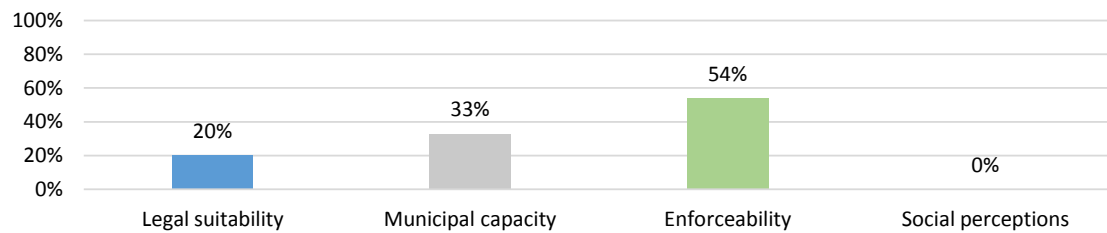
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<sup>63</sup> For more information see: <http://www.uredjenazemlja.hr/default.aspx?id=101>

<sup>64</sup> For more information see: [https://www.zakon.hr/z/132/Zakon-o-lokalnoj-i-podru%C4%8Dnoj-\(regionalnoj\)-samoupravi](https://www.zakon.hr/z/132/Zakon-o-lokalnoj-i-podru%C4%8Dnoj-(regionalnoj)-samoupravi)

**Cyprus** ■

No-go option for EuroPACE implementation – overall grading for suitability: 35.71%



**SWOT Analysis**

Strengths	Weaknesses
Enforceability for local fees is in place, concerning both imposing a senior lien and foreclosing a property in cases of delinquencies.	Since January 2017, Cyprus has no tax on immovable property; thus, a property-related tax that could be linked to the EuroPACE surcharge essentially does not exist. There are other local fees, but they are not always secured like taxes.
Opportunities	Threats
Some municipalities focus on becoming “zero-emission”. For example, the city of Aradippou envisages becoming a net zero energy Smart City. The Aradippou Smart Industrial City (ASIC) project is expected to mobilise approximately EUR 43 million in EE actions and renewable energy sources (RES) in the municipality. Other initiatives are equally welcome.	Given the size of the country, the administration of its programmes—particularly those demanding some expert knowledge, like EE-oriented programmes—is centralised, which may limit municipal interest in EuroPACE.

**1. Suitability of the legal framework for on-tax financing**

No single on-tax financing scheme in the country has been identified. Furthermore, since January 2017, Cyprus has no tax on immovable property; thus, a property-related tax that could be linked to a EuroPACE surcharge does not exist.<sup>65</sup> Individuals that have acquired an apartment in Cyprus are only required to contribute to the communal budget by incurring “communal fees”.<sup>66</sup>

65 Formoreinformationsee:<https://www.pwc.com.cy/en/publications/assets/tax-facts-figures/tax-facts-figures-2018-greek.pdf>

66 Formoreinformationsee:[http://www.cylaw.org/nomoi/enop/ind/0\\_224/appendix-apa746862e-2e1c-2923-db92-c5638289c4a5.html](http://www.cylaw.org/nomoi/enop/ind/0_224/appendix-apa746862e-2e1c-2923-db92-c5638289c4a5.html)



Such fees normally cover the management, insurance, maintenance, and repair of the shared buildings. Each building has a committee that is responsible for the management of the paid sum. Moreover, municipalities collect annual “town fees” for the provision of public goods, such as rubbish collection, public road repair, and street lighting.<sup>67</sup> In particular, local authorities may demand an annual fee for waste collection, street lighting, sewerage, and other community services. The amount of the fee depends on the property size and type (e.g. the existence of luxury amenities such as swimming pools) and is paid to the local municipal authority. Municipalities also impose on the registered owner of the property a municipality tax equalling between 1-2% of the property value as of 1 January 1980. The third fee that municipalities impose on registered property owners is a sewage tax. This equals between 3-7% of the property value as of 1 January 1980. However, these are more fees than taxes. The only legislative authority with the power to amend existing local taxes or to create new local taxes relating to property is the acting Parliament of the Republic of Cyprus, even though municipal and community bills are paid directly to the municipality.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

According to the Cypriot Directorate General for European Programmes, Coordination, and Development “the policy that will govern the implementation of PPPs in Cyprus as well as the appointment of the roles and responsibilities of the various services, are under preparation. No final decisions have been made as to which public bodies will be responsible for providing services to the relevant Ministries responsible for planning, negotiating and concluding PPPs, nor which bodies will review the progress of the contracts. At this stage, the procedures for designing, negotiating and contracting PPPs are done through ad hoc arrangements by the relevant departments, with the appointment of committees and the use of external consultants.”<sup>68</sup>

Some municipalities indeed focus on becoming “zero-emission”. For example, the “Aradippou Municipality has the vision to become a net zero energy Smart City – the project ‘Aradippou Smart Industrial City’ (ASIC) is expected to mobilise approximately EUR 43 million in EE and RES actions in the municipality, supported by a smart grid to be developed by the Electricity Authority of Cyprus (EAC).”<sup>69</sup> Other municipalities do not lag behind; in fact, 24 take part in Covenant of

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67 For more information see: <http://www.cyprus.gov.cy/portal/portal.nsf/gwp.getGroup?OpenForm&access=0&SectionId=citizen&CategoryId=%CE%93%CE%B7%20%CE%BA%CE%B1%CE%B9%20%CE%9A%CE%B1%CF%84%CE%BF%CE%B9%CE%BA%CE%AF%CE%B1&SelectionId=%CE%A6%CF%8C%CF%81%CE%BF%CE%B9%20%CF%83%CF%87%CE%B5%CF%84%CE%B9%CE%BA%CE%AC%20%CE%BC%CE%B5%20%CF%84%CE%B7%CE%BD%20%CE%B1%CE%BA%CE%AF%CE%BD%CE%B7%CF%84%CE%B7%20%CF%80%CE%B5%CF%81%CE%B9%CE%BF%CF%85%CF%83%CE%AF%CE%B1&print=0&lang=el>

68 For more information, please see the Cypriot Directorate General for European Programmes, Coordination, and Development website: [http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/page54\\_en/page54\\_en?OpenDocument](http://www.dgepcd.gov.cy/dgepcd/dgepcd.nsf/page54_en/page54_en?OpenDocument)

69 For more information, please visit the project website: <http://www.financingbuildingrenovation.eu/cases/aradippou-cyprus/>

Mayors initiatives. Given the size of the country, the administration of programmes, particularly those requiring some expert knowledge, like EE-oriented programmes, is centralised.

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

When the owner fails to pay the annual town fee, they are put on notice by the creditor.<sup>70</sup> Following the consequent failure of repayment, the government issues a memo on that property and prohibits its transfer. This initiates the foreclosure process, during which the debtor and creditors try to reach a consensus for the repayment of the debt, following the submission of a detailed account of all assets in the possession of the debtor. In Cyprus, a private individual may apply for default status following a creditor's (or debtor's) request for repayment of arrears that exceed EUR 15,000. The role of the local government in this process is to issue clearance once the taxes have been paid. Liens and liabilities burdening the property can be imposed by both the individuals and authorities. The general name for these liens and liabilities is "encumbrance". They have the same effect as a mortgage in as much as they prevent the owner from owning the property until the claim has been removed by the person or company that lodged it.

The Land Register provides all the relevant information on property, including "the fiscal value and any charges in rem, encumbrances, deeds of sale, easements, tenancies, restrictive covenants or other related information. It also contains details of the owner or owners, each owner's share and how and when the property was acquired."<sup>71</sup>

Municipal taxes are part of a general budget that is allocated in accordance with priorities. Public improvements are not passed to citizens in the form of a specific taxation where spending is itemised in a bill. Most often big projects are either funded through EU subsidies or with money that the central government allocates to the local or regional government. Annual municipal tax fee revenues are mainly used to fund rubbish collection and repairs of public roads, street lighting, and sewerage systems. However, the funds collected for particular purposes do not go to separate accounts. Furthermore, in its Stability Programme for 2017-2020, the Cypriot MF admitted there is a gap in local government financial reporting which has to be solved by establishing a common accounting and reporting framework.<sup>72</sup>

### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Given the lack of a property tax, the current set up cannot really be classified as stable. The current no property tax regime appears to be widely embraced by the public.

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70 For further information on the default proceedings in Cyprus, please see: [http://www.cylaw.org/nomoi/enop/non-ind/O\\_5/full.html](http://www.cylaw.org/nomoi/enop/non-ind/O_5/full.html)

71 For more information on Cypriot Land Register, please see: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-cy-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-cy-en.do?member=1) or <http://portal.dls.moi.gov.cy/en-us/Pages/The-Department-of-Lands-and-Surveys-Web-Portal.aspx>

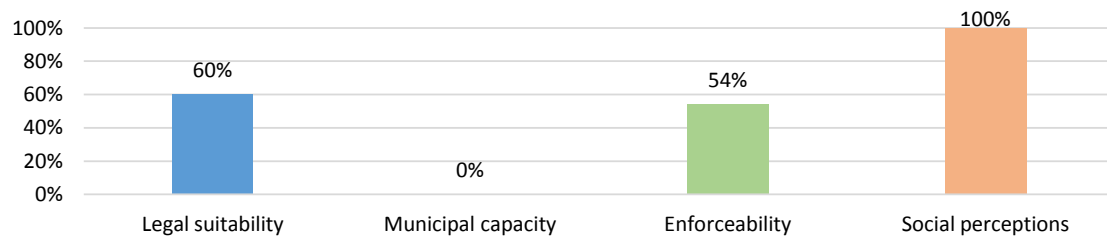
72 For more information see: <https://ec.europa.eu/info/sites/info/files/2017-european-semester-stability-programme-cyprus-en.pdf>

**Country summary and take-aways:**

- With a readiness of 35.71%, Cyprus is not an option for EuroPACE development.
- However, even though no real property tax is in place, there are some municipal fees that could be considered as a base for EuroPACE assessment if secured properly.
- Effective foreclosure procedures exist. Procedures are clear and all information is available in the property title search.
- A lien on a property exists and has the same effect as a mortgage in as much as it prevents the debtor from owning the property until the claim has been removed by the person or company that lodged it. It is also well documented in land registries.

**Czechia** ■

Less adequate country for EuroPACE implementation – overall grading for suitability: 53.57%



**SWOT Analysis**

<p><b>Strengths</b></p> <p>The property tax scheme is well structured and stable. High collection rates (95%+) are observed across the country and some incentives, like the recently launched digitalisation of the collection process, increase transparency.</p>	<p><b>Weaknesses</b></p> <p>The centralised tax collection mechanism—decisions are made and executed far from the municipality itself.</p>
<p><b>Opportunities</b></p> <p>There is market potential. As in every Central and Eastern European (CEE) country, the need for EE-oriented actions is unquestionable.</p>	<p><b>Threats</b></p> <p>Municipalities are not able to handle technical projects on their own. Some municipalities are populated by fewer than 200 inhabitants, and more than half of the municipalities are populated by fewer than 500 residents. Thus, many projects are administered in a top-down approach.</p>

**1. Suitability of the legal framework for on-tax financing**

Although no tangible example of a project supported by an on-tax financing mechanism has been identified, buildings and flats situated in Czechia are subject to property (building) tax. The tax base for buildings is the ground area in square metres, and for flats or non-residential spaces, the area in square metres is multiplied by a coefficient of 1.2. The tax rates depend on the use of the building and therefore vary from CZK 1 (roughly EUR 0.04) per square metre (residential buildings) to CZK 10 (roughly EUR 0.40) per square metre (business premises). An additional charge of CZK 0.75 per square metre is levied for each floor above the ground level.

Certain rates are multiplied by a coefficient ranging from 1 to 5, depending on the location of the property (for example, 5 for Prague). A further coefficient of 2 to 5 may apply based on a decision by the local municipality. The municipal waste bill is attached both to the person and to the property.

The property tax is collected by the Financial Office of the State, and only after is sent to the municipality in which the property is based. According to the 2015 Statistical Yearbook, with its 10.5 million inhabitants and 6,253 municipalities, Czechia is one of the most fragmented countries across Europe. It is in fact estimated that, “25% of all municipalities are populated by fewer than 200 inhabitants, and more than 50% of municipalities are populated by fewer than 500 residents. Inhabited by only 17 residents in 2015, the municipality of Vysoka Lhota constitutes the most extreme example of this phenomenon.”<sup>73</sup>

Locally determined coefficients, by which the local budget can be increased up to five times the original amount of the calculated tax, are in place.<sup>74</sup> Still, autonomy surrounding the property taxes of Czech municipalities is quite narrow and, to a great extent, remains unused. Even the largest municipalities (with delegated authority and municipalities with extended activity, according to Act#314/2002) do not have the right to establish new taxes without prior legislative preparations at the central level. According to MF data, coefficients in bigger cities, particularly in Prague, are much higher than in rural areas which results in significant disparities in property tax rates between urban and rural levels.<sup>75</sup> The municipality can issue a generally binding public notice which is able to change the category only under the conditions provided by law.<sup>76</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

Cooperation with private partners is extremely rare given the small size of most Czech municipalities. PPP projects, as such, are only just starting (only one project has been launched thus far), and still, this happens at the central level only (in this case, with the Ministry of Transport).<sup>77</sup> Given the already-mentioned differences in municipality sizes, only the 11 largest municipalities (out of more than 6,250) take part in Covenant of Mayors initiatives. These are the frontrunners when it comes to EE-oriented action at the lowest political level. The smallest municipalities simply do not have the resources to meet climate-oriented expectations, and, furthermore, energy/eco-friendly policies are not given in their competence list. As a result, in the case of the smallest municipalities, oftentimes, there is only one person (usually a mayor), who is in charge

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73 For more information see: [http://www.fos-unm.si/media/pdf/ruo/2016-5-1/ruo\\_047\\_clanek\\_krm\\_paper\\_final\\_prejeto2016\\_02\\_24\\_\\_popravki\\_po\\_recenziji\\_koncen\\_za\\_objavo\\_1.pdf](http://www.fos-unm.si/media/pdf/ruo/2016-5-1/ruo_047_clanek_krm_paper_final_prejeto2016_02_24__popravki_po_recenziji_koncen_za_objavo_1.pdf)

74 For more information see: [https://acta.mendelu.cz/media/pdf/actaun\\_2014062061213.pdf](https://acta.mendelu.cz/media/pdf/actaun_2014062061213.pdf)

75 For more information see: <https://www.mfcr.cz/cs/legislativa/financni-zpravodaj>

76 For more information see: Holmes, A. *Pravomoc obcí stanovit výši koeficientu pro výpočet daně z nemovitostí. Daňový expert*. 2008.

77 For more information see: <https://www.mdcr.cz/Media/Media-a-tiskove-zpravy/MD-uzavrelo-smlouvu-se-sdruzenim,-ktere-pripravi-P?lang=en-GB>

of the municipality's management. As such, this person is not really able to provide technical assistance or help in EE-oriented grant seeking and management.

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

The tax is collected on a regular, annual basis. Every year, the Financial Office sends an assessment with the tax duty to every taxpayer. Since 2017, this is also available digitally. If the annual tax does not exceed CZK 5,000 (roughly EUR 196), it shall be payable in one payment no later than 31 May of the current taxable period. If the tax exceeds 5,000 CZK, it shall be payable in two equal instalments no later than 31 May and 30 November. In cases of non-payment, the tax administrator can use tax execution, which is the exaction of tax arrears by means of a court or a court executor, or the administrator can claim tax arrears in insolvency proceedings or by proving the tax claim against the proceeds from a public auction. According to the MF, if the taxpayer fails to submit the tax return in due time – that is, more than five working days after the set deadline, they are obliged to pay a fine for the late tax claim. This fine is set at 0.05% of the tax set for each subsequent day of delay, up to a maximum of 5% of the tax set. MF officials often assert that municipalities are not interested in property tax administration, as centralisation insulates them from political opposition. However, one should remember that in Czechia, the central MF receives the property tax returns, enters the data in an electronic inventory system, and remits to local governments the property-related tax revenue based on the situs of the property owner. No efforts are made to find under-reported values or non-reported parcels and thus, even though standardised procedures for property tax non-payment exist, they are much more rare compared to situations in which other taxes are not paid in a timely manner. The administrative lien exists but as confirmed by the General Financial Directorate via e-mail, thus far it is not possible to overtake previously registered liens or the mortgages of other creditors, including a bank that provided a mortgage loan or credit and wrote its right as the first in order.

The Czech cadastre register contains both factual and legal information on property – maps and information on property owners, as well as all the pledges.<sup>78</sup>

It is estimated that more than 90% of all municipalities belong to the first category of municipalities, which represent the smallest units holding no or only basic transferred responsibilities, and that are able to execute these responsibilities only within their own territorial administration; around 5% belong to the second one, while only 3% belong to the third category of the largest municipalities. Even though municipalities have a range of responsibilities, Smith, Bryson and Cornia (2011) analysed intergovernmental fiscal relations in Czechia focusing on the level of fiscal decentralisation and chose the country as the subject for their research as it is “engaged in an extended public sector transition from the central planning era” (Smith, Bryson and Cornia, 2011). Their research proved that the projects undertaken at the local level are usually suggested by the central government, thus it difficult to secure separate funds for some extra initiatives.

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<sup>78</sup> For more information see: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-cz-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-cz-en.do?member=1) and <https://nahlizenedokn.cuzk.cz/>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Czechia with the value of the percentage share on the total tax collection of 1.15%, belongs to the MS where the recurrent tax on immovable property does not acquire considerable significance, however it still remains in the tax system. “Percentage share of the analysed tax on the total tax collection was only 1.15% in 2011, the average value of that share was then 0.96% in the reporting period (1995-2011).”<sup>79</sup> Such a low rate is welcomed by the citizens who are aware that the rate of the property tax they have to pay is one of the lowest in the EU. The OECD’s “Going for Growth 2013” lists the states that should follow the path of increasing the tax, as its existence is well received by society and thus has the potential to have an even bigger share in the central budget – Czechia is one of these listed countries.<sup>80</sup>

#### **Country summary and take-aways:**

- With a suitability rate of 53.57%, Czechia is a less adequate candidate for EuroPACE development.
- Property tax is stable and transparent with a collection rate exceeding 95%.
- However, the centralisation of the tax administration and collection mechanism could prove burdensome.
- Effective foreclosure procedures exist. Procedures are relatively clear, with all information available in the property title search.
- Administrative liens exist, but it is not possible to overtake previously registered liens or the mortgages of other creditors, including a bank that provided a mortgage loan or credit and it wrote its right as the first in order.

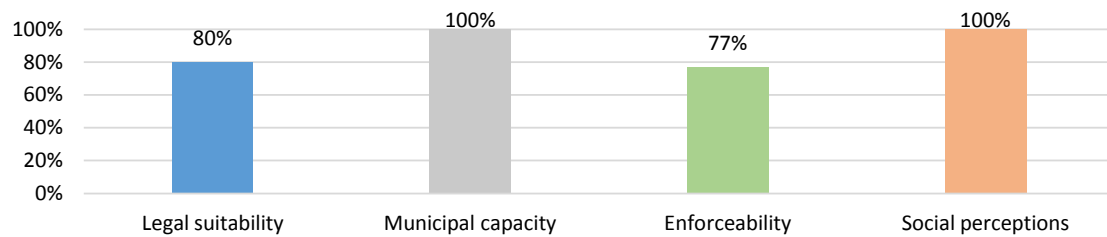
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79 For more information see: [https://acta.mendelu.cz/media/pdf/actaun\\_2014062061213.pdf](https://acta.mendelu.cz/media/pdf/actaun_2014062061213.pdf)

80 For more information see: <http://www.oecd.org/eco/growth/going-for-growth-2013.htm>

**Denmark** ■

Very adequate country for EuroPACE implementation – overall grading for suitability: 82.14%



**SWOT Analysis**

Strengths	Weaknesses
Stable collection mechanism thanks to strong enforcement procedures. Property taxes are uniform throughout the country. Individual municipalities set the land value tax ( <i>Grundskyld</i> ) rate within a range. The Land Registration Court handles the registration of titles to land, mortgages, and other charges, among others.	Lien seniority is ambiguous due to complicated procedures. The Danish tax system will be slightly amended post-2021, which increases uncertainty. Thus far, we know that despite any increases in the land value tax or property valuations, as property prices rise, annual fees will not increase in terms of kroner and ore; however, part of the difference that is frozen will have to be paid should the property be sold.
Opportunities	Threats
Grants are currently distributed through energy companies that report energy improvements to the Danish Energy Agency and the municipalities. Municipalities offer support in the process of obtaining these grants and further technical assistance; thus, their experience in roles similar to those needed for EuroPACE development could prove valuable.	As the property tax system is doubled, it could be confusing as to which system EuroPACE would actually “fit” more as an assessment. Adding a third surcharge may lead to additional disturbances.

**1. Suitability of the legal framework for on-tax financing**

To the best of our knowledge, on-tax financing has not been tested in the country yet. However, there are two types of stable property-related taxes that could provide a basis for potential Eu-



roPACE assessment.<sup>81,82</sup> The municipal real estate tax (*Grundskyld*) is collected by the municipalities and is levied on the value of land, while the national property tax is paid to the state and levied on the value of property and collected by the Tax Office (SKAT).<sup>83</sup> Both taxes are calculated on the basis of the public property assessments made by the National Board of Assessment.<sup>84</sup> Additionally, water drainage and sewerage are paid for via the property tax or directly to the water company. Household refuse is collected weekly, and the charges for this are included in property taxes.<sup>85</sup>

The local administration has the legal authority to change the rate of land value tax within a range 1.6-3.4% but does not have the authority to impose new local taxes. The national property tax rate is set at the national level and municipalities have no authority to change it. This is why property taxes are uniform throughout the entire country. Individual municipalities set the land value tax rate only within a range. No exceptions to this rule were found on a regional or local level. No exemptions were either found at the individual property level based on the property size or property value, among others.

## **2. Assessment criteria for Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

PPPs at the local level are gaining popularity. The Danish Building and Property Agency has commissioned the first seven PPP projects, namely the Land Registration Court in Hobro, the Danish National Archives, a new regional tax centre in Haderslev, and the courts in Herning, Holstebro, Holbæk, and Kolding.<sup>86</sup>

Denmark is also doing exceptionally well in the EE field. The ultimate goal is to become independent of fossil fuels. Shortly after the creation of the National Renewable Energy Action Plan (NREAP), Denmark drafted and adopted “Energy Strategy 2050” which outlines the plan of how Denmark will achieve its energy independence. All these targets have to be achieved by the municipalities first of all. Households can get grants for improving the EE of their homes. Grants are distributed through energy companies that report energy improvements to the Danish Energy Agency together with municipalities. In order to obtain a grant, a household needs to enter into an agreement with the energy company. Grants can be given for works such as: the replacement of windows, the insulation of outer walls and the roof, and the replacement of

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81 For more information see: <http://www.skm.dk/aktuelt/temaer/boligskat-og-de-offentlige-nejendomsvurderinger/nejendomsvaerdiskat-og-nejendomsskat-grundskyld>

82 For more information see: <https://skat.dk/getfile.aspx?id=130346>

83 For more information see: <https://skat.dk/getfile.aspx?id=130346>

84 <http://www.skm.dk/aktuelt/temaer/boligskat-og-de-offentlige-nejendomsvurderinger/de-offentlige-nejendomsvurderinger>

85 <https://www.expatsfocus.com/expatriate-denmark-utilities>

86 For more information see: [https://www.bygst.dk/\(X\(1\)S\(zwxohjq5dgh1gaedtg4ykpkw\)\)/english/knowledge/forms-of-cooperation-and-organisation/public-private-partnership/?AspxAutoDetectCookieSupport=1](https://www.bygst.dk/(X(1)S(zwxohjq5dgh1gaedtg4ykpkw))/english/knowledge/forms-of-cooperation-and-organisation/public-private-partnership/?AspxAutoDetectCookieSupport=1)

old heating equipment with more eco-friendly alternatives.<sup>87</sup> Municipalities are of help in the process of obtaining the money.

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

The strong enforceability of local taxes results in high collection rates, as confirmed in an e-mail received from the Danish Tax Authorities in September 2018. If a person fails to pay a land value tax for a prolonged period of time, the case will be sent to the municipality's lawyer with a request for the forced sale of the property.<sup>88</sup> In the case of a delay in the payment of the *Grundskyld*, additional interest may be imposed by the municipality – for example, in Copenhagen, in the case of payment after the last due date, interest is calculated. The interest rate is calculated by 0.4% for each commencement month, calculated from the due date.<sup>89</sup> Concerning state property-related taxes: an additional interest charge of 1.7% (January-June) and 3.7% (July-onwards) is imposed.<sup>90</sup> All administrative procedures are clear and transparent.

Consisting of a country-wide cadastral map, an official register, and a cadastral archive plays a central role in the public management and administration of land ownership. Updates to Denmark's cadastre are carried out with the use of two dedicated digital tools. The Land Registration Court handles the registration of titles to land, mortgages, and other charges. The Land Registration Court's jurisdiction extends to all of Denmark.<sup>91</sup> It is also the eligible institution for senior lien imposition.

Municipalities in Denmark are responsible for the provision of many public services such as education, healthcare, sport, and culture services, among others. These services are financed mainly from local taxes. Local authorities receive revenue not only from property taxes but also from income taxes. Importantly, local governments can set local PIT rates. Furthermore, funds can be allocated for particular investment projects and all finances are controlled by independent bodies.

### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Housing tax in Denmark has been based on assessments of property values for over the last 100 years.<sup>92</sup> Local taxes in their current form were introduced in 2007 and no evidence was found showing that there is any political will to abolish them given public acceptance.

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87 For more information see: <https://sparenergi.dk/forbruger/boligen/tilskud-og-fradrag#tilskud>

88 Information from the webpage of one municipality: <http://www.ltk.dk/ofte-stillede-spoergsmaal-om-egjendomsstat#Hvad%20sker%20der,%20hvis%20ejendomsstat%20ikke%20betales%20til%20tiden> (Look for: "Hvad sker der, hvis ejendomsstat ikke betales til tiden?")

89 For more information see: <https://www.kk.dk/artikel/egjendomsstat-og-afgifter>

90 For more information see: <https://skat.dk/skat.aspx?oid=2246445>

91 For more information see: <http://www.domstol.dk/om/otherlanguages/english/thedanishjudicialsystem/landregistrationcourt/Pages/default.aspx>

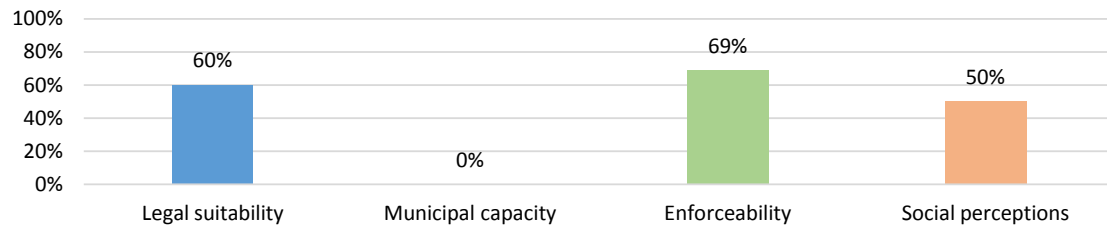
92 For more information see: <http://www.skm.dk/aktuelt/temaer/boligstat-og-de-offentlige-egjendomsstat>

**Country summary and take-aways:**

- With a readiness of 82.14%, Denmark is a very adequate candidate for EuroPACE development.
- Both property-related taxes are stable, and Denmark is second only to the UK for the highest real estate taxes.
- The country introduces ambitious EE targets as it aims to become independent of fossil fuels soon.
- The foreclosure mechanism is effective and clear. If a person fails to pay a land value tax for a prolonged period of time, the case will be sent to the municipality's lawyer with a request for the forced sale of the property. Likewise, the Tax Office may request a forced sale against a person who does not pay property taxes, to which people are accustomed.
- Ambiguous rules when it comes to lien imposition (cases where commercial mortgages can have precedence are apparently possible, although no single situation of this kind has been identified).

**Estonia** ■

Less adequate country for EuroPACE implementation – overall grading for suitability: 57.14%



**SWOT Analysis**

<p><b>Strengths</b></p> <p>Social perception of the land tax is very positive.</p>	<p><b>Weaknesses</b></p> <p>Small and centralised country. Apart from initiatives such as e-government, no meaningful PPP experience relevant from the EuroPACE perspective has been identified.</p>
<p><b>Opportunities</b></p> <p>Named “the most advanced digital society in the world”, Estonia has created efficient digitalised systems that save time and money, which could be extremely helpful while creating platforms and systems for the purpose of EuroPACE management and contracting, among others.<sup>3</sup></p>	<p><b>Threats</b></p> <p>Unsatisfactory enforceability: municipalities cannot impose senior liens on the indebted properties.</p>

**1. Suitability of the legal framework for on-tax financing**

No on-tax financing has been identified in the country and the land tax is the only annual property-related tax in Estonia. It is based on the capital values of land. It can differ between municipalities and varies from 0.1-2.5% of the assessed value of the land (not on buildings or other improvements). Residential land is at present charged at 1% land tax.<sup>93</sup> The land tax is collected by the state (central government) authority Tax and Customs Board (*Maksu- ja Tolliamet*).<sup>94</sup> This is mainly because municipalities are relatively small in Estonia. However, only municipalities can

<sup>93</sup> For more information see: <https://www.emta.ee/eng/business-client/excise-duties-assets-gambling/land-tax#5>

<sup>94</sup> Taxation Act, §5 (1)

benefit from this tax.<sup>95</sup> The local government council may establish the rates of tax as a differentiated rate according to the value zones within the range specified by law. All of the taxes are based on law and, in this context, only the parliament (*Riigikogu*) can issue new taxes and make amendments to existing ones.<sup>96</sup> Local taxes are limited to the list presented in the existing law: advertisement tax, road and street closure tax, motor vehicle tax, animal tax, entertainment tax, and parking charges. The land tax itself is not a local tax in this sense. This means that municipalities cannot decide whether to implement or not implement this tax according to the Land Tax Act (Paragraph 2).

The residential land or the profit-yielding land can only be exempt from land tax to the extent of 0.15 hectares in a densely populated area (i.e. in cities, in cities without municipal status, towns, small towns, and areas designated densely populated areas by a comprehensive plan by a local government of a county plan by a county governor) and to the extent of 2.0 hectares elsewhere. This provision does not apply to apartment ownership – for example, tax exemption in an apartment association is calculated by each apartment ownership. The Land Tax Act does not mention exemptions related to individual properties.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

Insignificant progress has been made towards employing partnerships with private actors apart from those oriented on information and communication technologies (ICT). Accordingly, only the experiences of PPP projects recorded from other MS can be mentioned to provide insight into the impact which the adoption of more investment-oriented PPP approaches might have on development and overall procurement performance in Estonia.<sup>97</sup>

Only four municipalities take part in Covenant of Mayors initiatives, which leads us to the conclusion that municipal EE strategies are still to be implemented. Moreover, Estonia is too small for efficient solutions at the local level without the aid of the state (following its administrative reform, which was completed in October 2017, Estonia reduced the number of its municipalities to 79 – 14 of which are urban and 65 rural – and reduced its number of small municipalities with under 5,000 inhabitants from 169 to 15).

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95 Land Tax Act, §6

96 Taxation Act

97 For more information see: <http://www.irbnet.de/daten/iconda/CIB16519.pdf>

### 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

Land taxes are paid in three equal instalments (15 May, 15 August, and 15 November). Tax billing is administered by National Tax Board staff in each county office and the whole payment system can be considered fully digitalised.<sup>98</sup>

“If a taxable person fails to meet the schedule for payment of the tax arrears, does not pay the taxes that become due on time, does not file tax returns on time, or, in the event of a decrease in the value of security, does not submit replacement security accepted by the tax authority, the tax authority has the right to revoke the decision on the payment of tax liabilities in instalments and revoke the reduction of interest rate. After revocation of the decision on the payment of tax liabilities in instalments, the tax authority has the right to initiate a compulsory execution of the claims arising from tax arrears pursuant to the procedure provided for in Chapter 13 of the Taxation Act.”<sup>99</sup> Interest rates of 0.06% per day or 21.9% per year can be added to the initial amount of debt up to the date of its final payment. In the case of land tax delinquency or default, the tax authorities can turn to a bailiff and the bailiff has the right to seize and sell the property of the taxpayer. The enforcement actions by the tax authority can be found in Paragraph 130 of the Land Tax Act. Paragraph 52 of the Code of Enforcement Procedure states the manners of making claims for payment of property. All the administrative procedures can be considered transparent.

The Estonian Land Register is a record of proprietary interests and restricted rights, providing third parties with information about registered immovable property.<sup>100</sup> “The land register focuses on both legal and factual circumstances. All property is entered into the land register, unless otherwise provided for by law. Each individual property has an independent entry and is given a unique number (registered property number). The register has four parts and includes information about imposed liens. Municipal liens do not have to be senior.

The Estonian Constitution stipulates that local government shall have an independent budget for which the bases and procedure for drafting shall be provided by law. At the same time, earmarked funds coming from the budgets of the ministries in order to cover the costs of implementing the local and regional functions are also paid directly and do not appear in the separate project accounts.<sup>101</sup> Last but not least, the purpose of the state supervision is to ensure the lawfulness and feasibility of municipal administrative procedures. External control is implemented by ministries, and in some matters, also by agencies and inspections and by the Legal Chancellor (Ombudsman) and the State Audit Office.<sup>102</sup>

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98 For more information see: <https://www.emta.ee/eng/business-client/taxation-payment-taxes/payment-tax-liabilities-instalments>

99 For more information see: <https://www.emta.ee/eng/business-client/taxation-payment-taxes/payment-tax-liabilities-instalments>

100 For more information see: <http://www.rik.ee/en/e-land-register>

101 For more information see: <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN013816.pdf>

102 For more information see: <https://www.rahandusministeerium.ee/en/local-governments-and-administrative-territorial-reform>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

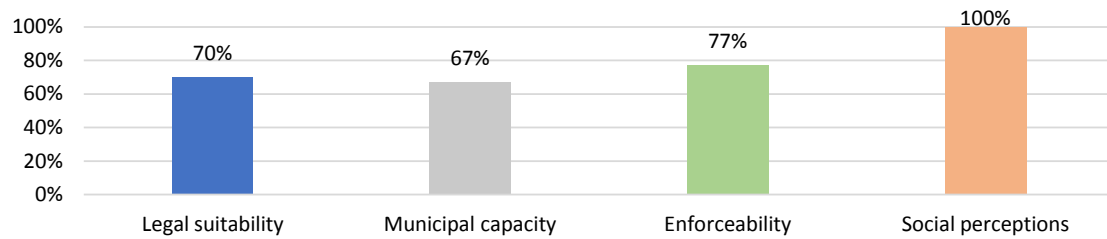
The land tax was somewhat complicated when it was first introduced in 1993. However, no real problems have been identified with it mainly because the tax burden is very low; this is likely the main reason why it has been in a rather neutral position. Though, there are some disputes concerning tax exempt land or increasing its rate rather than the tax itself.

##### **Country summary and take-aways:**

- With a EuroPACE readiness of 57.14%, Estonia is a less adequate candidate for EuroPACE development.
- However, named “the most advanced digital society in the world”, Estonia’s digitalised ecosystem could be helpful while creating platforms and systems for EuroPACE management and contracting.
- In Estonia, the land tax is the only real property tax – buildings and forests are not taxed separately.
- Effective foreclosure procedures exist. Procedures are clear, with all information available in the land registry.
- A senior lien cannot be imposed on an indebted property.

**Finland** ■

Moderately adequate country for EuroPACE implementation – overall grading for suitability: 75%



**SWOT Analysis**

Strengths	Weaknesses
Well-structured, stable, and unified property tax system across the country. The overall collection rate is high. Avoiding property taxes is very difficult because there is a national register of the building stock and the tax authority has a good enforcement procedure.	Municipalities are not allowed to establish new taxes. Taxes are determined by law, and, therefore, new taxes must be approved by the national parliament. In addition, the constitution stipulates that a clear basis for all taxes has to be given in the tax laws, which implies that piloting/testing is not very easy because it would require a law change. PPPs are still relatively new.
Opportunities	Threats
Various diffused EE strategies which are already available but not fully exploited could be unified under EuroPACE application.	Municipalities that are committed to the EE pact or programme are eligible for government subsidies for EE inspections and investments, which is strong competition for private financing. Plus, the inability to impose a senior lien on a property makes investment less attractive and secure for private investors.

**1. Suitability of the legal framework for on-tax financing**

On-tax financing has not been tested in Finland thus far. The constitution stipulates that a clear basis for all taxes has to be given in the tax laws, which implies that piloting/testing is not very easy as it would require a law change. Still, Finland has a stable local property tax. Property tax revenue in 2017 was EUR 1.8 billion or 0.8% of GDP. Different property tax rates are applied to



different types of properties, and municipalities can freely choose the tax rates within bounds set by the central government. However, the system is unified across the country and no real exemptions can be found.<sup>103</sup> Moreover, municipalities can collect waste management fees. The fee is payable by the owner of the property (or the renter). Many municipalities offer incentives for recycling by setting lower fees for assorted waste than mixed waste. Typically, waste management is organised through a company owned by the municipality (or many municipalities). In some municipalities waste management is outsourced to private companies.<sup>104</sup> The national Tax Authority is responsible for collecting local property-related taxes. The Tax Authority combines property taxes for all properties owned by the tax payer into one annual bill, which is paid in one or two instalments (depending on whether the amount is below or above EUR 150). The waste management charge is collected by the municipality or the waste management company.<sup>105</sup>

According to the Constitution of Finland (Article 121), municipalities are not allowed to establish new taxes. Taxes are determined by the law, and therefore new taxes have to be approved by the national parliament.<sup>106</sup> Municipalities can, however, choose the tax rates for different types of properties within bounds set by the central government.<sup>107</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

PPPs have gradually become more popular in municipal public service provision in the 2000s. However, the use of PPPs in major infrastructure or building projects is still rare. There have been altogether only 45 PPP municipal public building projects in 15 municipalities (about 5% of municipalities). In 2018, the legislation changed so that the use of PPPs in municipal infrastructure and building projects became more favourable.<sup>108</sup>

The engagement in sustainable strategies is more noticeable. In 2016, 64 municipalities and 13 federations of municipalities had committed to an EE pact (intended for larger municipalities) and a further 53 municipalities and 2 federations of municipalities were implementing an energy programme (intended for smaller municipalities). Thus, altogether, roughly 30% of municipalities have some kind of EE strategy. These municipalities are predominantly large. Still, over 70% of

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103 For more information see: Lyytikäinen, Teemu. "Tax competition among local governments: Evidence from a property tax reform in Finland." *Journal of Public Economics* 96, no. 7-8 (2012): 584-595.

104 For more information see: Ministry of Environment [http://www.ymparisto.fi/fi-FI/Kulutus\\_ja\\_tuotanto/Jatteen\\_ja\\_jatehuolto/Jatemaksu\\_ja\\_verot](http://www.ymparisto.fi/fi-FI/Kulutus_ja_tuotanto/Jatteen_ja_jatehuolto/Jatemaksu_ja_verot)

105 For more information see: Finnish Tax Authority [https://www.vero.fi/en/individuals/housing/real\\_estate\\_tax/paying\\_real\\_estate\\_tax/](https://www.vero.fi/en/individuals/housing/real_estate_tax/paying_real_estate_tax/) and Ministry of Environment: [http://www.ymparisto.fi/fi-FI/Kulutus\\_ja\\_tuotanto/Jatteen\\_ja\\_jatehuolto/Jatemaksu\\_ja\\_verot](http://www.ymparisto.fi/fi-FI/Kulutus_ja_tuotanto/Jatteen_ja_jatehuolto/Jatemaksu_ja_verot)

106 For more information see: <http://www.finlex.fi/fi/laki/ajantasa/1999/19990731#L11P121>

107 For more information see: Ministry of Finance: Draft for a reform of the valuation of the real property (includes a detailed description of the current system) [https://api.hankeikkuna.fi/asiakirjat/66d20861-7d42-48af-918a-94d89204ee72/b5cb26e9-acc0-414b-b969-c2fe98d1ff47/LAUSUNTOPYYNTO\\_20180817050000.PDF](https://api.hankeikkuna.fi/asiakirjat/66d20861-7d42-48af-918a-94d89204ee72/b5cb26e9-acc0-414b-b969-c2fe98d1ff47/LAUSUNTOPYYNTO_20180817050000.PDF)

108 For more information see: National Institute for Health and Welfare <https://thl.fi/documents/2616650/2646346/Tilaaaja-tuottajamallin+k%C3%A4yt%C3%B6st%C3%A4+Suomessa+ja+er%C3%A4iss%C3%A4+Euroopan+maissa.pdf/1567c6ee-399a-4aac-b3a2-bc91bb2881d5>

the building stock are located in municipalities with EE strategies.<sup>109</sup> Those 30% of municipalities that are committed to the EE pact or programme are eligible for government subsidies for EE inspections and investments. In 2008-2016, there were some 250 subsidised EE investment projects in Finnish municipalities and about 1,700 buildings were inspected.<sup>110</sup>

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Property tax is collected annually. The collection rate is high, although minor delays are common. In 2014, property tax revenue was EUR 1,500 million and the amount of unpaid property tax liabilities was only EUR 25 million. The overall collection rate is thus above 98%. Avoiding property taxes is very difficult because there is a national register of the building stock and the tax authority has a good enforcement procedure. Not paying the property tax in time leads first to a reminder letter and 7% penalty interest and, eventually, to standard foreclosure procedures. Unpaid taxes are classified among the liabilities for which no special court decision is required for initiating the foreclosure procedure. Thus, initiating a foreclosure is relatively easy for the tax authority.<sup>111</sup>

Finland is generally regarded as a country with a high level of transparency and good governance. Transparency International ranks Finland third out of 180 countries in terms of transparency. The Tax Authority publishes information on the enforcement procedure online. If the payment of the tax is delayed, the Tax Authority will send a new bill with added penalty interest and a new deadline for the payment. If the tax payer has a low income and is not able to pay the tax by the new deadline, he/she can apply for a programme in which the tax is paid in several small payments over an extended period. If the tax is still unpaid, the Tax Authority can start foreclosure procedures in which the property of the debtor may be sold to pay the tax.<sup>112</sup>

A national register of real estate holdings exists and is maintained by the National Land Survey of Finland, which offers a property title search service and evidence of legal ownership of the property. The register includes information on the owner of the property, property liens, and many characteristics of the property (e.g. the location of the property, the coordinates of boundary markers of land belonging to the property, and road or street access, among others). Owners of properties have online access to the information on their own property for free. Others can order the information online (as a pdf) for EUR 14-18 per search depending on the type of information required. The National Land Survey also has a register of real estate transac-

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109 For more information see: Annual report of the energy efficiency pact and energy programme for municipalities in 2016 [https://www.motiva.fi/ajankohtaista/julkaisut/energiatehokkuussopimukset\\_2008-2016/kunnat/kuntien\\_energiatehokkuussopimuksen\\_ja\\_energiaohjelman\\_vuosiraportti\\_2016.2887.shtml](https://www.motiva.fi/ajankohtaista/julkaisut/energiatehokkuussopimukset_2008-2016/kunnat/kuntien_energiatehokkuussopimuksen_ja_energiaohjelman_vuosiraportti_2016.2887.shtml)

110 For more information see: Annual report of the energy efficiency pact and energy programme for municipalities in 2016 [https://www.motiva.fi/ajankohtaista/julkaisut/energiatehokkuussopimukset\\_2008-2016/kunnat/kuntien\\_energiatehokkuussopimuksen\\_ja\\_energiaohjelman\\_vuosiraportti\\_2016.2887.shtml](https://www.motiva.fi/ajankohtaista/julkaisut/energiatehokkuussopimukset_2008-2016/kunnat/kuntien_energiatehokkuussopimuksen_ja_energiaohjelman_vuosiraportti_2016.2887.shtml)

111 For more information see: the Law on foreclosure <https://www.finlex.fi/fi/laki/alkup/2007/20070706>

112 For more information see: Transparency international <https://www.transparency.org/country/FIN>

tion prices.<sup>113</sup> However, no information on liens is possible as those cannot be imposed on the indebted buildings.

Municipalities are in charge of their own finances, but they are also responsible for several important public services (primary education and health, among others), and there is highly specific legislation and regulation that requires these services to be provided up to a standard. As long as these standards are met, municipalities are free to spend the remaining revenue as they like.<sup>114</sup> In addition to that, separate budgeting lines exist. All the municipal finances are monitored and controlled by the MF. There is no official debt limit, but municipalities running substantial deficits are required to close the deficit within four years. Failing to do so may trigger a “crisis municipality” procedure in which the MF takes partial control of the municipality’s finances.<sup>115</sup>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Property taxes were introduced in Finland in 1993 and the system has remained quite similar ever since. The statutory bounds for the tax rates have changed but the structure of the system has remained stable.

The MF is currently preparing a reform of the method for determining the taxable value. This reform is due to take effect in 2020. The purpose of the reform is to strengthen the link between market prices and taxable land values, and to improve the transparency of the valuation method.<sup>116</sup>

There are no statistics on perceptions towards property taxes. However, based on public debate on tax policy, most citizens view property taxes slightly more negatively than most other taxes. Municipal income tax is the main source of tax revenue for municipalities. Property tax revenue is much smaller. Despite this, even small increases in the property tax rate are debated more extensively than large increases in the local income tax. On the other hand, property taxation has become a more important source of revenue over the years. The government has adjusted the statutory limits of property tax rates upwards and many municipalities have increased their tax rates within these bounds. These developments could be interpreted as evidence of more favourable perceptions towards property taxes.<sup>117</sup>

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113 For more information see the National Land Survey of Finland <https://www.maanmittauslaitos.fi/kiinteistot/asiantuntevalle-kayttajalle/kiinteistotiedot-ja-niiden-hankinta>, <https://www.maanmittauslaitos.fi/kiinteistot/asiantuntevalle-kayttajalle/kiinteistotiedot-ja-niiden-hankinta/kiinteistojen>

114 Moisio, Antti, 2002. “Essays on Finnish Municipal Finance and Intergovernmental Grants”, Research Reports 93, VATT Institute for Economic Research.

115 For more information see: the Economic Policy Council website

116 For more information see: <https://vm.fi/kiinteistoverouudistus>

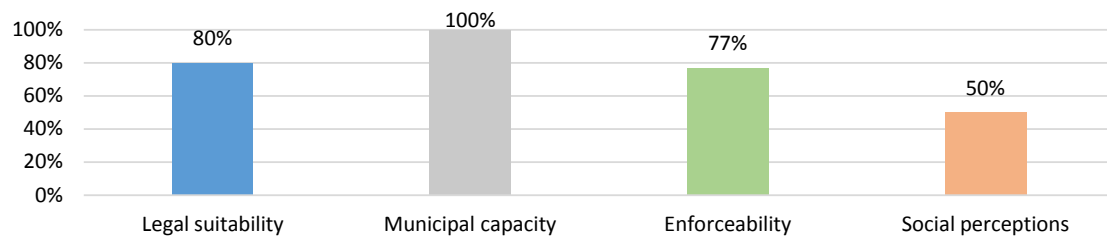
117 Newspaper article (Helsingin Sanomat): <https://www.hs.fi/politiikka/art-2000005412065.html>; Newspaper article (Kauppalehti): <https://www.kauppalehti.fi/uutiset/tutkimus-asenteet-veroja-kohtaan-aiempaa-suopeammat--siltimoni-kokee-olevansa-vihainen-veroista/GywxJssP> and Lyytikäinen, T. (2012): “Kiinteistövero – taloustieteilijöiden lemmikki ja kansalaisten inhokki”, *Talous ja yhteiskunta* 3/2012, 54-59.

**Country summary and take-aways:**

- With a EuroPACE readiness of 75%, Finland is a moderately good candidate for EuroPACE development.
- Property tax is collected annually. The collection rate is high, although minor delays are common.
- However, the MF is currently preparing a reform of the method for determining the taxable value. This reform is due to take effect in 2020.
- Finland is generally regarded as a country with a high level of transparency and good governance. Transparency International ranks Finland third out of 180 countries in terms of transparency. The Tax Authority publishes information on the enforcement procedure online.
- The municipality cannot act as a tax authority and impose senior liens, and neither can the national Tax Authority. Unpaid property tax payments have no special priority in the foreclosure procedure, but foreclosures can be started without a court decision (when it comes to taxes).

**France** ■

**Moderately adequate country for EuroPACE implementation – overall grading for suitability: 78.57%**



**SWOT Analysis**

Strengths	Weakness
Reliable legal environment. Energies POSIT'IF trial was very successful—although it was not a typical on-tax financing mechanism, it is a good starting point for EuroPACE development.	Various exemptions on property-related taxes (such as age and number of dependents, among others) could be a substantial obstacle for EuroPACE development. For example, a household with three children would attract a discount of 35% of the average taxable value for the immediate area; these percentages can be further increased by 5-10% per dependent if the municipality decrees.
Opportunities	Threats
French municipalities are independent and in possession of autonomous budgets. They are also active on sustainable development and EE field. PPPs are quite successful: some local authorities also initiated PPPs in the context of sustainability (for example, in Annemasse and French Polynesia) and innovation. This interest could open the door for the introduction and testing of EuroPACE.	President Macron is proposing to abolish the <i>taxe d'habitation</i> for around 80% of households, which was planned to be operative from 2018 on a phased basis to 2020. Those who will be exempt are households with a net taxable income under EUR 20,000 for each “part” of the household.

**1. Suitability of the legal framework for on-tax financing**

The Ile-de-France region established Energies POSIT'IF, “an innovative company made up of private and public capital. Energies POSIT'IF uses third party funding for the energy renovation of blocks of flats. It consists of financing energy renovation work using the energy savings. In prac-

tice, the third-party financing company supports the homeowners' association on the technical and financial plan. The third party funding company can provide a financial solution in which the homeowners' association pays regular contributions on an amount that is offset, at least in part, by the energy savings achieved.<sup>118</sup> Although this is not a typical on-tax financing mechanism, it could be a good starting point for EuroPACE development. In France, there are two different property taxes (*impôts locaux*): the land value tax (*taxe foncière*), which is paid by the property owner, and the *taxe d'habitation*, which is paid by the person occupying the property. The *impôts locaux* also encompasses waste management fees and sweep fees. It is a part of the *taxe foncière* and is due at a pro rata rate when the property is unoccupied. It is not calculated according to the amount of waste generated per household, but on the cadastral rental value. This tax is collected by the state and not at local level, unlike the *impôts locaux*.<sup>119</sup>

Numerous tax exemptions at individual level exist, notably for the *taxe d'habitation*, according to age, to a certain threshold of income, and for sole persons. Moreover, the new Macron law aims at progressively reduce the *taxe d'habitation* until complete elimination by 2020.<sup>120</sup> For the *taxe foncière*, there are exemptions for a certain threshold of income, some types of property, as well as for disabled people or people over 75 years old.<sup>121</sup>

New taxes are fixed by national legislation. Local authorities have the legal authority to change the tax rate of direct property-related taxes (*taxe d'habitation*, *taxe foncière*, *contribution économique territoriale*) only within the framework of the law.<sup>122</sup>

## 2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation

PPPs are quite successful in France with large-scale projects implemented thanks to this mechanism. Some local authorities also initiated PPP in the context of sustainability and EE (in Annemasse<sup>123</sup> and French Polynesia<sup>124</sup>) as well as innovation.<sup>125</sup>

Some municipalities (among which, Seyssinet Pariset,<sup>126</sup> Troyes,<sup>127</sup> and L'Hay-Les-Roses<sup>128</sup>) have implemented sustainability, EE policies, and SEAP, but this strategy is still a minority at the

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118 For more information see: [http://www.energiespositif.fr/?page\\_id=2300](http://www.energiespositif.fr/?page_id=2300)

119 For more information see: <https://droit-finances.commentcamarche.com/contents/961-taxe-fonciere-2018-calcul-et-montant>

120 For more information see: <https://droit-finances.commentcamarche.com/faq/7057-exoneration-de-taxe-d-habitation-2018-plafonds-de-revenus>

121 For more information see: <https://droit-finances.commentcamarche.com/contents/967-taxe-fonciere-2018-exoneration-et-reduction>

122 For more information see: <http://www.vie-publique.fr/decouverte-institutions/finances-publiques/ressources-depenses-etat/ressources/qui-decide-impots.html>

123 For more information see: [https://www.lesechos.fr/30/09/2015/LesEchos/22034-355-ECH\\_les-partenariats-public-privé-pour-l-environnement.htm](https://www.lesechos.fr/30/09/2015/LesEchos/22034-355-ECH_les-partenariats-public-privé-pour-l-environnement.htm)

124 For more information see: [https://www.persee.fr/doc/ecofi\\_0987-3368\\_1995\\_hos\\_5\\_1\\_2578](https://www.persee.fr/doc/ecofi_0987-3368_1995_hos_5_1_2578)

125 For more information see: <http://www.oecd.org/fr/france/25718043.pdf>

126 For more information see: <http://www.ville-seyssinet-pariset.fr/actualites/84-actions-pour-une-ville-durable>

127 For more information see: <http://demarchesterritorialesdedveloppementdurable.org/troyes-france/>

128 For more information see: <http://www.lhaylesroses.fr/cadre-de-vie/developpement-durable>

municipal level. SEAPs and EE strategies are mainly implemented at the national or regional/departmental level. However, the State and state agencies such as the ADEME<sup>129</sup> (Agency for Environment and Mastering of Energy) grant municipalities what allows them to benefit from diverse modes of financing addressed to sustainable development and EE. Moreover, all property owners have the opportunity to benefit from a tax reduction (*crédit d'impôt pour la transition énergétique*) when conducting home renovations implying sustainability and energy efficiency.<sup>130</sup>

### 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

The property tax is collected yearly. In 2015, EUR 510 million was recovered for *impôts locaux* by the French government in the framework of the fight against tax fraud.<sup>131</sup> This is the lowest amount recovered among the other taxes (income tax and VAT, among others). To the best of our knowledge, there are no existing statistics about the percentage/level of tax collection in the country. In 2017, the average amount payable by each household was around EUR 2,000.<sup>132</sup> There is an additional interest rate of 10% in cases of belated payments of the property tax, and a fine in cases of non-payment of taxes, which increases enforceability to some extent. The main sanction for tax delinquency is the payment of a fine (EUR 500,000) or imprisonment.<sup>133</sup> In the case of non-payment of the fine, eventually foreclosures are pursued.<sup>134</sup> The process is transparent and well-structured. No senior liens can be imposed though.

The French Constitution states that local authorities benefit from resources which they can freely administrate.<sup>135</sup> This means that municipalities possess an autonomous budget and are in charge of their expenses and get to decide the budget allotment for their different activities and budgets. Municipal finances are controlled by the State's representative for departments or regions, and together with the regional financial administrative jurisdiction (*Chambre Regionale des Comptes*).

A property title search and evidence of legal ownership exist. They are accessible at the notary who signed the deed.<sup>136</sup> The Property Title Search is also accessible through the land register. There are 354 independent land registers in France but no online portal enabling their access. There are no mortgage registers in the Eastern region of Alsace-Moselle, where the land registration service is achieved through the property book.<sup>137</sup>

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129 For more information see: [https://www.lemonde.fr/energies-communes/article/2018/02/15/les-financements-de-la-transition-energetique-sur-les-territoires\\_5257274\\_5216000.html](https://www.lemonde.fr/energies-communes/article/2018/02/15/les-financements-de-la-transition-energetique-sur-les-territoires_5257274_5216000.html)

130 For more information see: <https://www.service-public.fr/particuliers/vosdroits/F1224>

131 For more information see: <https://argent.boursier.com/impots/actualites/fraude-fiscale-un-record-de-redressements-en-2015-3119.html>

132 For more information see: [https://www.french-property.com/news/tax\\_france/local\\_taxes\\_rates\\_2017/](https://www.french-property.com/news/tax_france/local_taxes_rates_2017/)

133 For more information see: <https://www.service-public.fr/particuliers/vosdroits/F31451>

134 For more information see: <https://droit-finances.commentcamarche.com/contents/844-recouvrement-de-l-impot-et-saisies>

135 For more information see: <http://www.vie-publique.fr/decouverte-institutions/finances-publiques/collectivites-territoriales/ressources/que-designe-t-on-par-autonomie-financiere-collectivites.html>

136 For more information see: <https://www.journaldunet.fr/patrimoine/guide-de-l-immobilier/1202139-titre-de-propriete-comment-l-obtenir/>

137 For more information see: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-fr-en.do?](https://e-justice.europa.eu/content_land_registers_in_member_states-109-fr-en.do?)

#### 4. Political, institutional, and social perceptions and acceptance of EuroPACE

The property tax in France is a stable and continuous mechanism. However, in 2014, a survey showed that the French see taxes as extortion and only 56% of them see the payment of taxes as a citizen's duty.<sup>138</sup> Therefore, there is no general positive perception towards property taxes. A new by French President Emmanuel Macron aims at eliminating a part of the property tax, so the topic is present in political debate.

##### Country summary and take-aways:

- With a EuroPACE readiness of 78.57%, France is a good candidate for EuroPACE development.
- Energies POSIT'IF is an optimistic starting point for EuroPACE development.
- There are two different property taxes (*impôts locaux*) in France, the *taxe foncière* (or land value tax), which is paid by the property owner, and the *taxe d'habitation* (or rates), which is paid by the person occupying the property. This can make the EuroPACE assessment even more secure from an investor's perspective.
- However, uncertainty related to possible reforms on the *taxe d'habitation* could pose a threat.
- Effective foreclosure procedures exist. Procedures are clear, all information is available in the land registry.
- No senior liens can be imposed by the municipality.

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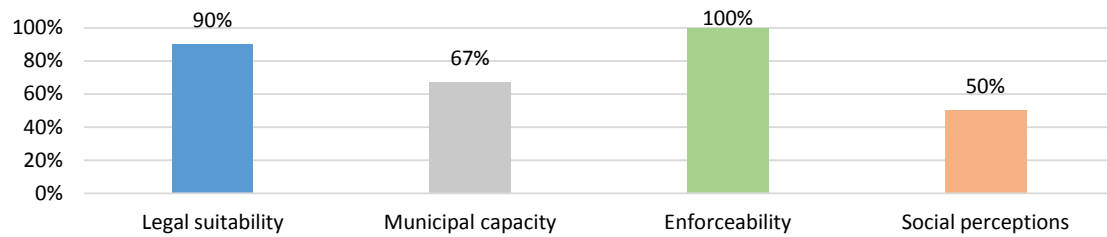
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138 For more information see: [http://www.lepoint.fr/economie/plus-d-un-tiers-des-francais-voient-les-impots-comme-une-extorsion-de-fonds-01-12-2014-1885918\\_28.php](http://www.lepoint.fr/economie/plus-d-un-tiers-des-francais-voient-les-impots-comme-une-extorsion-de-fonds-01-12-2014-1885918_28.php)



**Germany** ■

**Very adequate country for EuroPACE implementation – overall grading for suitability: 89.29%**



**SWOT Analysis**

Strengths	Weaknesses
Local authorities are responsible for the collection mechanism and they have the right to change the tax rate of the property and to develop entirely new local taxes and fees. State legislation may authorise municipalities to regulate and levy certain charges on local taxes on the basis of a resolution of the municipal council. Municipalities are autonomous and experienced in the administration of various EE initiatives.	Various tax bases and, as a result, structures between eastern and western Germany make this country's property tax-related system unclear and ambiguous (difficulties for one simplified legal base and, later on, for administrators, among others)
Opportunities	Threats
Successfully tested BIDs in various cities, and in particular, a number of cases from Hamburg, are a good starting point for residential on-tax financing development.	The current land tax law was passed in 1973. Due to a judgment of the Federal Constitutional Court, a substantial reform is planned soon; therefore, the property tax structure should not be considered stable.

**1. Suitability of the legal framework for on-tax financing**

There are successful BID measures in Hamburg, Hessen, and Bremen, among others.<sup>139</sup> Property tax (*Grundsteuer*), which is in fact a land tax, is levied across the country (the relevant Tax Act is *Grundsteuergesetz*). Municipalities are responsible for its assessment and collection. The mu-

<sup>139</sup> For more information see: [https://www.researchgate.net/publication/264539892\\_Reclaiming\\_the\\_European\\_City\\_and\\_Lobbying\\_for\\_Privilege\\_Business\\_Improvement\\_Districts\\_in\\_Germany](https://www.researchgate.net/publication/264539892_Reclaiming_the_European_City_and_Lobbying_for_Privilege_Business_Improvement_Districts_in_Germany)

municipalities shall be granted the right to fix the rates of this tax within the framework of the law. Different collection rates among municipalities are frequent, but not on the individual property level. Furthermore, the Municipal Levy Law (*Kommunalabgabengesetz*) stipulates that local authorities are entitled to levy taxes in accordance with this act.<sup>140</sup> Additionally, the federal states (*Bundesländer*) grant the municipalities the right to charge certain fees (Local Levies Acts, *Kommunalabgabengesetze*). Waste water, waste disposal fees, and street cleaning fees exist. The legal basis (for the amount of the fee) is stipulated by municipal fee regulations.<sup>141</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

PPPs are an important form of cooperation in Germany, but not necessarily on the local level. EE strategies are equally interesting. Already, 154 regions obtain 100% of their energy from renewable energy sources or have set themselves this goal and can demonstrate substantial measures to achieve it. These 154 regions comprise around 25 million inhabitants and cover a total area of approximately 127,000 square kilometres.<sup>142</sup> Moreover, there are currently 100 municipalities creatively and innovatively exploiting the possible actions for the expansion of renewable energies<sup>143</sup> with Brandenburg being reported as the first federal state with area-wide regional energy concepts.<sup>144</sup> Supporters of corresponding investment measures are eligible for funding. This also includes housing companies, municipalities, districts, or municipal associations. KfW also provides municipal loans for investments in infrastructure measures. This expressly includes investments in energy saving and environmentally friendly energy sources.<sup>145</sup>

## **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

The tax is collected annually and the objection rate for property tax assessments (< 1%) is extremely low compared to other tax assessments.<sup>146</sup> Interest rate charges and penalties are available in cases of non-payment. Foreclosure is effective and takes place by public auction (*Zwangsvorsteigerung*) or judicial receivership (*Zwangsvverwaltung*). The lien exists and is called

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140 For more information see: <http://www.gesetze-bayern.de/Content/Document/BayKAG-1>

141 As an example, see the regulation of the city of Potsdam: [https://www.potsdam.de/sites/default/files/documents/2017\\_09\\_01\\_abfallgebuehrensatzung\\_2018.pdf](https://www.potsdam.de/sites/default/files/documents/2017_09_01_abfallgebuehrensatzung_2018.pdf)

142 For more information see: [http://www.100-ee.de/fileadmin/redaktion/100ee/Downloads/broschuere/100ee-Karte\\_Liste\\_Oktober\\_2017.pdf](http://www.100-ee.de/fileadmin/redaktion/100ee/Downloads/broschuere/100ee-Karte_Liste_Oktober_2017.pdf)

143 For more information see: <http://www.kommunal-erneuerbar.de/energie-kommunen/kommunalatlas.html>

144 For more information see: <http://gl.berlin-brandenburg.de/landesplanung/themen/energie/regionale-energiekonzepte-398077.php>

145 For more information see: <http://www.kommunal-erneuerbar.de/kommunalratgeber/kommunalratgeber/foerderung.html>; see also p. 21 on:

[https://www.bbsr.bund.de/BBSR/DE/Veroeffentlichungen/BMVI/MOROForschung/2015/DL\\_MORO\\_Forschung\\_1\\_15.pdf?\\_\\_blob=publicationFile&v=4](https://www.bbsr.bund.de/BBSR/DE/Veroeffentlichungen/BMVI/MOROForschung/2015/DL_MORO_Forschung_1_15.pdf?__blob=publicationFile&v=4)

146 For more information see: Landsberg 2018, Grundsteuer, Säule der kommunalen Selbstverwaltung, Wirtschaftsdienst 2018/3, p. 166.

land charge. According to Paragraph 12 of the GPTA (GrStG), the real property tax rests on the tax object as a public burden. The public encumbrances resting on real estate as such are excluded from registration in the land register, unless their registration is specially permitted or ordered by law. A land charge holder has a claim against the property owner for foreclosure (*Zwangsvollstreckung*).<sup>147</sup>

The land registers are kept by the local courts (land registries). They are responsible for the properties in their district. Its list contains following information: owner, reason for registration, encumbrances and restrictions on the land plot, as well as mortgages.

Article 28 of the German Basic Law stipulates that financial sovereignty belongs to the right to self-government. It guarantees the municipalities the authority to manage their own income and expenditure within the framework of a legally regulated budget system. Local finances are controlled by the internal local audit (*örtliche Rechnungsprüfung*)<sup>148</sup> as well as the Audit Office which is independent in its objective assessment of the audit procedures and is not bound by any instructions from other bodies.

#### 4. Political, institutional, and social perceptions and acceptance of EuroPACE

The current land tax law was passed on 7 August 1973. However, due to a judgment of the Federal Constitutional Court, a substantial reform is planned soon.<sup>149</sup> Nevertheless, the tax enjoys a high degree of acceptance among citizens compared to other types of tax, due to the low individual tax burden and the visibility of local expenditure. The scientific advisory board at the federal MF has already warned of the erosion of the acceptance of the property tax in 2010 and recommended a reform that has not yet taken place. The judgment in 2018 has triggered the current discussion about the possible reform of the property tax.

#### Country summary and take-aways:

- With a EuroPACE readiness of 89.29%, Germany is a very adequate candidate for EuroPACE development.
- Municipalities are autonomous and experienced in the administration of various EE initiatives.
- Property tax (*Grundsteuer*), which is in fact a land tax, is levied across the country; however, some changes in its structure are foreseen.
- Foreclosure is effective and takes place by public auction (*Zwangsversteigerung*) or judicial receivership (*Zwangsverwaltung*).
- The lien exists and is called a land charge.

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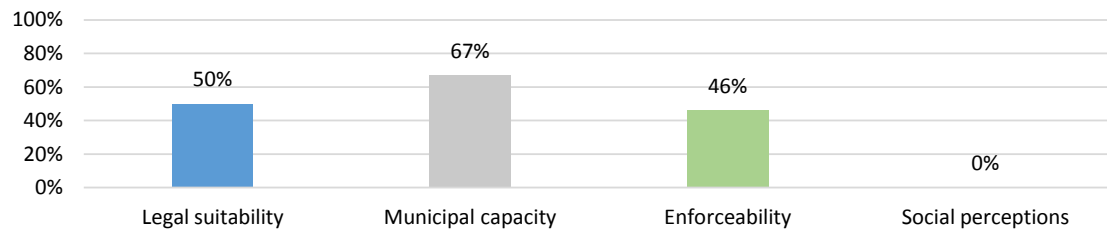
147 For more information see: [https://uk.practicallaw.thomsonreuters.com/2-501-6976?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/2-501-6976?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1)

148 For more information see: <https://www.kgst.de/aufgaben-und-stellung-der-oertlichen-rechnungspruefung>

149 Judgment of 10 April 2018: 1 BvL 11/14, 1 BvR 889/12, 1 BvR 639/11, 1 BvL 1/15, 1 BvL 12/14 [https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2018/bvg18-021.html;jsessionid=7565D02AD9DAE847101591DA04F3034F.2\\_cid392](https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2018/bvg18-021.html;jsessionid=7565D02AD9DAE847101591DA04F3034F.2_cid392)

**Greece** ■

Less adequate country for EuroPACE implementation – overall grading for suitability: **46.43%**



**SWOT Analysis**

Strengths	Weaknesses
The majority of Greek municipalities (156) already take part in Covenant of Mayors initiatives, which can be considered a very successful rate.	The property tax (ENFIA) was imposed in 2011 as a temporary measure to increase state revenues. As a result, taxes related to property are not fully institutionalised yet. There is a lack of financial autonomy at the municipal level.
Opportunities	Threats
In Greece, the importance of grassroots movements from municipalities is increasing. The example includes the law from January 2017 on “energy communities”, which defines the role of citizens in the energy sector, giving particular emphasis to the promotion of a solidarity economy and to fighting energy poverty. It suggests there could be a strong potential for the EuroPACE initiative in the future.	Given the constant changes in the real estate tax, the default rate can be assumed to be lower than in countries with structured property tax systems. In addition, property-related taxes have become extremely unpopular. The modification of ENFIA is a hot topic in the country, especially during elections. A number of parties have promised reform; however, no reform has taken place yet. Therefore, the instability and insecurity around this tax might be a strong barrier for EuroPACE implementation.

**1. Suitability of the legal framework for on-tax financing**

No tangible example of a project supported by an on-tax financing mechanism has been identified in the country. However, the Uniform Tax on the Ownership of Real Estate (ENFIA/ENΦΙΑ)

exists.<sup>150</sup> The Hellenic tax code includes three further duties at the municipal level that relate to the ownership of property: the municipality duty (*Telos Akinitis Periousias/Τέλος Ακίνητης Περιουσίας*), the duty for cleaning and lighting services, and the tax on electrified spaces.<sup>151</sup> The local authorities may impose the municipality duty on an annual basis through the electricity bill that is collected by the Public Power Corporation S.A.-Hellas (ΔΕΗ). The duty for the provision of cleaning and lighting services is levied on users of real estate. This is again collected via the electricity bill, while the total amount of the duty depends on the size of the property multiplied by a rate that the municipalities set. Municipalities also levy tax on electrified spaces. Municipalities may impose this tax through the electricity bill on real estate properties that are connected to the grid. As a general rule, local/regional administrations cannot establish taxes/fees on property owners who especially benefit from an existing service. However, local governments may request a payment for the electrification or road pavement of houses located at a distance from the centre of a densely populated neighbourhood. Finally, individuals that have acquired an apartment in Greece are often required to contribute to the communal budget by incurring “communal fees”. Such fees normally cover the management, insurance, maintenance, and repair of the shared building. Each building has a committee that is responsible for the management of the paid sum.<sup>152</sup> Water and electricity bills are also connected to property use in Greece.

While the parliament is the only legislative authority with the power to create new local taxes, the institution responsible for the collection of tax in Greece is the General Secretariat for Information Systems. Given the structure of the tax, there is no real difference in collection between urban areas and cities compared to rural or small cities. Various exemptions on individual-level property are more common.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

According to the European PPP Expertise Centre<sup>153</sup> 23 projects in a PPP format have been delivered thus far in Greece, with transport (13 projects in total) getting the biggest share. At the same time, the World Bank (WB) assures that the momentum for PPP projects administered by the municipalities is growing rapidly and the latest projects, particularly on the municipal waste management, and that “this paradigm for developing and tendering waste management PPPs sets an example for other countries and systems in using the most advanced technology while meeting EU directives and national policy, as well as in ensuring financing, environmental permitting, and a low charge for citizens.”<sup>154</sup>

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150 For more information see: [https://www.lawspot.gr/sites/default/files/annex\\_files/other/parartima-pol.1008.2018.pdf](https://www.lawspot.gr/sites/default/files/annex_files/other/parartima-pol.1008.2018.pdf)

151 For more information see: [https://www.synigoros.gr/?i=dimotis.el.upotheseis\\_forologia\\_04](https://www.synigoros.gr/?i=dimotis.el.upotheseis_forologia_04); <https://app.box.com/s/zdu7d82oxy2vmodbdraksgqn6a28gzi>; <http://www.publicrevenue.gr/elib/view?d=/gr/act/1939/2039>

152 For more information see: [https://www.sfee.gr/wp-content/uploads/2018/01/%CE%A6%CE%95%CE%9A5%CE%91\\_17\\_01\\_2018.pdf](https://www.sfee.gr/wp-content/uploads/2018/01/%CE%A6%CE%95%CE%9A5%CE%91_17_01_2018.pdf)

153 For more information see: <http://data.eib.org/epec>

154 For more information see: <https://blogs.worldbank.org/ppps/waste-not-want-not-ppps-lead-better-waste-man->

As for the EE strategies, 156 Greek municipalities already take part in Covenant of Mayors initiatives, which can be considered a very successful rate. REScoop.eu, the European federation for renewable energy cooperatives, is also emphasising the importance of grassroots movements from the municipalities, such as the law from January 2017 on energy communities “defining the role of citizens in the energy sector, giving particular emphasis on the promotion of a solidarity economy and on fighting energy poverty. Its wide scope on energy communities includes production, distribution and supply of energy as well as special clauses that promote energy self-sufficiency and security in island municipalities. It has an eye for the future too, as it includes new and innovative technologies such as storage, electric vehicles charging services, self-consumption and EE end use at local and regional level.”<sup>155</sup> However, given overall country’s centralisation, municipalities oftentimes find it difficult it to administer all the ambitious projects without the central government’s help.

### 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

Given the constant changes in the real estate tax (i.e. in 2017, the tax was paid in five instalments instead of the announced six, as was the case in 2016), it can be assumed that the default rate is lower than in countries with structured and institutionalised property tax systems. The rules leading to penalties in cases of non-payment are transparent. According to the MF website, the tax office is able to charge penalties even if the taxpayer pays the ENFIA one day after the deadline.<sup>156</sup> “Lenders” are obliged to follow three steps in a typical default proceeding.<sup>157</sup> First, the lender needs to put the debtor on notice of belated repayment, inviting the debtor to *regulate* the standing amount (ρύθμιση). If the debtor ignores the notice, the borrower has the right to issue a *command* for repayment. If the debtor fails again to comply, then the lender has the right to initiate foreclosure procedures. The bank has the capacity to move forward with the liquidation of assets online. The current legal framework allows the borrower to expropriate the first property of a debtor. There is no such thing as a senior lien though.

A cadastre (κτηματολόγιο) is available in areas where land registration has been completed. “Local mortgage registries (υποθηκοφυλακεία) are also operating provisionally as land registries (κτηματολογικά γραφεία). Under Law 2664/1998 on the Hellenic Cadastre, land register data may be stored and updated only electronically in areas where the Cadastre has been operating since 2003, replacing the previous system of property transfers and mortgages. The land register database is stored centrally for the whole country by the company Ktimatologio (Κτηματολόγιο A.E.) and is updated by the local land registries based on their transactions.”<sup>158</sup>

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agement-greece

155 For further details on the law amendment please see: <https://www.rescoop.eu/blog/energy-communities-in-greece-new-legislation>

156 For more information see: MF data <https://www.minfin.gr/web/guest/ekdoseis-anaphores>

157 For more information see: [http://emporiko.law.uoa.gr/ptoxeftikos\\_kodikas.pdf](http://emporiko.law.uoa.gr/ptoxeftikos_kodikas.pdf); [http://www.sev.org.gr/Uploads/Documents/50636/MELETH%20SEV\\_PTOXEYTIKOS.pdf](http://www.sev.org.gr/Uploads/Documents/50636/MELETH%20SEV_PTOXEYTIKOS.pdf); <http://www.in.gr/2018/02/15/economy/ptwxeytikos-kwdikas-oi-basikes-allages-sti-diadikasia/>

158 For more information see: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-el-maximi-](https://e-justice.europa.eu/content_land_registers_in_member_states-109-el-maximi-)

The Council of Europe (CoE) rapporteurs underline that they highly appreciate the efforts recently made by Greece, in modifying the administrative supervision system, even though there is still a lot to be improved. That is because in the course of 2013, several measures aimed at increasing tax revenue have been adopted, including imposition of the new Unified Property Tax. Moreover, an *ex-ante and ex-post* control over local budgets has been put in place.<sup>159</sup>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

The ENFIA was imposed in 2011 as a temporary measure to increase state revenues. As a result, taxes related to property are not fully institutionalised yet. Following the introduction of a number of new provisions and rate-hikes since the implementation of the regime of austerity, property-related taxes have become extremely unpopular. The modification of ENFIA is a hot topic in the country, especially during the time of elections. A number of parties have promised to reform (reduce the rate/limit the scope of) ENFIA; however, no reform has taken place.

#### **Country summary and take-aways:**

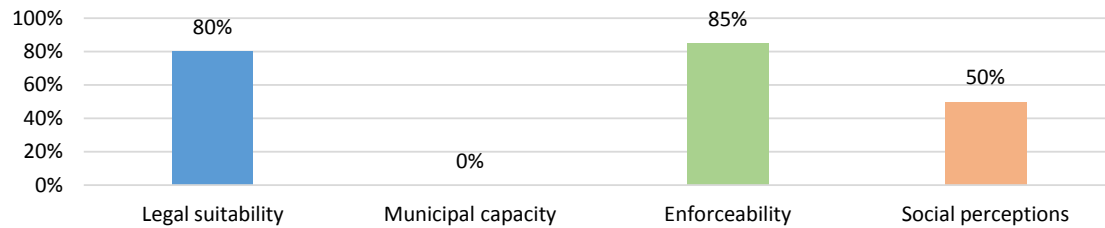
- With a EuroPACE readiness of 46.43%, Greece is a less adequate country for EuroPACE development.
- The ENFIA was introduced in 2011, thus cannot really be considered a stable mechanism.
- Changes in the tax scheme are common and unpredictable.
- Effective foreclosure procedures exist. Procedures are clear and transparent.
- There is no such thing as a senior lien.

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zeMS-en.do?member=1  
159 For more information see: [https://rm.coe.int/168071980e#\\_Toc413846793](https://rm.coe.int/168071980e#_Toc413846793)

## Hungary

Moderately adequate country for EuroPACE implementation – overall grading for suitability: 71.43%



### SWOT Analysis

<p><b>Strengths</b></p> <p>Local budgets are constrained by only very broad centrally defined limits. Restrictions existing in other countries are absent what could ease the financial management part of EuroPACE.</p>	<p><b>Weaknesses</b></p> <p>Social perception of municipal taxes rather negative.</p>
<p><b>Opportunities</b></p> <p>There are 3 different types of municipal taxes in Hungary to which EuroPACE could be linked.</p>	<p><b>Threats</b></p> <p>Municipalities do not have experience in cooperation with private sector which is considered invaluable in EuroPACE scheme.</p>

### 1. Suitability of the legal framework for on-tax financing

No tangible example of a project supported by an on-tax financing mechanism has been identified in the country. Municipal taxes are regulated by the Act C. of 1990. This legislation regulates four types of municipal taxes, but only three are connected to property: building tax (*épitményadó*) – after every apartment, non-residential building, or lean owned by the taxpayer; land tax/lot tax (*telekadó*) – after land or lot owned by the taxpayer as of 1 January; communal tax (*kommundlis adó*) – the private person owning a structure or land or holding the right of lease of a flat that is not in the ownership of a private person on the first day of the year.<sup>160</sup> Building tax, which may be levied by the municipalities, is paid by the owner of a building. The tax can

<sup>160</sup> Defined in 30. § of Act C. of 1990



be based on the net floor space of the building expressed in square metres or on the adjusted market value of the building. The tax liability may be up to HUF 1,100 per square metre (which may be adjusted annually by the municipalities based on the consumer price index, as published by the Hungarian Central Statistical Office), or 3.6% of the adjusted market value. Land tax, which also is levied by the municipalities, is paid by the owner of land. The tax can be based on the area of the land in square metres or on the adjusted market value of the land. The tax rate is set by the local government, but it should not exceed HUF 200 per square metre (which may be adjusted annually by the municipalities based on the consumer price index, as published by the Hungarian Central Statistical Office), or 3% of the adjusted market value.<sup>161</sup> There are some additional bills which are linked to the properties: water; electricity; natural gas; and internet, television, and phone. Bills for garbage can be contained by the communal tax. Some municipalities finance garbage collecting from the incomes of communal tax. In some other municipalities, garbage collection is handled by a private firm, so the bills must be paid to them.<sup>162</sup>

Local authorities are fully responsible for tax collection from their respective areas. The collection method of taxes is the same in urban areas and in the cities.<sup>163</sup> The local tax authorities are called NAV (*Nemzeti Adó és Vámhivatal*). Local municipalities can also impose new taxes, or they can freely adjust the tax rate, since only the maximum rates of taxes are defined in the law.<sup>164</sup> This means that, in practice, Hungarian municipalities have the right to levy property tax and land tax at their own discretion until the relevant caps are reached.

There can be some difference between the tax rates in cities and rural areas. There are even differences in the tax rates between the districts of Budapest. In general, the tax rates are slightly higher in the cities.<sup>165</sup> No significant differences are observed at the individual property level.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

In general, municipal capacities concerning on-tax mechanisms are moderately developed. First, PPPs are not specifically regulated at the local level in Hungary. Review and coordination procedures, compliance with national development goals, and restrictions on non-debt liabilities only apply to projects proposed by the central government. The State Audit Office (SAO) has confirmed that even they are not in a position to present municipal-level PPP projects, unless the municipality was involved in an audit, or there were central funds provided in this particular local scheme.<sup>166</sup>

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161 For more information see: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-hungaryguide-2017.pdf>

162 Defined in 1. § of Act C. of 1990 (since taxes are the income of the municipality, they can finance their development and social functions with it).

163 Enacted in Act LXXIV. of 2014 140. §

164 Defined in 6. § and 7. § of Act C. of 1990.

165 For more information see: <http://taxsummaries.pwc.com/ID/JDCN-89HSKT>

166 [http://www.lgidev.com/tl\\_files/lgid/Gabor%20publications/21\\_Peteri-PPP.pdf](http://www.lgidev.com/tl_files/lgid/Gabor%20publications/21_Peteri-PPP.pdf)

Second, local sustainable strategies have not been fully implemented yet. Only 40 municipalities<sup>167</sup> take part in any of the Covenant of Mayors activities, out of which five are Budapest districts. Some other issues related to energy are in fact still outstanding. According to the International Energy Agency (IEA), it is high time for the “government to develop a comprehensive and self-explanatory programme for the implementation of full retail market liberalisation, including the elimination of administratively determined end-user prices and the adoption of more ambitious targets for EE to support the wider energy policy goals of energy security, affordability, and sustainability”.<sup>168</sup> The assessment of these policies on a local level stipulates that even more should be done as municipal administration is not effective in its tasks.

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

In cases of non-payment, penalties and interest rates are in place. When an owner defaults on his/her taxes, the National Tax and Customs Administration of Hungary (NTCA) or the local government may apply a fine. If the payment is still missing, the NTCA can issue enforcement proceedings on incomes and properties. If the debtor owns property, the executor seizes the property. After this step, the executor writes to the Land Registry Office to record the enforcement right on the property. Additionally, the enforcement of the pledge have been broadened, new legal institutions have recently been introduced, and municipalities gained rights which overall can be assessed as an authority to impose senior liens.<sup>169</sup>

The Hungarian Land Register is managed by the Ministry of Rural Development (*Vidékfejlesztési Minisztérium*) and the Land Offices (*Földhivatal*). The official website of the Land Offices of Hungary provides information on the countrywide network of Hungarian land offices and gives access to the entire network of land administration institutions. This division makes the title search difficult. According to the real estate agents the Hungarian registers are in a poor shape and its reconstruction would be time-consuming. They claim that even property ownership is not always clear in Hungary. “A few years ago it was an everyday affair for unscrupulous owners to sell their houses twice because the land office was so sluggish that property titles were not transferred for months if not years.”<sup>170</sup>

When it comes to local budgets, their autonomy is significant.<sup>171</sup> The local tax incomes are the income of the municipality and the funds can thus be used for financial settlements or for

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167 Hungary is subdivided administratively into 19 counties (*megyék*) and the capital city (*főváros*) Budapest. The counties are further subdivided into 174 districts (*járások*, singular: *járás*). The capital Budapest is subdivided into 23 districts (*kerületek*, singular: *kerület*).

168 For more information see: <https://www.iea.org/publications/freepublications/publication/EnergyPoliciesofIEACountriesHungary2017Review.pdf>

169 For more information see: <https://ggiforum.com/law/debt-collection-insolvency/415-changes-to-lien-regulation-in-hungary.html>

170 For more information see: <http://hungarianspectrum.org/2009/05/14/the-latest-outrage-in-hungary-introduction-of-property-taxes/>

171 For more information see: <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN013818.pdf>

financing social obligations. Municipalities can determine how they want to use their funds. At the same time, SAO reports the activity of the local governments on a regular basis.

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

The first laws concerning local taxation came about following Hungary's political transition in 1990. This legislation included general rules about property-related taxes. The most important modification was in 2015, and since then, municipalities are able to introduce taxes on every property which is not taxed by another law (i.e. in Óbuda, ships can be taxed). This gives municipalities strong negotiating power and makes tax a stable tool. Across society, property-related taxes are considered moderate to high, even for "old EU" standards. Moreover, as some municipalities decided to make the most of their authority and introduce a high tax on agricultural land from the very beginning (although there was a transition period), which is still quite controversial,<sup>172</sup> such moves were criticised by the majority of the population.

#### **Country summary and take-aways:**

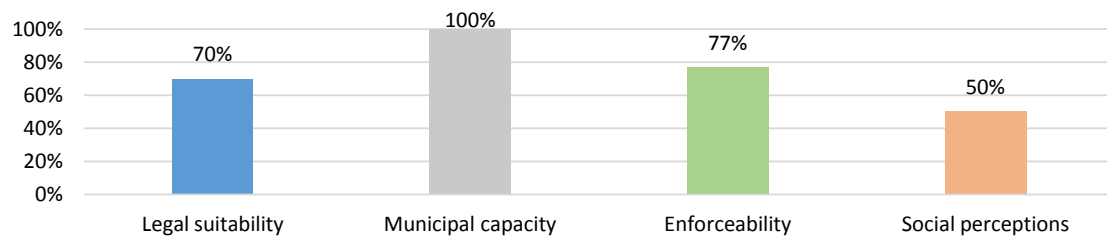
- With a EuroPACE readiness of 71.43%, Hungary is a moderately adequate candidate for EuroPACE development.
- There are four types of municipal taxes, with three being linked to property, which could enhance the application of EuroPACE.
- Enforceability is satisfactory with foreclosure procedures that can be seen as effective.
- Recently, the establishment of the lien has been simplified and the enforcement of the pledge have been broadened what gave municipalities new rights which overall can be assessed as an authority to impose senior liens (though these are not always mentioned in land registries).
- However, property ownership is not always clear as registries are not fully updated.

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<sup>172</sup> During the forming of the reform, there were already some concerns, just for example: [http://hvg.hu/gazdasag/20141121\\_Megtiltanak\\_a\\_termofold\\_tulajdonlasanak\\_m](http://hvg.hu/gazdasag/20141121_Megtiltanak_a_termofold_tulajdonlasanak_m)  
According to a database downloadable from the Hungarian State Treasury (<https://hakka.allamkincstar.gov.hu/>), 30 municipalities decided to tax agricultural land. Overall, the database contains 157 special local taxes.

**Ireland** ■

**Moderately adequate country for EuroPACE implementation – overall grading for suitability: 75%**



**SWOT Analysis**

Strengths	Weaknesses
Well-structured and transparent property taxation system with a very good collection rate.	The imposition of senior liens can be an expensive process undertaken only by Revenue Commissioners, not the municipality.
Opportunities	Threats
Irish cities develop their own ambitious strategies on EE. For example, the “Cork City Development Plan” <sup>174</sup> provides an exhaustive list of actions the city plans to introduce to meet ambitious sustainable development goals. Therefore, the EuroPACE mechanism might be a good complementary tool for their strategies.	Mortgage lenders in Ireland may not like to be subordinated to EuroPACE. The financial industry is very strong in Ireland and has a say in legislative processes.

**1. Suitability of the legal framework for on-tax financing**

No single on-tax financing scheme has been tested in the country yet. An annual Local Property Tax (LPT) charged on all residential properties came into effect in 2013. Residential property is any building or structure (or part of a building) which is used as, or is suitable for use as, a dwelling and includes grounds of up to one acre. The LPT does not apply to development sites or farmland.<sup>173</sup> Under the Waste Management Act 1996, all local authorities must arrange for the collection of the household waste in their area. They must also provide or arrange for the provi-

<sup>173</sup> For more information see: [http://www.citizensinformation.ie/en/money\\_and\\_tax/tax/housing\\_taxes\\_and\\_reliefs/local\\_property\\_tax.html](http://www.citizensinformation.ie/en/money_and_tax/tax/housing_taxes_and_reliefs/local_property_tax.html)

sion of facilities for the disposal and recovery of household waste. Waste charges and methods of payment vary considerably depending on the municipality.

Since 1 July 2013, the LPT has been collected by Revenue Commissioners, which is the Irish Government agency responsible for customs, excise, taxation, and related matters.<sup>174</sup> Local authorities retain only 80% of the LPT raised in their area while the remaining 20% is paid into an Equalisation Fund which is distributed to local authorities that cannot raise adequate amounts of revenue locally via the LPT. The equalisation mechanism is complex—while the principle of equalisation is well established as a necessary means to take account of differences in the needs and resources of different areas, according to some experts, the mechanism has damaged the link between the tax and the provision of local services, which may be an important factor in gaining public support for the tax and, thus, local authorities should retain all the tax raised in their areas.

Only the central government can decide about establishment of new local fees and taxes.<sup>175</sup> Nevertheless, since 2015, local authorities can vary the basic LPT rate on residential properties in their administrative area. The basic rates of LPT are 0.18% and 0.25% of the market value of all residential properties. These rates can be increased or decreased by up to 15% (both rates must be adjusted by the same amount). This is referred to as the local adjustment factor.<sup>176</sup> The latest list of local authority LPT adjustments is always available on the revenue.ie website.<sup>177</sup>

As the LPT for all years up to 2019 is based on the self-assessed market value of residential properties at 1 November 2013 prices, which back then were different between cities (particularly Dublin) and rural areas, and today are believed to be even more; it is a general rule that citizens living in urban areas pay more. Additionally, as the statistics show, city councils tend to use their power of increasing the tax rate up to 15%.<sup>178</sup> Some exemptions at the individual property level are possible, but given the strict criteria, a marginal percentage of citizens are eligible to defer the tax.<sup>179</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

Municipalities are more and more experienced in PPP projects. According to the data provided by the Central PPP Policy Unit at the Department of Public Expenditure and Reform,<sup>180</sup> tendering periods are longer for projects that do not involve private finance, with the majority of such

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174 For more information see: <https://www.revenue.ie/en/property/index.aspx>

175 For more information see: [http://www.citizensinformation.ie/en/money\\_and\\_tax/tax/housing\\_taxes\\_and\\_reliefs/local\\_property\\_tax.html](http://www.citizensinformation.ie/en/money_and_tax/tax/housing_taxes_and_reliefs/local_property_tax.html)

176 For more information see: [http://www.citizensinformation.ie/en/money\\_and\\_tax/tax/housing\\_taxes\\_and\\_reliefs/local\\_property\\_tax.html](http://www.citizensinformation.ie/en/money_and_tax/tax/housing_taxes_and_reliefs/local_property_tax.html)

177 The website with the latest list of LPT adjustments: <https://www.revenue.ie/en/property/local-property-tax/valuing-your-property/has-your-local-authority-rate-changed.aspx>

178 See more on local and regional differences: <https://www.revenue.ie/en/property/local-property-tax/index.aspx>

179 For more information see: <https://www.revenue.ie/en/property/local-property-tax/deferral-of-payment/index.aspx>

180 The most up-to date data is available at the Central PPP Policy Unit website: <https://ppp.gov.ie/ppp-projects/>

projects procured precisely by local authorities, which confirms the efficiency of this form of cooperation. Although the topics of common projects vary significantly, municipalities are particularly interested in infrastructure and energy and climate initiatives, with the Dublin Waste to Energy Facility project being a recent successful example.<sup>181</sup>

The Republic of Ireland, which is divided into 26 County Councils, 3 City Councils, and 2 City and County Councils,<sup>182</sup> has a good track record of local actions towards EE. Apart from 12 SEAPs signed, the cities have developed their own ambitious strategies in this respect. For example, the “Cork City Development Plan”<sup>183</sup> prepared by the Cork City Council, provides an exhaustive list of actions the city plans to introduce in order to meet the ambitious goals related to sustainable development. Although some great examples of projects or bodies facilitating the execution of national initiatives at the local level exist, with Codema – Dublin’s Energy Agency<sup>184</sup> being an unquestionable frontrunner, to our best knowledge, a similar efficiency in administering projects in municipalities is rather rare given limited resources. However, initiatives such as the Home Renovation Incentive (HRI)—relief from income tax for homeowners, landlords, and local authority tenants—compensate for local administrations’ limitations. The HRI Tax Credit for repairs, renovations, and improvements to homes or rental properties can be claimed easily, which results in ever increasing interest in the scheme.<sup>185</sup>

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Since its introduction in 2013, the LPT is paid annually and the average compliance rate of payment stands at 97%, resulting in tax revenue of EUR 463 million (data for 2017).<sup>186</sup> Each return sent out by Revenue Commissioners includes a notice of the Revenue Estimate of the tax due. If a liable person does not submit a return, the Revenue Estimate will become payable by default and Revenue will collect the amount due. Revenue can use a range of collection options, including among others mandatory deduction from salary, wages, or occupational pension. In most cases, interest charges of 8% per annum and additional penalties may also apply.<sup>187</sup>

Foreclosures related to tax delinquencies exist. The Revenue Commissioners will be entitled to sell the property without the consent of the debtor, in much the same way as a bank or build-

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181 For more information see: <https://www.dublinwastetoenergy.ie/>

182 The structure provided by the Department of the Environment, Community, and Local Government: <https://www.housing.gov.ie/local-government/administration/local-government-administration>

183 Document available online: [http://www.corkcity.ie/services/environmentrecreation/corkcityenergyagency/relevantpolicyandregulation/citydevelopmentplan/DPCorkCity\\_chapter07.pdf](http://www.corkcity.ie/services/environmentrecreation/corkcityenergyagency/relevantpolicyandregulation/citydevelopmentplan/DPCorkCity_chapter07.pdf)

184 The list of projects with Codema’s involvement is available online: <http://www.codema.ie/projects/local-projects>

185 For more information see: <https://www.revenue.ie/en/property/home-renovation-incentive/hri-for-homeowners-and-landlords/index.aspx>

186 For more information see: <https://www.revenue.ie/en/corporate/press-office/press-releases/2018/pr-050118-2017-lpt-statistics.aspx>

187 For more information see: [http://www.citizensinformation.ie/en/money\\_and\\_tax/tax/housing\\_taxes\\_and\\_reliefs/local\\_property\\_tax.html](http://www.citizensinformation.ie/en/money_and_tax/tax/housing_taxes_and_reliefs/local_property_tax.html)

ing society may foreclose on a mortgage where the borrower is in arrears.<sup>188</sup> Liens can only be imposed by the Revenue Commissioners.

The Residential Property Price Register includes the date of sale, price, and address of all residential properties purchased in Ireland since 1 January 2010, as declared to the Revenue Commissioners, for stamp duty purposes. This is why property-related tax information is also covered. Additionally, the Central Statistics Office publishes its Census Reports<sup>189</sup> on a regular basis (usually every five years) and the latest edition from 2016 provides some valuable insights on all residential buildings across the country. Particularly, the “Housing and Households” is of great importance.<sup>190</sup>

The Local Government Act provides the legislative basis for the local authority budget process. The budget is developed in a phased process involving input from the Chief Executive, the Municipal District members, and the Corporate Policy Group. It is a matter for each local authority to determine its own spending priorities in the context of the annual budgetary process, having regard to both locally identified needs and available resources.<sup>191</sup> Apart from the general budget, some targeted accounts might be opened if needed.<sup>192</sup> Each local authority is required to prepare an Annual Financial Statement (AFS) by the end of March following the year end and to publish it by the end of June. These financial statements undergo an independent audit by the Local Government Audit Service of the Department. When all audits are complete, the Department publishes a consolidated Annual Financial Statement publication compiled from the Audited Financial Statements published by each local authority.<sup>193</sup>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

The LPT came into effect in 2013 and major changes are still being discussed; thus, it is difficult to classify it as stable and institutionalised.<sup>194</sup> When it was first introduced, there were mass protests against the new tax, particularly due to the timing, as Ireland was right in the middle of a recession. Although the structure of the tax is still criticised (though the tax rates are frozen until the 2019/2020 fiscal year), the government is trying to find a solution and satisfy the citizens by organising public consultations on the future of the LPT. Such endeavours are appreciated by all the interested stakeholders.<sup>195</sup>

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188 For more information see: [https://taxinstitute.ie/Portals/0/Tax%20Policy/45\\_-\\_54\\_\\_ITR\\_Sept\\_2008\\_web-2.pdf](https://taxinstitute.ie/Portals/0/Tax%20Policy/45_-_54__ITR_Sept_2008_web-2.pdf)

189 For more information see: <https://www.cso.ie/en/census/>

190 For more information see: <https://www.cso.ie/en/statistics/housingandhouseholds/>

191 For more information see: <https://www.housing.gov.ie/local-government/administration/finance/local-government-finance>

192 For more information see: <http://www.publicpolicy.ie/finances-local-government-ireland/>

193 For more information see: <https://www.housing.gov.ie/local-government/administration/finance/local-government-finance>

194 For more information see: <https://www.finance.gov.ie/updates/minister-donohoe-announces-review-of-the-local-property-tax/>

195 For more information see: <https://www.finance.gov.ie/updates/public-consultation-on-review-of-local-property-tax-lpt/>

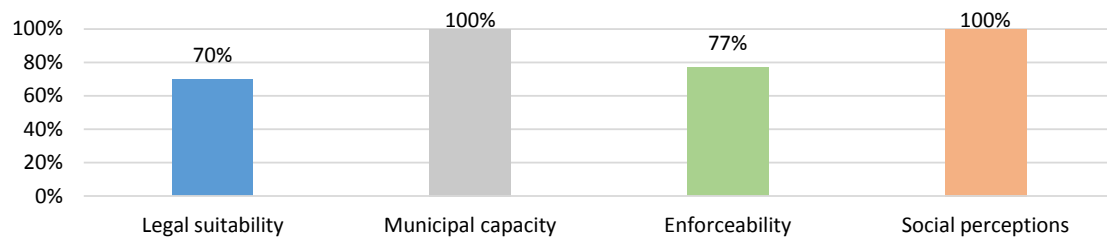
**Country summary and take-aways:**

- With a EuroPACE readiness of 75%, Ireland is a moderately adequate candidate for EuroPACE development.
- There is an annual Local Property Tax (LPT) charged on all residential properties.
- The LPT only came into effect in 2013 and is still unstable given planned changes in the scheme.
- Effective foreclosure procedures exist. However, as confirmed by in-country experts, mortgage lenders in Ireland may not like to be subordinated to EuroPACE – the financial industry is very strong in Ireland and has a say in legislative processes.
- Liens on a property exist but can only be imposed by the Revenue Commissioners, not the municipality.



**Italy** ■

**Moderately adequate country for EuroPACE implementation – overall grading for suitability: 78.57%**



**SWOT Analysis**

Strengths	Weaknesses
At the local level, the regions have a direct role in the implementation of the NREAP. The local equivalent of the Covenant of Mayors represents more than 90% of Italian municipalities.	The legal framework, although standardised, might be problematic given: the frequency of changes in the property tax structure; significant exemptions at the individual property level; the limited ability to implement foreclosure procedures; and the time-consuming procedure for senior lien imposition.
Opportunities	Threats
Italian municipalities are active players in diverse initiatives: PPPs and EE programmes or actions. They are also independent in the implementation of the National Energy Strategy and have full control over their budgets and expenses. This provides a good opportunity for EuroPACE advocates to introduce and encourage its implementation.	Although the Italian legal framework is well structured, the fact that it has numerous exceptions may create risks for potential investors concerning EuroPACE implementation and limit the client base. The capacity to collect property tax is relatively low and differentiated across the country, with an average tax gap of 25%. Higher levels of compliance are observed in the north (with a tax gap of less than 20%) and centre with respect to the south (with a tax gap up to 40%).

**1. Suitability of the legal framework for on-tax financing**

To our best knowledge, the system of on-tax financing has not been tested in the country yet. Since 2018, there is one property tax (*IUC – Imposta unica comunale*) which is made of three

components.<sup>196</sup> *Tassa sui rifiuti (TARI)* is one part of the tax and a waste management fee, which is administered locally by each municipality (comma 639 Legge 147/2013). Each municipality can decide the tax rate. Usually, the amount of the fee depends on the size of the property and the number of family members. As of 2018, an increasing number of municipalities have been introducing different ways of charging for waste management, mainly related to the quantity and type of waste produced. Water supply intended for human consumption (drinking water), the collection and disposal of waste water and meteoritic water, and sewage are carried out by public companies on the basis of authorities granted by local communities. Each municipality can decide the modality of the service and the tax rate. Additional bills related to property, such as electricity and gas bills, are regulated through the Italian Regulatory Authority for Energy, Networks, and Environment (ARERA).<sup>197</sup>

Each municipality is responsible for the collection mechanism of the different types of property-related taxes as described above (i.e. IMU, TASI, TARI), although a share of the revenue of some taxes has to be transferred to the central government. As mentioned above, the IMU tax rate is 0.76% of the value and can be modified by each municipality by + or – 0.3% (comma 676-678 Legge 147/2013). The *TASI* tax rate is 0.1% of the value and can be modified or deleted by each municipality (comma 688-690 Legge 147/2013). In any case, the sum of tax rates for the IMU and TASI cannot exceed 1.6%. Overall, the degree of freedom of each municipality is limited by the respect of the balanced budget objective, which is now imposed by the central and local government (comma 707-729 Legge 147/2013; Legge 243/2012).

Each municipality can, in principle, establish exemptions related to the IMU and TASI in order to take into account specific characteristics of the territory. However, the freedom of local municipalities is always constrained by the balanced budget objective. Analyses related to 2012 show that two-thirds of municipalities did not modify the tax rate on the main residence, 6.4% of municipalities reduced the standard tax rate, 17.8% of municipalities increased up to 1% the standard tax rate, while 7.5% of municipalities increased up to 2% the standard tax rate. Overall, higher tax rates are found in large cities.<sup>198</sup>

The situation with individual exemptions is more controversial. The exemption of (most) main residences from payment of property tax is the main exemption which affects most owners, making the property tax a residual one. Starting from 2016, the first two components of the “property tax” – the *IMU* and *TASI* – are no longer due for the main residence (with the exception of luxury flats, villas, castles, and palaces of historic or artistic importance), which is the house where individuals usually live and have their residence. This exemption has been established by the central government and applies to all municipalities: of the almost 56.4 million properties, about 33.4 million are main residences, which corresponds to almost 60% of the stock of prop-

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196 For more information see: [http://www1.finanze.gov.it/finanze2/dipartimentopolitichefiscali/fiscalitalocale/IUC\\_newDF/sceltaregione.htm](http://www1.finanze.gov.it/finanze2/dipartimentopolitichefiscali/fiscalitalocale/IUC_newDF/sceltaregione.htm)

197 For more information see: <https://www.arera.it/it/inglese/index.htm>

198 For more information see: MEF, 2013 [http://www.mef.gov.it/primo-piano/documenti/Bozza\\_documento\\_IMU\\_rev.pdf](http://www.mef.gov.it/primo-piano/documenti/Bozza_documento_IMU_rev.pdf)

erties of individuals, about 5.3 million (or 9.4% of the total) are rented properties, and almost 1.3 million (2.3% of the total) are properties granted for free to other family members.<sup>199</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

PPPs have increased substantially, from 331 in 2002 to 3,187 actions related to more than EUR 13 billion in 2016. Roughly 81% of actions were promoted by municipalities, while the remaining 19% were promoted by other subjects, such as other local institutions and providers of public utilities and services. Between 2012 and 2016, 50% of Italian municipalities were active in at least one PPP.<sup>200</sup>

Within the NREAP, 2020 renewable energy targets are ambitious. At the local level, the regions have a direct role in the implementation of the National Energy Strategy defined in the NREAP. Furthermore, the national equivalent of the Covenant of Mayors – ANCI, represents more than 90% of Italian municipalities. At the end of 2017, ANCI commented on the National Energy Strategy, focusing on the importance of actions aimed at implementing at the local level: innovation of public lighting, the use of ICT to monitor and check uses of energy, soft policy measures, and the financing of the efficiency improvement of public buildings to show best practices.<sup>201</sup> Since 2014 (D.Lgs. 102/2014), the National Fund for Energy Efficiency sustains the actions needed to achieve the national targets, involving private and public financing actors. The Fund sustains the actions implemented by firms and public bodies on buildings and productive processes. For local public administrations, the grants obtained through the Fund can cover up to 100% of the costs.<sup>202</sup>

## **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

The capacity to collect property tax is clearly differentiated across the country with an average tax gap of 25%. Higher levels of compliance are observed in the north (with a tax gap of less than 20%) and centre with respect to the south (with a tax gap up to 40%).<sup>203</sup> This is because the additional interest rates and penalties that can be used in cases of deliberate non-payments are imposed more by some municipalities than the others. If the tax payer declares his willingness to pay a previously omitted tax, the additional interests range between 0.1-5% depending on the

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199 Gli Immobili in Italia 2017 [https://www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Agenzia/Agenzia+comunica/Prodotti+editoriali/Pubblicazioni+cartografia\\_catasto\\_mercato\\_immobiliare/Immobili+in+Italia/Gli+immobili+in+Italia+2017/capitolo+1/Capitolo1.pdf](https://www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Agenzia/Agenzia+comunica/Prodotti+editoriali/Pubblicazioni+cartografia_catasto_mercato_immobiliare/Immobili+in+Italia/Gli+immobili+in+Italia+2017/capitolo+1/Capitolo1.pdf)

200 For more information see: Osservatorio Nazionale del Partenariato Pubblico Privato.

201 <http://www.sviluppoeconomico.gov.it/index.php/it/198-notizie-stampa/2037347-strategia-energetica-nazionale-oggi-la-presentazione>

202 <http://www.sviluppoeconomico.gov.it/index.php/it/energia/efficienza-energetica/fondo-nazionale-efficienza-energetica>

203 For more information see: <https://www.truenumbers.it/evasione-imu-regioni/>

delay in the payment.<sup>204</sup> If the tax payer evades the tax, the sanction can be between 100-200% of the original amount.

The municipalities are responsible for checks and inspections related to the payment of the property tax. They must notify the relevant authorities by 31 December of the fifth year after the period in which the tax was due (comma 161, Legge 296/2006). In light of this procedure, standardised foreclosure procedures related to properties apply in cases of evaded taxes but have some limits and constraints, particularly when it comes to its length. Moreover, the main residence cannot be subject to a foreclosure proceeding if the single debt is less than EUR 20,000 and the total debt of the tax payer is less than EUR 120,000. It is also not possible to start the foreclosure proceeding if the tax payer does not own any other residence. Before the foreclosure proceeding, a senior lien on the property must be imposed for a period of six months. The establishment of the senior lien is not direct but through the court (Civil Law, Article 2808 and following). The Revenue Agency must inform the taxpayer sending him a payment note and wait for 60 days to check whether the tax payer is willing to pay the due tax. After six months from the senior lien on property, it is possible to proceed with a foreclosure procedure (DI 2/3/2012, n. 16; DI 21/6/2013, n. 69, art. 52).<sup>205</sup>

When a lien becomes a fact, it is included in the relevant property titles. All properties in the national territory are registered in the Catasto which is managed by the Italian Revenue Agency, an Agency of the Ministry of Economy and Finance. SISTER is a web portal dedicated to private individuals and professionals and provides advanced cadastral services, such as cadastral data queries, digital map abstract and online cadastral map requests, and information on existing property liens.<sup>206</sup>

On the budgetary side, the municipalities are fully in charge of the structure of their expenses; however, most of the resources are transferred from the central government. Earmarked budgets, although mentioned in the law (art. 6 del D.Lgs. 23/2011), are still limited in terms of overall revenue, but are of growing interest for the municipalities. Between 2007-2014, only 25 municipalities (520,000 inhabitants) introduced an earmarked tax. A more flexible example of an earmarked tax is the tourism tax (art. 4 D.Lgs. 23/2011) which has been introduced in many municipalities and the revenue of which can be used to improve public services.<sup>207</sup> Furthermore, municipalities cannot be indebted over certain limits as defined in the Internal Stability and Growth Pact to guarantee respect for the balanced budget objective, which is now imposed by the central and local government (Legge 243/2012). Municipal budgets are monitored and controlled annually ex-post by the Corte dei Conti (*Testo unico delle leggi sull'ordinamento degli enti locali*).

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<sup>204</sup> The interest rates are defined centrally with a Decree of the Minister of Economic and Finance (e.g. Decreto del Ministero dell'Economia e delle Finanze 13 Dicembre 2017).

<sup>205</sup> <https://www.agenziaentrateriscossione.gov.it/Per-saperne-di-piu/le-procedure/procedurecautelarieesecutive/>

<sup>206</sup> For more information see: <https://www.agenziaentrate.gov.it/wps/content/Nsilib/NSE/Services/Cadastral+services/>

<sup>207</sup> IFEL, *Le imposte di scopo e il finanziamento dello sviluppo locale*, 2016

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

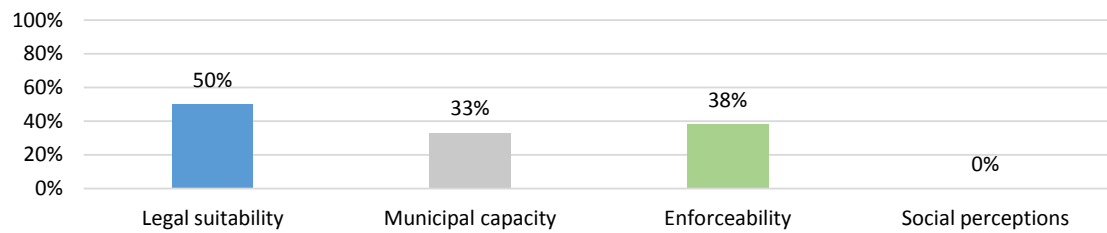
Over the last ten years, the property tax has been modified several times. First, in 2008, the previous tax (ICI) was abolished for main residences. Then, starting from the beginning of the 2012 fiscal year, the property tax was redesigned to the IMU (for main residences as well). In 2013, the property tax on main residences was suspended. In 2014, the TASI was introduced for both main and other residence. Finally, in 2016, the TASI on main residences was abolished. As expected, property tax is one of the most salient taxes and is always a matter for debate during elections, with different political parties attempting to reduce or abolish it at various times. For example, in 2008, the right-wing government abolished the ICI on main residences, while in 2016, the left-wing government abolished the TASI on main residences.

#### **Country summary and take-aways:**

- With a EuroPACE readiness of 78.57%, Italy is a moderately adequate candidate for EuroPACE development.
- As of 2018, there is one property tax (*IUC - Imposta unica comunale*), which is made of three components.
- However, the property tax is not a stable scheme – it is one of Italy's most salient taxes and is always a matter for debate during elections.
- Standardised foreclosure procedures related to properties apply in cases of evaded taxes but have various limitations.
- Municipalities can impose senior liens on properties, but this is an extremely rare case given its numerous constraints.

**Latvia** ■

Less adequate country for EuroPACE implementation – overall grading for suitability: 39.29%



**SWOT Analysis**

Strengths	Weaknesses
Despite the lack of an effective foreclosure process in cases of property-related tax delinquencies and its negative social perceptions, the real estate tax is collected regularly and effectively. Moreover, citizens are accustomed to relatively high rates of tax, as opposed to the other CEE countries, except Slovenia.	Various differences in the tax rate at the regional and individual property level have been identified.
Opportunities	Threats
Municipal interest in SEAPs and other EE-oriented strategies is growing. There is still great market potential for EE-schemes.	Latvia has the highest rates of property-related tax among the Baltic states and there is a strong negative perception towards it.

**1. Suitability of the legal framework for on-tax financing**

No single on-tax financing scheme has been tested in the country yet. However, tax for residential houses (either divided into apartment properties or not) and space used for living or similar activities (garages, basements, or storage rooms) exists. It is collected by the local authority. There are 110 municipalities and nine town districts. Each of them has their own administration and council which collects the taxes.

From January 2010, local authorities can set a progressive rate of real estate tax on their jurisdiction within a range of 0.20-0.6%.<sup>208</sup> However, only the central government can determine new local taxes.

Differences in tax rates both at the regional and individual property level are significant. In fact, in 2016, Latvia collected property tax in the amount of EUR 220 million, and more than half of it was collected in Riga. Differences at the individual property level are equally common. For example, families with three or more children may, under certain conditions, receive reductions in the amount of property-related tax due by 50%, but not by more than EUR 427. For individuals, immovable property tax paid is deductible for income tax purposes if the immovable property is used commercially.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

Given the size of the country, in general, municipal capacities for the implementation of the on-tax financing mechanism are relatively limited, with no single PPP project where the municipality took part identified. For a change, lack of ambitious strategies for EE cannot be assessed so negatively as 21 municipalities (out of 110) participate in Covenant of Mayors initiatives. Given how tiny the country and its municipalities are, this is a relatively satisfactory rate. Additionally, a EUR 4 million loan has been provided by the European Bank for Reconstruction and Development (EBRD) to the Latvian Baltic Energy Efficiency Facility (LABEEF), a company founded by EE specialists and considered a great scheme by many.<sup>209</sup> However, even with ambitious strategies in place, Latvian municipalities are usually too small to handle administration-heavy projects on their own; at least no success story in this respect has been identified.

## **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Latvia lacks effective foreclosure processes and other enforceability procedures such as senior liens for cases of property-related tax delinquencies; however, this tax is collected regularly and effectively. According to the Latvian Law on Taxes and Duties, interest is charged on late payments of tax or duty at the rate of 0.05% for every day of delay, but only up to two-fifths of the missed payment amount. There will be no charge of interest if the tax due is received within 5 business days after the failure.

There are two efficient registers in Latvia which include all relevant information, including imposed liens: the cadastral information system (*kadastrs*) – used for registering the individual components of property and for consolidating these components for the purpose of recording

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208 For more information see: [www.vid.gov.lv](http://www.vid.gov.lv)

209 For more information see: <https://www.ebrd.com/news/2017/ebd-supports-innovative-energy-efficiency-in-latvia.html>

the property in the land register; and the land register (*zemesgrāmata*) – used for recording property rights following registration of the property in the Latvian cadastral information system.

A local government shall independently develop and implement the local government budget. Binding regulations regarding the approval of local government budgets and amendments to the budget shall come into force the next day after the signing of such if another time of coming into force is not specified therein. Furthermore, they shall be freely accessible in the city or municipality council building and rural territory or city administration and they shall be published on the Internet home page of the local government.<sup>210</sup> The municipal work is supervised by the Ministry of Regional Development and Local Governments. State administration institutions and officials control the legality of the municipalities' activities as stated by the law, including financial activities.

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

The tax was established in 2010. Before this, it was imposed only on the owners of land and commercial space. Furthermore, given the numerous exceptions across the country, it is difficult to classify it as a stable scheme. Across all Baltic states, Latvia has the highest tax rates and taxes the broadest number of objects. Consequently, this results in a negative perception of property-related taxes among the citizens. A study conducted by DBO Latvia company, revealed that the share of property tax among all tax revenues is not large, at 2.28%; however, the calculation of cadastral values in Latvia is deemed by many as flawed. "The cadastral value is calculated based on the property transactions in the neighbourhood. If there is a hut next to a palace, and the palace has been sold three times for a higher and higher price, the hut's cadastral value will grow along, even though its actual value has not improved."<sup>211</sup>

#### **Country summary and take-aways:**

- With a EuroPACE readiness of 39.29%, Latvia is a less adequate candidate for EuroPACE development.
- A tax for residential houses exists but cannot be considered a fully stable scheme.
- Municipalities lack the capacities needed for technical project administration.
- Enforceability of the tax is poor.

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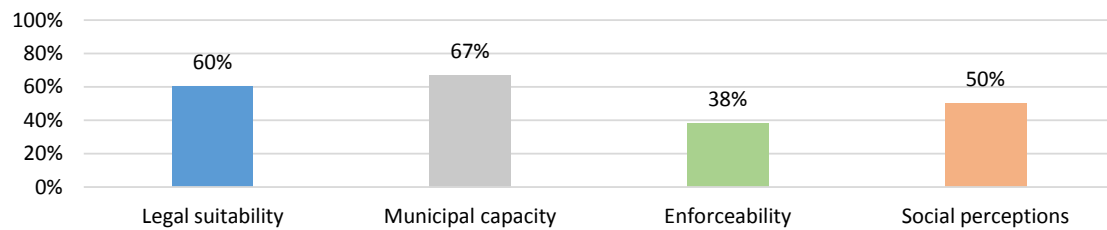
210 For more information see: On Local Governments [vvc.gov.lv](http://vvc.gov.lv)

211 For more information see: [https://www.baltictimes.com/latvia\\_\\_\\_s\\_property\\_tax\\_is\\_unfriendliest\\_in\\_the\\_baltics/](https://www.baltictimes.com/latvia___s_property_tax_is_unfriendliest_in_the_baltics/)



**Lithuania** ■

Less adequate country for EuroPACE implementation – overall grading for suitability: 50%



**SWOT Analysis**

Strengths	Weaknesses
The Task Force on Municipality Audit (EUROSAI TFMA) was established to exchange best practices and experiences to reach audit results that have a substantial impact on improving public financial management. EuroPACE (or any private capital) would most likely be welcomed by this influential body.	The majority of Lithuanian residents are not paying property tax for their housing, as the tax is applied only on properties with a market value exceeding EUR 220,000.
Opportunities	Threats
The Association of Local Authorities (ALAL) has been implementing a broad set of projects in the field of EE, such as the renovation of public buildings or the modernisation of street light networks, which could provide a good foundation for EuroPACE application.	Lack of effective foreclosure procedures in cases of non-payment.

**1. Suitability of the legal framework for on-tax financing**

No single on-tax financing scheme has been tested in the country yet. However, real estate (property) tax (*Nekilnojamojo turto mokestis*) is levied on the value of immovable property. The tax rate ranges from 0.3-3%, depending on the local municipalities. Additionally, there are 10 regional waste management systems in the country and each of them has its own rules are ap-

proved at the local level. Although the rules vary, fees are quite similar across the country.<sup>212</sup> All these taxes are collected by the state tax inspectorates who then transfer to municipal budgets all tax revenue attributed to them.<sup>213</sup>

Furthermore, according to Chapter X Article 121 of the Lithuanian constitution, “municipal councils shall have the right, within the limits and according to the procedure provided for by law, to establish local dues, and to provide for the leverage of taxes and duties at the expense of their own budget. Municipal councils may provide for tax and levy concessions at the expense of their own budgets”.<sup>214</sup> At the same time, only central government is eligible to establish new local taxes.

As the tax is applied only on properties valued at over EUR 220,000, which, statistically, are more common in cities than in rural areas, it is possible to assume that the difference in the amount of tax collected across the regions is significant. Furthermore, as this tax is applied only on properties with a high market value, the majority of Lithuanian residents are not paying property tax for their housing.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

Lithuania participates in 43 projects (in the framework of PPP) concerning energy, management of waste, and culture, among others. Furthermore, 21 out of 60 Lithuanian municipalities are involved in these projects.

Second, some major EE strategies at the local level can be identified. Apart from the SEAPs (15), ALAL, an influential body with representation in Vilnius and Brussels, “has taken note of the increasing interest expressed by Lithuanian municipalities, which are already implementing a broad set of projects in the fields of EE, such as the renovation of public buildings and the modernisation of street light networks, and renewable energy (solar collectors and biomass)”.<sup>215</sup> There are also several national programmes to support municipalities in the implementation of EE solutions. The biggest one is probably the Energy Efficiency Fund (ENEF) – the first EU fund from the 2014-2020 perspective spent on public buildings retrofits and the modernisation of street lighting. However, no significant engagement from municipalities within this framework has been identified.

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212 For more information see: <https://www.sciencedirect.com/science/article/pii/S0360544217319862>

213 For more information see: [https://aijcrnet.com/journals/Vol\\_3\\_No\\_8\\_August\\_2013/5.pdf](https://aijcrnet.com/journals/Vol_3_No_8_August_2013/5.pdf)

214 For more information see: <http://www3.lrs.lt/home/Konstitucija/Constitution.htm>

215 For more information see: <http://eumayorsarabic.eu/Lithuanian-association-of-local.html>

### 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

The enforceability of local taxes is effective, but only to a certain extent. In 2017, EUR 127,638 was transferred (EUR 21,777 or 20.6% more than planned initially) as a result of a successful and regular property tax collection scheme.<sup>216</sup> The 20.6% difference is related to the fact that less exemptions have been given. According to Article 50, Application of Sanctions of the Lithuanian Law on Tax Administration: “In cases where the violations of tax laws indicated in Article 49, have been perpetrated penalties shall be imposed to economic entities namely, enterprises, institutions and organisations for violations as follows: a penalty of 10%, calculated on the income (receipts) of the past 12 months or a tenfold penalty on income.” Additionally, foreclosures are not possible.

Article 127 of the Lithuanian Constitution clearly states that the “budgetary system of the Republic of Lithuania shall consist of the independent State Budget of the Republic of Lithuania and independent municipal budgets.” No single example of an earmarked budget has been identified, though, as the country is considered small and most of the initiatives are administered by the central government, at least to some extent. Municipal finances are controlled by the Task Force on Municipality Audit (EUROSAI TFMA) created in Luxembourg in June 2016. The TFMA is chaired by the National Audit Office of Lithuania with the Secretariat located in Vilnius. The TFMA Strategic Goals for the period 2017-2019 are: “exchanging the best practice and experience to reach audit results that have a substantial impact on improving public financial management as well as making the external municipal auditing system more efficient”.<sup>217</sup>

Immovable property – including land, buildings, and separate premises – is registered in the register relevant (*Lietuvos nekilnojamojo turto registras*). Both factual and legal data are available. Factual data on property consists of the following types of information: area, height, volume, year of construction, and owner name. Legal data on property includes: agreements of joint ownership, court rulings, easements, and mortgages. The register is maintained by the state enterprise centre of registers (*Registru centras*) and is supervised by the Ministry of Justice.

### 4. Political, institutional, and social perceptions and acceptance of EuroPACE

After a numerous debates on whether Lithuania needs a local property tax, a law introducing the tax was passed in 2011. While revenues of the commercial property tax go to municipality budgets, revenues of the new residential property tax go into the coffers of the state budget,<sup>218</sup> which significantly limits the stabilisation of the scheme. Moreover, this tax is highly politicised.<sup>219</sup> However, given this tax is applied only on properties with a high market value, there

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216 For more information see: [https://ec.europa.eu/energy/sites/ener/files/documents/1\\_voida\\_lauruseviciene\\_seif\\_prague\\_27-04-17.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/1_voida_lauruseviciene_seif_prague_27-04-17.pdf)

217 For more information see: <https://www.vkontrolė.lt/tf/page.aspx?id=6>

218 For more information see: <https://en.irefeurope.org/multi-pages/914/Lithuania>

219 For more information see: <https://www.forbes.pl/wiadomosci/pierwszy-w-historii-litwy-podatek-od-nieruchomosci/pyl3kkw>

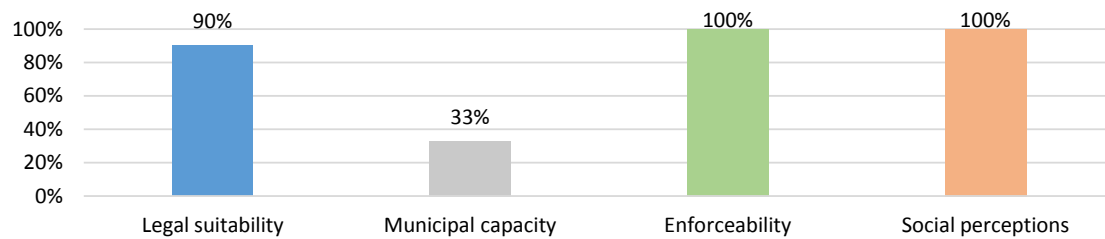
was not much protest against it, as Lithuanians generally agree with the notion of taxing the wealthiest part of the society.

**Country summary and take-aways:**

- With a EuroPACE readiness of 50%, Lithuania is a less adequate candidate for EuroPACE development.
- A tax of approximately 1% is applied on total family-owned property valued above EUR 220,000.
- Municipalities are willing to cooperate with the private sector, particularly on EE-related projects, which could facilitate the potential application of EuroPACE.
- Enforceability is lacking: no examples of foreclosures related to tax delinquencies have been identified.
- Furthermore, municipal interests cannot be fully secured as local authorities cannot impose senior liens on indebted properties.
- EuroPACE could be more effective when the property-related tax system is more far-reaching.

## Luxembourg

Very adequate country for EuroPACE implementation – overall grading for suitability: 89.29%



### SWOT Analysis

Strengths	Weaknesses
Municipalities are responsible for the collection of taxes attached to the property. They manage their own budgets and have the right to establish new local levies without the necessity of changing national legislation. It is a simple system with no tax exemptions at the individual or regional level.	Imposing liens on properties might be complicated, as several types of liens and mortgages are possible and there is no clear distinction between the two. Additionally, the imposition of a senior lien is not possible. The fact that Luxembourg is a small country may also be a weakness for EuroPACE implementation.
Opportunities	Threats
A well-functioning legal and administrative framework and the relative independence of municipalities may assure smooth collaboration at the local level.	Investors might not be interested in EuroPACE implementation due to complexities concerning liens.

### 1. Suitability of the legal framework for on-tax financing

No single on-tax financing scheme has been tested in the country yet. However, there are two types of stable property tax in the country: the *impôt foncier*, which is paid yearly by the owner of the property and is fixed according to several criteria (characteristics of the owner and use of the property, among others), and the *taxes communales*, which encompasses the local charges.<sup>220</sup> They are a fixed amount payable by all inhabitants of a municipality, yearly, or by semester, re-

<sup>220</sup> For more information see: <https://guichet.public.lu/fr/citoyens/impots-taxes/bien-immobilier/terrain-bien-immobilier/payer-impot-foncier.html>

ardless of their income or type of property.<sup>221</sup> All of these taxes are collected by the municipality.

Article 107 of the Constitution of Luxembourg states that municipalities manage their own budgets; therefore, they have the authority to change tax rates.<sup>222</sup> Moreover, municipalities have the right to establish new local taxes under reserve of approbation from the Grand Duke of Luxembourg (Article 1073 of the Constitution)<sup>223</sup> and without the need of changing national legislation. However, the system is unified with no real differences observed at the regional or individual property level.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

PPPs have been implemented in Luxembourg since 2009.<sup>224</sup> However, even though policy makers support this kind of partnership, a strong mistrust from business representatives, as well as law professionals, has been reported.<sup>225</sup> In 2010, the Luxembourg Microfinance and Development Fund (LMDF), a PPP, was created.<sup>226</sup> However, to our best knowledge, there are no existing PPPs at the local level.

Out of 102 municipalities in Luxembourg, only two are active in Covenant of Mayors activities. Still, there are possible national solutions for EE financing to be managed at the municipality level, notably in terms of grants, subsidies, and tax reductions, which are intended for small and medium-sized enterprises and individual companies. They can benefit from subsidies in investments aimed at EE, sustainable development, and environmental impact studies. Private initiatives also exist with the aim of supporting the financing of EE. For instance, Enovos is a local-focused energy consulting company proposing personalised advice and financial support for the renovation, construction and everyday management of individual's or companies' buildings. It proposes assistance in planification, audit, and EE, as well as in finding subsidies through "enoprimes", which links individuals and service providers, and in financing through the "fonds nova naturstrom", which provides grants for the best EE projects.<sup>227</sup>

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221 For more information see: <https://guichet.public.lu/fr/citoyens/impots-taxes/bien-immobilier/terrain-bien-immobilier/payer-taxes-communales.html>

222 There are 102 municipalities, or communes, in Luxembourg.

223 For more information see: <http://data.legilux.public.lu/file/eli-etat-leg-recueil-constitution-20161020-fr-pdf.pdf>

224 For more information see: [https://gouvernement.lu/en/publications.gouv\\_cooperation%2Ben%2Bpublications%2Bdepliant%2Bminist-affaires-etrangees-europeennes%2Bdir-cooperation-action-humanitaire%2Bemmergency\\_lu%2Bfiche2-partenariat-public-priv.html](https://gouvernement.lu/en/publications.gouv_cooperation%2Ben%2Bpublications%2Bdepliant%2Bminist-affaires-etrangees-europeennes%2Bdir-cooperation-action-humanitaire%2Bemmergency_lu%2Bfiche2-partenariat-public-priv.html)

225 For more information see: [http://www.droit.lu/wp-content/uploads/PPP\\_JTL.pdf](http://www.droit.lu/wp-content/uploads/PPP_JTL.pdf)

226 For more information see: <http://paperjam.lu/news/un-fonds-public-priv-au-luxembourg>

227 For more information see: <https://www.enovos.lu/fr/Particuliers/f/fonds-nova-naturstrom>

### 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

Property taxes are collected well on an annual or bi-annual basis.<sup>228</sup> In cases of tax delinquencies and defaults, an effective foreclosure mechanism exists. The first step of the procedure is the tax office sending the ratepayer a warning, imposing the payment of the property tax in five days. If no response to the notice is received, another warning is sent with the same conditions. If again there is no response, the tax office starts the procedure of forced recovery, beginning with a commandment to pay and pursuing the foreclosure of the ratepayer's bank accounts and belongings.<sup>229</sup> However, other measures are used first. In cases of the belated or non-payment of taxes, there are additional interest rates of up to 10% of the expected tax amount and fines.<sup>230</sup> These administrative processes are standardised and transparent.<sup>231</sup>

Secured property title search tools are available (*certificat de propriété ou de non-propriété*).<sup>232</sup> There is also the possibility to consult the land register of Luxembourg, which was created in 1820. Existing only in a paper form, its consultation requires the payment of a fee. The register provides access to a cadastral map and a database containing information on land parcels, owners, land use, area, and possible liens imposed by the municipality. Information is available in Luxembourgish, French, and German.<sup>233</sup>

Article 107 of the Constitution of Luxembourg states that municipalities possess an autonomous budget and are in charge of the structure of their expenses.<sup>234</sup> Project-related funds at the municipality level are earmarked and the municipality has the right to create separate budget lines. All finances are placed under the control of the Grand Duke and the Ministry of the Interior. The control of their finances is pursued by the *Cour des Comptes*, an independent judicial institution (Constitution, Article 105).<sup>235</sup>

### 4. Political, institutional, and social perceptions and acceptance of EuroPACE

Property taxes are a long-standing concept (created in 1936), thus can be considered as continuous and stable.<sup>236</sup> There is a general positive perception towards property taxes, but some call for its reform. Indeed, its critics note its lack of transparency as far as its calculation is concerned. It is also said to be quite low, as property taxes account for only 1.5% of the municipal budget. Proposed reforms include fixing the unit value, enabling a more stable calculation of the tax, as

228 For more information see: <https://guichet.public.lu/fr/citoyens/impots-taxes/bien-immobilier/terrain-bien-immobilier/payer-taxes-communales.html>

229 For more information see: <https://guichet.public.lu/fr/citoyens/impots-taxes/exercice-activite-independant/paiement-impot-du/recouvrement-force-impot-du.html>

230 For more information see: <https://impotsdirects.public.lu/fr/az/p/prelev.html#astreinte>

231 For more information see: <https://impotsdirects.public.lu/fr/az/d/delais.html>

232 For more information see: <https://impotsdirects.public.lu/fr/az/c/certificats.html#pro>

233 For more information see: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-lu-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-lu-en.do?member=1)

234 For more information see: <http://data.legilux.public.lu/file/eli-etat-leg-recueil-constitution-20161020-fr-pdf.pdf>

235 For more information see: <http://data.legilux.public.lu/file/eli-etat-leg-recueil-constitution-20161020-fr-pdf.pdf>

236 For more information see: [http://www.winseler.lu/files/Impot\\_foncier.pdf](http://www.winseler.lu/files/Impot_foncier.pdf)

well as setting it according to elements related to sustainable development, such as the environmental impact of the building, its aim, and its respect of biodiversity.<sup>237</sup>

### **Country summary and take-aways:**

- With a EuroPACE readiness of 89.29%, Luxembourg is a very adequate candidate for EuroPACE development.
- There are two types of property tax in Luxembourg: the *impôt foncier* and the *taxes communales*, which strengthens the potential for a EuroPACE assessment from the investor's perspective.
- However, given the size of the country, the above-mentioned investor's perspective might have its limitations.
- Some reforms are planned in the near future, which increases uncertainty.
- Foreclosures related to tax delinquencies and defaults exist and are effective.
- A lien on a property is possible. Municipalities have no authority to act as a tax authority and impose a senior lien on a property.

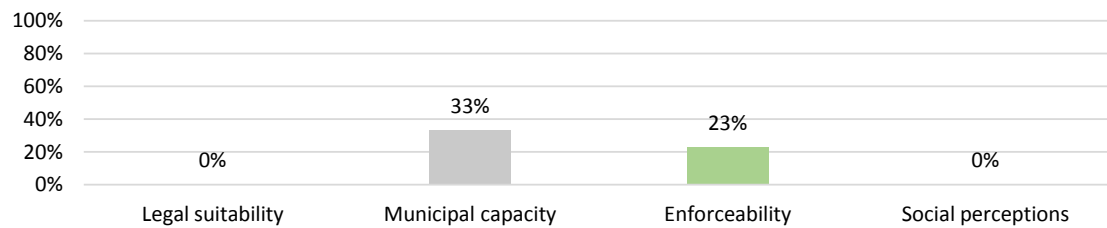
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<sup>237</sup> For more information see: [https://www.forum.lu/pdf/artikel/7090\\_304\\_Estgen.pdf](https://www.forum.lu/pdf/artikel/7090_304_Estgen.pdf)



**Malta** 

No-go option for EuroPACE implementation – overall grading for suitability: 14.29%



**SWOT Analysis**

<b>Strengths</b>	<b>Weaknesses</b>
Municipalities are engaged in numerous local EE initiatives: 24 (out of 68) participate in Covenant of Mayors initiatives, which reflects their interest in clean energy.	There are no land taxes, municipal taxes, council taxes, or other property-related taxes.
<b>Opportunities</b>	<b>Threats</b>
While observing recent trends in the introduction of property taxes across the EU, it may be assumed that a property-related tax will also be introduced in Malta. It could be useful to contact the respective authorities and present the concept on on-tax financing, so that they can consider it while drafting relevant legislation.	Small, centralised market.

**1. Suitability of the legal framework for on-tax financing**

In Malta, there are no land taxes, municipal taxes, council taxes, or property-related taxes. Only capital gains tax must be paid on the transfer of real property.<sup>238</sup> Furthermore, local councils manage waste removal without any additional bills or charges related to this.<sup>239</sup>

238 For more information see: Commissioner for Revenue <https://cfr.gov.mt/en/Pages/Home.aspx>

239 For more information see: WasteServ Malta <https://www.wasteservmalta.com/home>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

Malta is territorially and administratively divided into 68 localities and the functions and powers of local councils are limited.<sup>240</sup> Under the provisions of the Local Councils Act (LCA), local councils do not have the power to enter into any form of commercial partnership or delegate any functions in a manner other than that established by or under the LCA or even borrow or lend any money except with the written authority of the Minister responsible for Local Government in writing. As CoE rightly notices: “local council may enter into PPPs both with the private sector or with non-governmental organisations, only following approval by the Department for Local Government which shall grant such approval only if it is satisfied that such partnership would benefit the residents of the locality, and after having obtained the approval of the Minister of Finance and the Minister responsible for Local Government.”<sup>241</sup>

According to Article 33(1) of the LCA, “protecting the natural and urban environment of the locality and taking all necessary measures to ensure the more efficient use of energy, good waste management and climate change initiatives” is one of the statutory obligations of municipalities. This setup is reflected in the relatively high number (24 out of 68 in total) of municipalities taking part in Covenant of Mayors initiatives, even though they are considered to be much more autonomous. Still, the LCA does not foresee competences for the administration of special projects for localities; every initiative is administered in a top-down manner.

## **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

There is, as of yet, no tax revenue raised at the local level and all money comes from central bodies; thus, it is difficult to classify this setup as autonomous. Municipalities are not authorised to borrow or loan money for any activity not mentioned in the regular functions and responsibilities of local councils. However, it does not mean that they cannot open separate budget lines for special projects: each year, the parliamentary secretary responsible for local government issues grant schemes for ad hoc projects. The regional committees are implementing the regional action plans that are identified in the regional plans mainly due to covering sustainable development goals (SDGs) measures.<sup>242</sup> The LCA provides for various kinds of financial oversight, namely through the appointment of local government auditors, ministerial performance measurement,

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240 Article 33(2) of the LCA provides that a number of functions are excluded from the competence of local councils. Specifically, arterial and distributor roads determined by the Structure Plan, national monuments, national parks or gardens, industrial estates, ports, airports and other national territories, establishments, buildings, and the items specified in the Fourth Schedule of the LCA are the responsibility of the central government and they are totally excluded from the competence of the local councils.

241 For more information see: <https://rm.coe.int/16806fdbba0>

242 For more information see: [http://www.clgf.org.uk/default/assets/File/Country\\_profiles/Malta.pdf](http://www.clgf.org.uk/default/assets/File/Country_profiles/Malta.pdf)

the ministerial power to request books and accounts from the executive secretary, and the preparation of a business and financial plan.

Concerning secured property title search tools, the land registry's primary task is to compile a "property log book".<sup>243</sup> "The certificate of title includes all information available in the electronic register about a particular property: the description of the property, the owner/s, share, the basis of the application (e.g. contract, succession, among others), the type of ownership (e.g. freehold, temporary or perpetual emphyteusis, among others), any debts, and the plan of the property. It also includes the property number, an eight-digit number which is unique to each particular property, and a reference to the land registry applications submitted."<sup>244</sup>

#### **4. Political, institutional, and social perceptions and acceptance for EuroPACE**

As the Times of Malta, the oldest daily newspaper in Malta with the widest circulation, notices, "any proposal or recommendation that property taxes in some form or other be introduced and added to the Finance Minister's armoury, will, raise fire and brimstone reactions from at least two sources, both of whom presently have vested interests in the present status quo remaining eternally unchanged. These are the political class (for which read being utterly terrified of loss of votes), whilst the other group embraces many in the building and construction lobby, the multiple property owners, and fellow travellers." In his op-ed, John Consiglio, economics professor at the University of Malta, adds that "some form of property tax must soon come to Malta, for various reasons. For a start, the EU is undoubtedly looking with a big magnifying glass at the fiscal elbow room that all finance ministers in Malta – as in all other EU member-states – have to operate in. Secondly, property in Malta, especially that which is owned by foreigners, is possibly one of the contexts within which most tax evasion is occurring, undoubtedly after the collection of VAT. And, thirdly, property taxes are the most effective (even if unpopular) way of reducing the rampant levels of inequality within Maltese society."<sup>245</sup>

#### **Country summary and take-aways:**

- With a EuroPACE readiness of 14.29%, Malta is a no-go option for EuroPACE development.
- As no single property-related tax exists, EuroPACE assessment, at least in the near future, would not be possible.
- Properties on the island are attractive for foreigners, so sooner or later the authorities might consider taxing them as property taxes are them.

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243 For more information see: <https://mgoz.gov.mt/en/Pages/Departments/DG%20Operations/Land-Registry.aspx>

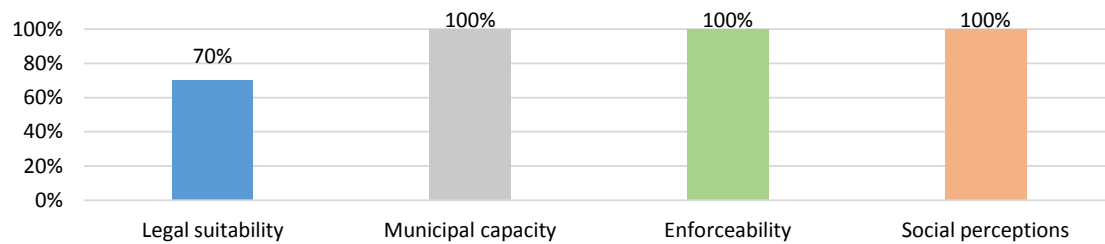
244 For more information see: <https://mgoz.gov.mt/en/Pages/Departments/DG%20Operations/Land%20Registry/Certification%20of%20Title.aspx>

245 Op-ed available online: <https://www.timesofmalta.com/articles/view/20141228/business-news/Property-taxes-in-Malta-let-s-start-a-debate-Part-1-.549842>

- It could be useful to contact the respective Maltese authorities and present the concept of on-tax financing, so that they can consider it while drafting any type of legislation related to property taxation.

## Netherlands ■

Very adequate country for EuroPACE implementation – overall grading for suitability: 89.29%



### SWOT Analysis

Strengths	Weaknesses
The law on <i>Bedrijven Investeringszones</i> (BIZ), which is the local equivalent of BIDs, came into effect on 1 January 2015. Ever since, BIDs are gaining on popularity. This suggests there could be a strong potential for EuroPACE implementation, which is based on a similar foundation.	Municipalities have no right to create local taxes, unless it is stipulated in the acts of the parliament. Local administration has the legal authority to change the tax rate of property-related taxes, but only within the range established by national legislation.
Opportunities	Threats
Dutch initiatives related to EE programmes and activities very often advocate for downstream projects in the cities energy ecosystems. Given the positive attitude towards innovative solutions supporting EE investments at the local level, the EuroPACE initiative might be welcome.	Since 2011, regional differences in property tax rates are becoming more significant. Given the fact that there are regions where property taxes regularly increase, there is some risk that the inhabitants of these regions might not be interested in further increasing the taxes by imposing on-tax financing.

### 1. Suitability of the legal framework for on-tax financing

A permanent law regulating BIDs (locally known as BIZ) came into effect on 1 January 2015. Ever since, BIZ are gaining popularity.<sup>246</sup> The BIZ is a cooperation between entrepreneurs in the same district, such as business park or shopping area, who jointly invest in order to make their business environment safer and more attractive. They decide to do so by paying an additional

<sup>246</sup> For more information see: <https://bedrijveninvesteringszone.biz/>

levy to the municipal budget. In return, the local authorities help the commercial partners in their endeavours by making the proceeds available.<sup>247</sup>

The main municipal (local) tax is the property tax (called *onroerendezaakbelasting* - OZB), which is levied on property on a municipal basis.<sup>248</sup> The tax is based on the value of the property, according to the Real Estate Valuation Act (in Dutch, WOZ). Each year, on 1 January, the municipal council decides on the property tax percentage for that year. The deemed rental income (*eigenwoningforfait*) is an extra tax on homeowners and is based on the property's official local authority valuation (WOZ). In 2016, homeowners paid 0.75% of the WOZ value of their homes in extra tax, as long as the WOZ value is not more than EUR 1,050,000. For properties worth over EUR 1,050,000, it gets a bit more complicated. The tax was introduced in the mid-1970s as an income equaliser, because back then homeowners were always considered to be better off than the tenants who paid rent.

“Owners of house boats or house arks and tenants of house boats used as office or commercial space are subject to a tax equivalent to the real estate tax: tax for their moveable real estate (*roerende ruimtebelastingen*). In addition, owner-occupiers and tenants of house boats need to pay recario tax, also known as *liggeld*, because they occupy waterways owned by the municipality.”<sup>249</sup>

Besides the property taxes as such, three other taxes/levies are attached to property. The waste collection levy (*afvalstoffenheffing* - AFV) is used for the collection, processing, and disposal of household rubbish and the amount depends on the number of occupiers per household. The method of payment for this tax varies by municipality. Owners of residential or business property must also pay a sewage levy (*rioolheffing*) for their connection to the sewage network.

Every year an owner is typically taxed for two water taxes (depending on the property). The water board tax (*waterschapsbelasting*) contributes to the management of the regional water system, such as maintenance of dykes and control of water levels. In addition, there is a pollution levy (*verontreinigingsheffing*) for properties not connected to the sewage network and a water purification levy (*zuiveringsheffing*) contributing to purification processes used for waste water for all properties connected to the sewage network. The method of payment varies by municipality.<sup>250</sup>

Internal units within local city councils (*gemeenten*) are fully responsible for the collection of property, waste, while regional water boards (*waterschappen*) are responsible for flood protection and clean water bills.<sup>251</sup>

Although municipalities cannot levy new taxes, they can, to a large extent decide, on the rates of the respective levies.<sup>252</sup> There is a ceiling, though: “in 2013, the macro norm set by the

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247 For more information see: <https://business.gov.nl/regulation/business-improvement-district/>

248 For more information see: <https://www.ondernemersplein.nl/regel/onroerendezaakbelasting-ozb/>

249 For more information see: <https://www.iamsterdam.com/en/living/everyday-essentials/finance/taxes>

250 Please note that water taxes do not account for the use of drinking water; this is monitored and charged separately by the local water supplier.

251 For more information see: <https://www.iamexpat.nl/expat-info/organisations/dutch-gemeente-municipalities-netherlands>

252 Section 132 of the Constitution of the Netherlands in conjunction with Section 219 of the Netherlands Municipalities Act (Gemeentewet). These are the General Act of State Taxes (Algemene wet inzake Rijksbelastingen; AWR),

central government on local governments allowed for an extra EUR 90 million. That is because, in 2012, all municipalities together were allowed to raise their income from property tax by 3.75% to a maximum of EUR 3,178 million. Total revenues budgeted in 2012 amounted to EUR 3,237 million, EUR 59 million more than agreed. Because the macro norm was exceeded, the central government lowered it from 3% to 2.76% for 2013. This means municipalities can collect nearly EUR 90 million more in property tax in 2013 than in 2012.<sup>253</sup> As the official listed value (WOZ value) of the immovable property of which the person is owner and/or user is one of the two elements impacting the final rate, differences on the individual property level exist.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

PPS support – the central government's unit responsible for sharing the knowledge and experience of PPPs with local and regional authorities was created in 2012. Although today it is mainly operational via the Ministry of Foreign Affairs, this central government's initiative is available to local and regional authorities and semi-public institutions, has been operational only for a couple of years, municipalities are more and more active in PPP projects as confirmed by various independent databases.<sup>254</sup>

Even though only 24 municipalities take part in Covenant of Mayors actions, there are plenty of Dutch initiatives, such as Cities Northern Netherlands,<sup>255</sup> which advocates for downstream projects, and realistic projects in energy, circular economy, hydrogen, and mobility, that matter for the ecosystems of the cities. Provinces are situated hierarchically between the central government and the municipalities. They fulfil tasks which the central government finds hard to fulfil because it is too big, and municipalities find hard to fulfil because they are too small. In the Netherlands, provinces have many competencies regarding environmental planning.

## **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Taxes are collected well and on a regular basis, given strong enforceability. If a payment is delayed, extra costs will be added (including a payment reminder costing at least EUR 7). If a taxpayer still does not pay after receiving a reminder, he will receive a liability order (*dwangbevel*) costing at least EUR 40.<sup>256</sup> Tax penalties can amount to no less than EUR 4,920, depending on the gravity of the mistake and kind of tax. Cases related to administrative penalties imposed

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the General Act on Administrative Law (algemene wet bestuursrecht; Awb), and the Tax Recovery Act (Invordering-swet).

253 For more information see: <https://www.cbs.nl/en-gb/news/2012/42/property-tax-up-by-more-than-5-percent-in-half-of-all-dutch-municipalities>

254 For more information see: <http://www.infrappworld.com/pipeline-html/projects-in-netherlands>

255 For more information see: <http://citiesnorthernnetherlands.eu/>

256 For more information see: <https://www.amsterdam.nl/en/taxes/difficulty-paying/>

and interest charged in respect, are serious and heard by the district courts in the first instance. Appeals in these cases are heard by the appellate courts with the possibility of appeal to the Supreme Court.<sup>257</sup> As a last resort, the local taxes department may be forced to take the amount owed out of the wages or seize and sell off the property. Foreclosures in this case are effective and fully transparent. However, the municipality must impose a lien, which is senior to all other pledges. Afterwards, it can directly seize unpaid taxes from someone's bank account.<sup>258</sup>

Information related to such pledges is mentioned in the Dutch Land Register, maintained by the Kadaster (Cadastre, Land Registry and Mapping Agency), a public authority responsible for registering rights and interests affecting any real estate.<sup>259</sup> "It collects, registers, and publishes administrative and spatial data on property and all the rights involved. The agency is also in charge of national mapping and the maintenance of the national reference coordinate system. Moreover, the Kadaster serves as an advisory body for land-use issues and national spatial data infrastructures. The information, including information on the energy labels of houses and underground cables and pipelines, is available mainly online, as all the resources have been digitalised."<sup>260</sup>

Concerning municipal budgets, these can be considered fully autonomous. Moreover, the central government oftentimes earmarks part of the money transferred to the local authorities. These accounts have to be predestined for a specific objective. This means that special projects or initiatives can have separate accounts within the municipal budget.<sup>261</sup> "In 2002, a major reform of the Municipal Act (*Gemeentewet*) was agreed upon in the national parliament (*Generalstaten*). Each province and municipality in the Netherlands is now legally bound to set up either a public audit committee (in which members of the council may participate) or an independent local audit office (excluding members of the council) before 2005 at the provinces, and before 2006 at the municipalities. The composition, scope and type of control of an audit committee have to be taken care for by local regulation. As a consequence, it can be adjusted every time a majority in the local council feels necessary. The composition, scope and type of control of a local audit office, however, are determined by several articles in the national Municipal Act."<sup>262</sup>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Ever since the introduction of the Special Act for Real Estate Assessment, which governs valuations, there has been a decrease in the number of objections and appeals, from 8% for residential properties in 1997 down to 1% in 2016. In the same period of time, the yearly total costs for valuations have declined from EUR 190 million down to EUR 150 million. Starting in 1997, with

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257 For more information see: <https://gettingthedealthrough.com/area/59/jurisdiction/17/tax-controversy-netherlands/>

258 For more information see: <https://www.denhaag.nl/en/taxes/tax-penalties/tax-lien.htm>

259 For more information see: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-nl-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-nl-en.do?member=1)

260 For more information see: <https://www.kadaster.com/about-kadaster>

261 For more information see: <https://english.oim.dk/media/14258/hessel-boerboom-and-peter-huigsloot.pdf>

262 For more information see: [http://www.eurorai.org/eurorai/eurorai\\_eng.nsf/documento/country\\_reports/\\$file/Country%20report%20Netherlands-update%202010.pdf](http://www.eurorai.org/eurorai/eurorai_eng.nsf/documento/country_reports/$file/Country%20report%20Netherlands-update%202010.pdf)



a revaluation every four years, the law now states that valuations have to be done annually with a valuation date one year prior to the year the assessed value is used for taxation. Compared with earlier years, the assessed market value is more accurate because of the annual valuation, and this has led to the use of the assessed value for other non-tax related purposes.<sup>263</sup> Revenues from municipal taxes rose considerably following the introduction of property tax in the mid-1970s. Accounting for a total EUR 3 billion in 2010, property tax is now the main source of income for municipalities and should be considered a stable scheme.<sup>264</sup> Some residents complain about the high rate of their municipal taxes; others believe that local taxes are part of the reason the Netherlands is such a good country to live in.

### Country summary and take-aways:

- With a EuroPACE readiness of 89.29%, the Netherlands is a very good candidate for EuroPACE development.
- Municipalities are capable of working with the private sector and advocate for downstream projects on EE.
- Property tax (called *onroerendezaakbelasting* – OZB), which is levied on property, exists. The tax is based on the value of the property, according to the Real Estate Valuation Act (in Dutch WOZ). Another property-related tax – *eigenwoningforfait* (deemed rental income) is an extra tax on homeowners and is based on the property's official local authority valuation (WOZ).
- The foreclosure mechanism is effective and supported by standardised and transparent administrative processes.
- A senior lien on a property exists and is well documented in the land registries.

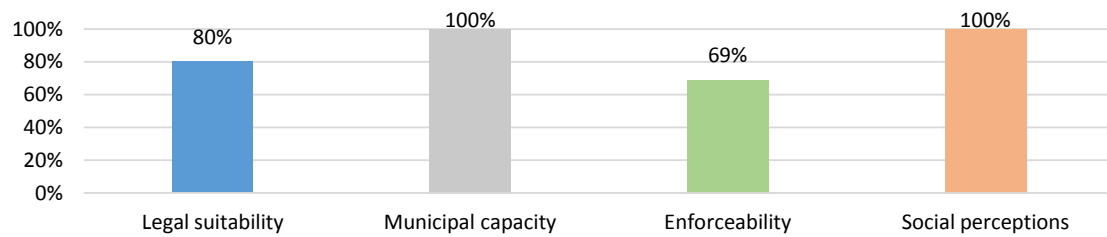
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<sup>263</sup> For more information see: [https://www.conftool.com/landandpoverty2017/index.php?page=browseSessions&print=head&abstracts=show&form\\_session=562&presentations=show](https://www.conftool.com/landandpoverty2017/index.php?page=browseSessions&print=head&abstracts=show&form_session=562&presentations=show)

<sup>264</sup> See Statistics Netherlands (CBS) website for more information: <https://www.cbs.nl/en-gb/news/2012/51/tax-revenues-increasingly-important-for-municipalities>

**Poland** ■

**Moderately adequate country for EuroPACE implementation – overall grading for suitability: 78.57%**



**SWOT Analysis**

Strengths	Weaknesses
Property tax is paid regularly, either annually (when the tax is less than PLN 100 per year (roughly EUR 22), or every three months when the bill is higher than PLN 100. There is a very high collection rate (not less than 95%).	Local administration has the legal authority to change the tax rate of property-related taxes only within a range established by national legislation.
Opportunities	Threats
The “Clean Air” programme for Poland started in September 2018 with a planned budget of PLN 103 billion (roughly EUR 24 billion) to be spent on home retrofits. This could possibly be blended with other instruments, as the demand is significant, which adds an argument of great timing to launch.	The average property tax rate (roughly EUR 22) is extremely low compared to many EU countries (apart from CEE); thus, adding a significantly bigger assessment might be problematic.

**1. Suitability of the legal framework for on-tax financing**

Although on-tax financing has not yet been used in Poland in any kind of project, property tax exists. During 2011-2015, its share in municipal income was as much as 83%; thus, it is seen as the most effective type of local tax in Poland and will be analysed further as a potential EuroPACE base.<sup>265</sup> According to the Act of 13 September 1996 on maintaining cleanliness and order in municipalities, the municipal council determines, by way of resolution, the upper rates of the

<sup>265</sup> Other local taxes include: tax on agriculture; tax on vehicles; forest tax; tax on dog owners; tax on civil law activities; tax on legacies and donations; and tax on small businesses.

additional property-related fees paid by property owners for services such as waste management. It is the local government administration (*gmina*) which is fully responsible for the collection and administration of property tax. In the case of individual tax payers, it is an obligation of the administration to serve a taxation notice with the amount due (i.e. a homeowner who has not received this information from the town hall does not need to pay). Most municipalities offer electronic or SMS property tax bills to avoid postal costs. According to the law on local governments, municipalities may express their local tax policies by setting local tax rates, within the limits (ceiling) decided in the central legislation.

The scope of regional differences in tax collection and tax exemptions for rural areas has been a subject of reflection only recently, particularly in the Lubelskie voivodship,<sup>266</sup> where the differences in collections and exemptions are the most prevalent. Still, they constitute a very small percentage and do not change the overall picture of the tax ecosystem. Nevertheless, urban authorities are indeed much more involved when it comes to property tax collection. In practice, the local mayor can grant individual tax releases or reductions to individual tax payers; however, such releases are extremely rare and usually take place only in the already-mentioned rural areas (rather collective actions). Moreover, since November 2015, the Revitalization Act has been in force (i.e. Journal of Laws of 2017, item 1023, as amended). It defines, among others, the way of designating degraded areas, the principles of social consultations, the scope and procedure for adopting the communal revitalisation programme (GPR), and, finally, the introduction of tools to support local governments, such as a special revitalisation zones, which are eligible for higher property taxes.<sup>267</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

Polish municipalities already have extensive experience cooperating with private partners. In fact, the main ordering party applying the PPP formula in the country are local government units (including entities supervised and created by them) – most of all of the municipal level, as more than 95% of initiated proceedings were announced by these units (until late 2016).<sup>268</sup> The currently proposed solutions should enable the even more effective preparation and implementation of infrastructure projects in the PPP formula at a local level and eliminate ambiguities in the regulations. A dedicated PPP platform has been further developed and it currently consists of useful guidelines and lessons learned.<sup>269</sup> The platform could be a good base for the EuroPACE database.

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266 For more information see: Lukomska J. and Swianiewicz P., *Polityka podatkowa władz lokalnych w Polsce*, Warszawa 2015.

267 By the end of 2017, 977 revitalisation programmes were adopted (39% of municipalities).

268 For more information see: <https://www.interreg-central.eu/Content.Node/RESTAURA/D.T1.2.1-Country-report-Poland-V1.pdf>

269 For more information see: <https://www.ppp.gov.pl/Strony/home.aspx>

When it comes to sustainable municipal strategies, the vast majority of Polish cities over 50,000 inhabitants have already implemented plans to move towards a low-emission economy. At the same time, only a few local centres (less than 50,000 residents) have developed such plans. It is estimated that about 25-30% of them have appropriate strategy documents. However, this is slowly starting to change, as without such local strategies, local governments cannot benefit from EU funding for low-emission activities and improving EE.<sup>270</sup> Nevertheless, municipalities from various regions across the country already have experience in leading EE programmes in different forms. The Małopolska region has its LIFE Integrated Project “Implementation of Air Quality Plan for Małopolska Region – Małopolska in a healthy atmosphere”<sup>271</sup> and, in 2016, Szczecin became the first city in Poland to take the initiative to introduce tax relief (from property tax) for the design of green buildings, which must achieve a minimum level of LEED Gold or Very Good for BREEAM. The city council passed a resolution that offers businesses investing in new office or conference facilities a three-year property tax exemption. Pursuant to the resolution, the following facilities will be exempted from a property tax: (1) newly constructed buildings or their parts; (2) high-standard office and conference facilities in newly constructed facilities; (3) land purchased after the effective date of the resolution, where investments have been commenced. The amount of modern useful space as required by the resolution to qualify for the exemption is 90%.<sup>272</sup> Other cities are slowly starting to follow, proving that local tax exemptions on green certificates can play an even more important role in the planning of investments in the coming years.<sup>273</sup>

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Property tax is paid either annually (when the tax is less than PLN 100 per year – roughly EUR 22), or every three months when the bill is greater than PLN 100. The enforcement of local taxes is, on average, 95% and above. For example, last year, Bydgoszcz was able to collect nearly 97% of its receivables. The situation was similar in Białystok. The remaining few percent are arrears that are not always paid on time and 1% is not paid at all. Again, the situation varies across the country. It is estimated in the city of Łódź that about 5% of tax receivables are not paid and are transferred to administrative execution.<sup>274</sup>

In special cases, for example, the persistent failure to pay the tax, the municipality may ask the tax office to punish the taxpayer with fines for fiscal offenses. According to Article 56 couples 4 of the Tax Penal Code (i.e. Journal of Laws of 2007 No. 111, item 765, as amended), the

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270 More information available in the report on the condition of Polish cities 2017: low-emission and energy efficient economy: [http://obserwatorium.miasta.pl/wp-content/uploads/2017/08/Raport\\_Niskoemisyjność\\_i\\_efektywność\\_energetyczna\\_obserwatorium\\_OPM\\_IRM\\_Bartocha\\_Rackiewicz.pdf](http://obserwatorium.miasta.pl/wp-content/uploads/2017/08/Raport_Niskoemisyjność_i_efektywność_energetyczna_obserwatorium_OPM_IRM_Bartocha_Rackiewicz.pdf)

271 For more information see: <https://powietrze.malopolska.pl/en/>

272 For more information see: [http://szczecinbiznes.pl/en/news/Szczecin-supports-proecological-investments\\_4230](http://szczecinbiznes.pl/en/news/Szczecin-supports-proecological-investments_4230)

273 For more information see: Colliers International, Green buildings in Poland – Certification in numbers 2016, Warsaw 2016.

274 The local government portal estimates: <http://www.portalsamorzadowy.pl/prawo-i-finanse/ile-wynosi-podatek-od-nieruchomosci-stawki-rosna-wplywy-tez,92034.html>

fine is subject to a taxpayer who, despite revealing the object of taxation, does not submit a declaration or statement to the tax authority within a time limit.<sup>275</sup> The penalty may amount to several thousand zlotys, although in practice these amounts are much lower. According to the Supreme Audit Office (NIK): “Polish municipalities have had problems with the enforcement of local taxes, the use of tax breaks and the implementation of income from property” in the last few years.<sup>276</sup> Although the majority of municipalities complied with the formal requirements – for example, they adopted acts determining the level of tax rates in time – according to the NIK, some of their activities were incorrect, and some of these activities were conducted in a manner that could undermine citizens’ trust in tax authorities given the lengthiness of the administrative processes. Out of 28 municipalities audited in 2015, irregularities were found in 21 when it comes to determining the rate of taxation, in 26 in terms of the efficiency and accuracy of tax arrears, in 13 when granting tax reliefs, and in 21 in terms of the regularity and efficiency of property income.

The foreclosure mechanism can be considered effective and transparent; although given the low rate of the property tax, it is rarely used (interest rates and penalties are far more common). When several mortgages (the equivalent of liens as liens can be imposed only on movables) are established on the property, the mortgage for the benefit of the tax office takes precedence. Secured liabilities and tax arrears will thus be satisfied against other receivables. As for the lien, all that is available is a mortgage that is registered in the land and mortgage register that is maintained by a relevant court. Again, note that there is no institution of a lien on real estate in Poland. The creditor who has a mortgage over the real estate cannot take possession of the encumbered property but can enforce a debt from the sale of proceeds of the real estate. Municipalities are obliged to keep good records of all buildings present in their territories.<sup>277</sup> The registers include all the valuable information, including those on liens imposed.

Polish municipal governments have their own fully autonomous budgets. Additionally, task-oriented budgets exist. These cannot be a replacement, but only a complementary form of the local budget. At the same time, exceeding the expenditure assigned to the task is not an act violating the discipline of public finances (more in the Scripture of the Regional Accounting Chamber in Krakow of 26 October 2006 regarding the development and implementation of the “task budgets”).<sup>278</sup> The Regional Chambers of Accounts (RIOs) – a state, external, and independent control and supervision body of local government units and other entities specified in the Act – in the scope of financial management (budget) and public procurement, are active players in controlling the level of municipalities’ debt. The chambers also carry out information and training activities in the area of budget matters.<sup>279</sup>

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275 Announcement of the Speaker of the Sejm of the Republic of Poland of 4 June 2007 regarding the publication of a uniform text of the Act – Penal Fiscal Code: <http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU20071110765>

276 For more information see: <https://www.nik.gov.pl/aktualnosci/nik-o-sciaganiu-podatkow-lokalnych.html> <https://www.nik.gov.pl/aktualnosci/nik-o-sciaganiu-podatkow-lokalnych.html>

277 For more information see: <http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU20010380454>

278 More information on task-oriented budgets: [http://budzet-zadaniowy.com/budzet\\_zadaniowy\\_w\\_samorzadach/wyswietl\\_pod/17/przyklady\\_budzetow\\_zadaniowych\\_.html](http://budzet-zadaniowy.com/budzet_zadaniowy_w_samorzadach/wyswietl_pod/17/przyklady_budzetow_zadaniowych_.html)

279 For more information see: <https://www.rio.gov.pl/>

#### 4. Political, institutional, and social perceptions and acceptance of EuroPACE

The need for a property tax change has been on the agenda since 2015, when the current government, which is particularly interested in reducing the tax gaps, won the general elections. However, no draft has been officially presented since then. Due to the nature of the property tax in Poland, it is necessary to remember that on one hand, a significant part of local governments, particularly rural, will not be able to adopt far-reaching reforms in this area – namely, in case some of cadastral tax will be enforced. As is clear from numerous field studies, it is wrong to imagine local governments are waiting *en bloc* for radical changes and demanding greater financial autonomy. On the other hand, one should remember that both the central executive and legislative authorities are not interested in this direction of changes in local government finances. This would simply limit their own budgets. Changes that, for example, would increase local government revenues collected directly from residents, are quite a political challenge. The political cost of such a reform would have to be borne by the government and the parliament, while the beneficiary would not be the central government, but the local governments and their respective budgets.<sup>280</sup>

Real estate tax is the most criticised of all fiscal burdens, as it is considered to be unadjusted to market economy standards. Attention is drawn to its injustice – the owner of a property in a rural commune is potentially burdened with the same tax as the owner of a similar property in the centre of Warsaw. As a result, the property tax-related debate is ongoing and tax experts (i.e. Brzeziński, Kopyściańska) call for the introduction of cadastral tax. At the same time, the low rate of the tax, leads to an outstanding rate of the collection (approximately 98% depending on the municipality).

#### Country summary and take-aways:

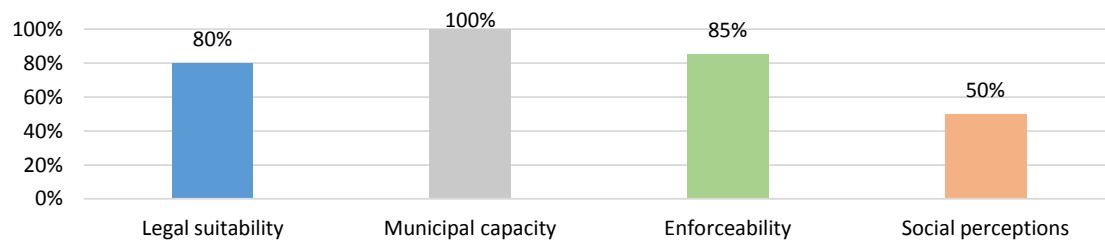
- With a EuroPACE readiness of 78.57%, Poland is a moderately good candidate for EuroPACE development.
- The Polish property tax is a stable and well-functioning property tax imposed on residential buildings.
- The Revitalization Act, where higher local taxes for the purposes including retrofits are eligible, provides a solid base for EuroPACE application. Moreover, this law confirms that on-tax financing introduction could be validated by a regular bill and would not require dramatic changes in the national law.
- Effective foreclosure procedures exist. Procedures are clear and all information is available in the property title search.
- A lien (in the form of a mortgage) on property exists and is well documented in the land registries.

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<sup>280</sup> For more information see: Lukomska J. and Swianiewicz P., *Polityka podatkowa władz lokalnych w Polsce*, Warszawa 2015.

## Portugal ■

Very adequate country for EuroPACE implementation – overall grading for suitability: 82.14%



## SWOT Analysis

Strengths	Weaknesses
<p>Growing stability of municipal finances. Even though some of the revenue comes from the central administration (<i>Orçamento de Estado</i>), municipalities have their own autonomous budgets. In this respect, they can create separate budget lines for their activities, including those related to climate and environment.</p>	<p>The collection rate of property tax for 2016 was around 88%, according to “<i>Anuário Financeiro dos Municípios Portugueses</i>”. Data for 2017 shows that collection that year was lower by 2.1%, which means that the collection rate is below levels we could assume satisfactory.</p>
Opportunities	Threats
<p>According to 2016 data from the EC, Portugal has one of the highest ratios of PPP, at 4%. Municipalities often work with the private sector. In fact, most contracts and activities developed are in partnership with the private sector.</p>	<p>When a building is empty for one year, the state benefits, as it charges triple the property-related tax, even if no one wants to live in it and the landlord is unable to rent the property. There are reports of owners purposely weakening the structure of buildings and houses by partially destroying the roof and breaking windows. The idea is to expose the building to the elements, degrading the property in such a way that, with the passage of time, it can become a danger to public health and safety. This then leads to the demolition of the building, and the land can then be sold, or a new building erected on the site. This trend is not fully controlled by the state and given the pace of changes, relevant registries might be outdated.</p>

## 1. Suitability of the legal framework for on-tax financing

To our best knowledge, the system of on-tax financing has not been tested in the country yet. The Portuguese municipal property tax, *Imposto Municipal sobre Imóveis* (IMI) is an annually paid local tax. It replaced the “municipal contribution” on 1 December 2003. This tax is assessed on the value of the property, as determined for tax purposes. The tax rates are 0.8% for rural property and range from 0.3-0.45% for urban property. Condominium charges might also apply. If a property is in a gated complex, generally there is a yearly condominium charge for the upkeep of green areas, the pool, and repairs, among others. Other taxes, charges, and bills attached to the property, other than the property tax, exist. For example, rehabilitation is subject to a municipal tax.

The Central Tax Administration (*Autoridade Tributária e Aduaneira*) is responsible for the collection of IMI across the country. The revenue they collect is then given to the municipalities. However, municipalities have the right to change the rate of the local tax within a range established by the national law without the need to change the national legislation. Local administrations can also establish new local taxes and fees without changing the national legislation.

Portugal is divided into 18 districts (*distritos*) and 2 autonomous regions (*regiões autónomas*), the Azores and Madeira. The districts and autonomous regions are further subdivided into 308 municipalities (*municípios or concelhos*) and each one determines their rates. Some differences in tax rates can be observed on an individual level concerning, for example, “properties that are part of touristic complexes; properties that are integrated in property investment funds from public subscription, in pension funds and retirement savings funds; properties exclusively allocated to the production of energy from renewable sources; or simply those that are energy efficient,”<sup>281</sup> but these are still rare. Temporary exemptions (up to three years) and, exceptionally, lifetime exemptions are only given to those with the lowest income.<sup>282</sup>

## 2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation

According to 2016 data from the EC, Portugal has one of the highest ratios of PPPs (out of a full projects spectrum) at 4%.<sup>283</sup> In fact, most municipal ideas that turn into contracts and activities are in a partnership with entities from the private sector.<sup>284</sup>

Decree Law No 206/2008 36 of 23 October 2008 establishes the relevant legal steps towards the promotion of biofuel production. This piece of legislation introduced the possibility

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281 For more information see: [https://www.rffadvogados.com/xms/files/KNOW\\_HOW/Guias/Patrimonio\\_Imobiliario/Portugal\\_-\\_Real\\_Estate\\_Tax\\_Guide.pdf](https://www.rffadvogados.com/xms/files/KNOW_HOW/Guias/Patrimonio_Imobiliario/Portugal_-_Real_Estate_Tax_Guide.pdf)

282 For more information see: <https://www.pwc.pt/en/pwcinforfisco/tax-guide/2017/imi.html>

283 For more information see: [http://ec.europa.eu/economy\\_finance/events/2016/20160302-pfn/documents/03\\_tomasi\\_presentation\\_on\\_en.pdf](http://ec.europa.eu/economy_finance/events/2016/20160302-pfn/documents/03_tomasi_presentation_on_en.pdf)

284 For more information see: [http://www.utap.pt/Publicacoes\\_interna/Portugal\\_PPP\\_Unit\\_and\\_Related\\_Institutional\\_Framework.pdf](http://www.utap.pt/Publicacoes_interna/Portugal_PPP_Unit_and_Related_Institutional_Framework.pdf)



for local authorities, and associated institutions to obtain the status of small dedicated producers, which strengthened their role in sustainable and climate-friendly planning.<sup>285</sup> Furthermore, 119 Portuguese municipalities are active in Covenant of Mayors initiatives.

There are also some tax benefits regarding EE programmes administered by local authorities. For instance, property taxes can be reduced by half if a building is exclusively used to produce energy through renewable sources, according to Article 44A of the *Estatuto dos Benefícios Fiscais*. Municipalities handle these kinds of tasks very well.

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

This tax is collected one, two, or three times per year, depending on the amount levied. The collection rate for 2016 was around 88%, according to *Anuário Financeiro dos Municípios Portugueses*. Data for 2017 shows that collection that year was lower by 2.1%, which means that the collection rate is below the level deemed satisfactory by the criteria set in this report.

Nevertheless, administrative enforcement process can be considered transparent and standardised given the existence of courts specialising in dealing with tax disputes. Except for Lisbon, where there is a first-instance court dealing with tax disputes only, the rest of the courts around the country also have jurisdiction over administrative matters. Created in 2011, tax arbitration courts, are also responsible for settling tax disputes. Penalties and interest rates apply in cases of delinquencies and seized assets, including immovable property, are sold by the tax authorities in a public auction to settle the tax debt if needed.<sup>286</sup> During the tax execution process, tax authorities are not entitled to make people leave their home. However, in case the debtor does not pay his debts until the end of the tax execution process, his house may be sold in a public auction and, therefore, the debtor is forced to leave. Moreover, in exceptional circumstances, municipalities can act as a tax authority and impose a senior lien on the indebted property. This condition is fully met. In fact, public liens are not affected by private ones, as the state has a special privilege in this matter.

The land registry (complemented by the tax registry) has a general description of the property, ownership entitlements, and liens, if any. The tax registry reflects the tax value of the property. It also assesses if a property is free of debts and liens via a certificate (*certidão de registo*) from the local land registry.

Concerning municipal finances, even though some revenue comes from the central administration (*Orçamento de Estado*), municipalities have their own autonomous budget and finances (according to Number 1 of Article 6 of *Lei das Finanças Locais*). In this respect, they can also create separate budget lines for their activities. These are controlled by the *Tribunal de Contas*, an independent body responsible for overseeing public administration finances.

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<sup>285</sup> For more information see: [http://ec.europa.eu/environment/waste/framework/pdf/factsheets%20and%20road-maps/Factsheet\\_Portugal.pdf](http://ec.europa.eu/environment/waste/framework/pdf/factsheets%20and%20road-maps/Factsheet_Portugal.pdf)

<sup>286</sup> For more information see: <https://gettingthedealthrough.com/area/59/jurisdiction/20/tax-controversy-portugal/>

#### 4. Political, institutional, and social perceptions and acceptance of EuroPACE

In Portugal, property taxes have been in force since 2003. Although the rates have changed in recent years, the changes occurred within a small range, which makes the levies a stable fiscal mechanism. The IMI has been a reality for the past 15 years, and people tend to view it as part of the price they pay for having or buying a house. The IMI has also had a lot of media coverage, as it is one of the least popular taxes in the tax system. For this reason, social reactions to these reforms and possible political consequences are usually analysed, especially when it concerns tax exemptions or reductions. Moreover, Portugal has the second highest amount of vacant homes in Europe. Although no updated data on the number of vacant or unoccupied houses in Portugal currently exists, the 2011 census showed that there were 735,128 empty houses in the country, 184,909 of which were in Lisbon. When a building is empty for one year, the state benefits, as it charges triple the IMI, which makes some owners purposely destroy the property, so that the land can be sold or a new building erected on the site without a proper state's control.<sup>287</sup>

##### Country summary and take-aways:

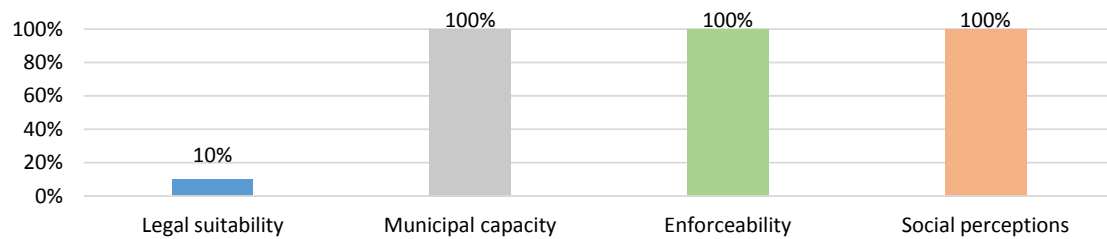
- With a EuroPACE readiness of 82.14%, Portugal is a very adequate candidate for EuroPACE development.
- Municipalities have vast experience in cooperating with private actors, also on EE-oriented projects.
- IMI is a local property tax collected across the country, although only with an average success rate of ca. 90%.
- Within enforcement procedures, the tax authorities may seize the debtor's assets, including immovable assets. If necessary, seized assets are sold by the tax authorities in a public auction and the earnings used to settle the tax debt.
- In exceptional circumstances, municipalities can act as a tax authority and impose a senior lien on the indebted property. Public liens are not affected by private ones, as the state has a special privilege in this matter.

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<sup>287</sup> For more information see: <https://www.auraree.com/portugal/residential/portugal-second-highest-amount-vacant-homes-europe/>

**Romania** ■

Very adequate country for EuroPACE implementation – overall grading for suitability: 89.29%



**SWOT Analysis**

<p><b>Strengths</b></p> <p>The legal system is clear, and the tax is collected with an impressive rate. Municipalities are autonomous, active in PPP infrastructure projects, and willing to take part in climate initiatives. Additionally, there are a high number of building owners willing to invest in their own properties.</p>	<p><b>Weakness</b></p> <p>Given the structure of the building tax, differences in tax rates on the regional level are quite significant (with urban rates much higher).</p>
<p><b>Opportunities</b></p> <p>The ambitious National Program of Building Retrofits has been launched, but due to the lack of funds, the programme has limited applicability. New financial instruments are currently very much needed.</p>	<p><b>Threats</b></p> <p>People are accustomed to grants. In 2010, new financing rules for the thermal rehabilitation of buildings built up to the year 2000 have been set up to eliminate grants and introduce state-guaranteed loans. However, local authorities still can fund various measures of thermal rehabilitation, responding in this way at the owners' associations request.</p>

**1. Suitability of the legal framework for on-tax financing**

To our best knowledge, the system of on-tax financing has not been tested in the country yet. Romanian tax on buildings<sup>288</sup> is applied for physical persons (individuals) and legal entities/owners of buildings located in Romania. This is collected by the local authority<sup>289</sup> through a special

288 For more information see: Romanian Fiscal Code, 2018, Article 455; Law no 227/2015 regarding the Fiscal Code, Title IX, Chapter 2; Government Decision no. 1/2016 for approval of Methodological Norms for the Fiscal Code.

289 For more information see: Romanian Fiscal Code, 2018, Article 494

department called the City Hall Taxation Service, directly coordinated and supervised by the local administration. This Taxation Service functions as a public service of local interest according to the Public Administration Law no. 215/2001 and Public Finance Law 273/2006. Moreover, the waste management fee is paid to the local authority directly or paid to private companies responsible for collecting waste.<sup>290</sup>

Local councils, the General Council of the Bucharest Municipality, or County Councils, as the case may be, may impose taxes for the temporary use of public places; for visiting museums, memorial houses, historical monuments, architectural, archaeological, and other objects; as well as for the possession of machines that use local public infrastructure. Taxes can also be set for activities with an impact on the environment.<sup>291</sup> Moreover, municipalities have the legal authority to change the tax rate of property-related taxes within a range established by the national law.

According to the Romanian Fiscal Code, there are different tax rates applied between regions. The taxable value of the building shall be adjusted according to the rank of the locality and the area in which the building is located by multiplying the value determined by the corresponding correction factor, which makes the differences in final rates significant. Moreover, local councils may decide to exempt or reduce the building tax not only for EE buildings, but also for people whose monthly income is lower than the country's gross minimum wage or consists solely of unemployment or social allowances, making deductions and exemptions popular across society.<sup>292</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

Municipalities are oftentimes cooperating with the private sector. This can be confirmed, for example, by the project introducing modern and efficient public lighting management in Suceava municipality, which aims to install more than 3,800 lighting units with LED technology, coordinated through a specialised tele-management system. In fact, in May 2016, a project agreement on a "Sustainable Energy Action Fund" was signed to further enhance sustainable energy management at the municipal level in Romania, by improving municipal infrastructure and raising awareness about EE and renewable energy, in order to increase living standards, promote economic development, and provide a response to climate change. This also includes an international level, as 85 Romanian municipalities are already present in the Covenant of Mayors.

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290 For more information see: Law no. 101/2006 concerning local waste disposal service.

291 For more information see: Fiscal Code, 2018, Article 486.

292 For more information see: Law no. 158/2011, Article 27.

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

According to the Annual Report on Budget Execution for 2017 published by Public Finance Minister of Romania, the tax collection rate is 98.7%. This type of tax is due annually and can be paid in two equal instalments until 31 March and 30 September.

The high rate of tax collection is due to there being strong enforcement procedures in place. For the non-payment of local taxes at the due date, local authorities apply penalties of 1% of the amount of the principal non-paid fiscal obligations, calculated for each month or fraction of the month, starting with the day immediately following the maturity date and until the date of payment, in accordance with Article 183 Paragraph 2 of the Fiscal Procedure Code. Concerning the procedure applied to the recovery of tax debts, local tax authorities publish on their sites a list of tax debtors (in accordance with the Fiscal Procedure Code, Article 162) as well as a list of those with senior liens imposed on their property or bank accounts and a list of those with auctions for selling properties.<sup>293</sup> Thus, tax debtors are forced to pay the tax debt and the local authority assures transparency concerning the tax enforcement procedure, if needed, by imposing a lien.

The evidence of properties is done by the National Agency of Cadastre and Real Estate Publicity (at the national level) and their subordinates Offices of Cadastre at the local level. At the local level, to levy local taxes, each local authority has its own data base with all the properties and owners who are due to pay property taxes. This data base is updated continuously because any new proprietor is forced by law to declare the new property. The National Agency of Cadastre and Real Estate Publicity provide access online to their data base.<sup>294</sup> It includes information on the surface of the building and its description, the ownership, and any existing tasks on the building.

Municipalities are also financially autonomous and can freely decide about separate budget lines, but of course rules apply. The external body responsible for the audit and control of a local municipality is the Romanian Court of Accounts (*Curtea de Conturi*).<sup>295</sup> The administrative-territorial units are forbidden to guarantee any kind of loan, if the total annual debt representing the maturity of the contracted and/or guaranteed loans, the interest, and commissions thereof, including the loan to be contracted and/guaranteed in that year, exceeds the limit of 30% of the total income (own income, consisting of: taxes, fees, contributions, other payments, other income, and quotas deducted from the income tax).<sup>296</sup>

### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Tax on buildings is not a new concept – it was introduced in Romania in 1994 through the law concerning local taxes no. 27/1994. Even if legislation concerning taxation in Romania is not very stable, in the case of property taxes, there is more stability. The most important changes

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293 For more information see: <https://www.primariadeva.ro/publicatii-de-vanzare/publicatii-de-vanzare-2017>

294 For more information see: <http://epay.ancpi.ro/epay/SelectProd.action?prodId=1420>

295 For more information see: <http://www.curteadeconturi.ro/DefaultEN.aspx>

296 For more information see: Local Public Finance Law, no. 273/2006, Article 63 (4)

refer to tax rates, which were increased (but not significantly, because of the fear of losing votes in local elections), and to some exemptions or deductions. Public consultations related to the topic are currently (September 2018) appreciated by the public – see for example the public debate concerning the draft of the establishment of local taxes for 2019 in the municipality of Campina.<sup>297</sup>

### **Country summary and take-aways:**

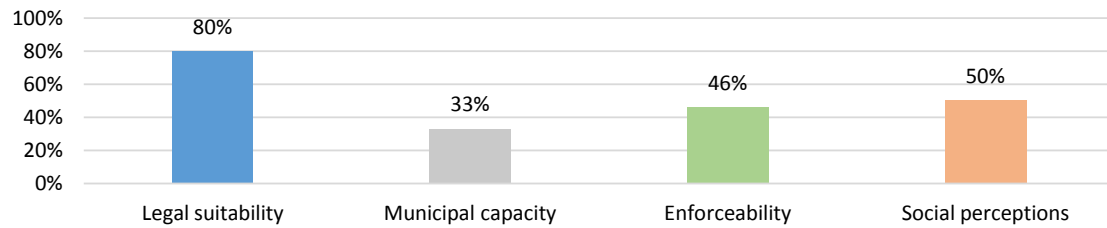
- With a EuroPACE readiness of 89.29%, Romania is a very adequate candidate for EuroPACE development.
- There are a high number of owners of buildings willing to invest in their own properties. According to Eurostat data for 2016, 96% of Romanians are owners of their respective households.
- The Romanian tax on buildings is a stable and well-functioning property tax imposed on residential buildings.
- Effective foreclosure procedures exist. Procedures are clear, and all information is available in the property title search.
- A lien on a property exists and is well documented in the land registries.

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<sup>297</sup> For more information see: <http://www.primariacampina.ro/anunturi/item/1526-dezbatere-publica-proiect-impozite-si-taxe-locale-2018>

**Slovakia** 

Less adequate country for EuroPACE implementation – overall grading for suitability: 57.14%



**SWOT Analysis**

Strengths	Weaknesses
Property-related tax is well-structured and collected at the local level on an annual basis.	Cooperation between the private and public sector, particularly at the municipal level, is still in its infancy, as a significant percentage of municipalities can be categorised as very small. They are also rarely interested in EE initiatives.
Opportunities	Threats
Small municipalities have found a way to actively take part in national initiatives by acting together in larger groups. One such example is CITENERGO Association, created following an initiative of the Union of Towns and Cities of Slovakia (the UTCS) and Energy Centre Bratislava in the framework of the pan-European Better Integration through Specific Exchanges for Sustainable Energy Process. This association could support small municipalities in EuroPACE application.	Weak tax enforceability, both when it comes to foreclosures and senior municipal liens.

**1. Suitability of the legal framework for on-tax financing**

To our best knowledge, the system of on-tax financing has not been tested in the country yet. There are three kinds of real estate tax (*dani z nehnuteľností*): (1) land tax, (2) building tax, and (3) apartment tax. Land tax is generally levied at 0.25% of the land value, as assessed by the municipality. Rates vary depending on the type of land and its location. The general tax rate on

buildings is EUR 0.033 for every square metre occupied by the finished building. The general tax rate on apartments is EUR 0.033 for every square metre of the flat's floor area. The amount of tax is determined by each municipality individually, and in the case of Kosice and Bratislava, by the respective city districts.<sup>298</sup> All property-related taxes are collected by the municipalities in which the property is located. Even though differences in tax rates at the regional level are marginal, there are significant individual exemptions. In 2017, discounts for elderly people and the hard-to-be disabled have been extended – citizens are entitled to a 60% discount from the age of 60 (previously 50% discount for people over 70), which is a significant difference.<sup>299</sup>

Article 39 (6) of Act 223 (2001) on localities points out that municipalities are allowed to introduce a charge for the collection, transport, and disposal of municipal waste, and that this fee “shall be exclusively used to cover the costs related to handling of municipal waste and minor construction waste, in particular the collection, recovery and disposal.” Moreover, there is a Local Development Fee (“Development Fee”) which is a “one-time fee applied to new developments. The Development Fee can be introduced by a municipality in its territory, an individual part thereof or an individual cadastral area, by a generally binding regulation. The Development Fee rate ranks from EUR 3 to EUR 35 per each m<sup>2</sup>, or a part thereof, of the floor area of the -ground part of the building. The Development Fee is an income of the municipality budget.”<sup>300</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

PPPs are not fully functioning yet, although some positive steps in flexible adoption of law changes have been identified.<sup>301</sup>

The situation related to EE strategies is equally weak. There are 2,751 municipalities (*obec*), 140 cities (*mesto*), and 39 city districts (*mestská časť*) in Slovakia.<sup>302</sup> Only 13 municipalities take part in Covenant of Mayors activities, which is one of the worst participation rates across the EU. This the low rate of participation can be explained by insufficient capacities within the municipalities, which, most of the time, are small entities consisting of one to two people who are responsible for the whole administration. Even though, given its size, a majority of municipalities do not have capacities to administer projects involving specific knowledge (like EE audits), municipalities have found a way to actively take part in national initiatives by acting together in larger groups. One of the most promising examples of this type of cooperation, CITENERGO Association, was created following an initiative of the Union of Towns and Cities of Slovakia (the UTCS) and the Energy Centre Bratislava in the framework of pan European BISE Process (Better Integration through Specific Exchanges / for Sustainable Energy). Thus far, the cooperation can

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298 For more information see: [https://www.slovensko.sk/sk/zivotne-situacie/zivotna-situacia/\\_dan-z-nehnutelnosti-1](https://www.slovensko.sk/sk/zivotne-situacie/zivotna-situacia/_dan-z-nehnutelnosti-1)

299 <https://www.bratislava.sk/sk/dan-z-nehnutelnosti>

300 For more information see: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Legal/dttl-legal-deloitte-legal-handbook-for-real-estate-transactions.pdf>

301 For more information see: <https://www.interreg-central.eu/Content.Node/T1.1.4-.pdf>

302 For more information see: <http://www.ccre.org/pays/view/6>



be assessed as successful.<sup>303</sup> Another initiative of a similar importance worth mentioning is: A Municipal Instrument to Finance Sustainable Energy Investments in the Slovak Republic, which is more of a technical assistance initiative.<sup>304</sup>

### 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

All property-related taxes are collected on an annual basis throughout the country, and in some municipalities (for example, in Pezinok), the entire process is digitalised.<sup>305</sup> This is because municipalities do their best to make the whole process as convenient as possible. As some researchers point out: “the property tax remains an important source of revenue for local governments in large part because it has always played that role. The historical dominance of the tax was attributable to the fact that there were no alternatives to financing local government. 2004 fiscal decentralisation brought further opportunities for municipalities to collect own sources and thus to increase own independence from state government.”<sup>306</sup>

Convenience for customers is perhaps the biggest trigger for an effective collection mechanism as enforceability in cases of non-payment is rather weak. Foreclosures for property tax-related delinquencies are non-existent. The mechanism for a lien on property for municipalities is included under Article 81 of No. 563/2009 Act. However, it does not have to be senior to commercial mortgages as the order of imposition is decisive for the settlement of liens.

The land register portal (*Slovenský katastrálny portál*) was launched in 2004 and, since 2007, information provided by the portal is free of charge and available in Slovak and English. It provides “various information relevant to the building, including all rights of lien (the designation of the lien creditor) and first option, if these are to have the effects of real rights (identification of beneficiaries of first option rights).”<sup>307</sup>

Chapter four of the Constitution (Articles 64-71) stipulates the financial autonomy of municipalities. “A municipality and superior territorial unit finance their needs primarily from their own revenues, as well as from state subsidies.” Moreover, “the law stipulates which taxes and fees constitute the revenues of municipalities and which taxes and fees constitute the revenues of the superior territorial unit.”<sup>308</sup> “In performing delegated responsibilities, local governments are bounded by specific guidelines centrally imposed and, even if the actual financial disbursement is done through the local budgets, they are financed through earmarked resources transferred to the local government by the relevant central government ministry.”<sup>309</sup> Municipal finances are

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303 For more information see: [http://www.unia-miest.sk/EN/vismo/dokumenty2.asp?id\\_org=600188&id=1047](http://www.unia-miest.sk/EN/vismo/dokumenty2.asp?id_org=600188&id=1047)

304 For more information see: <http://www.munseff.eu/en/>

305 The municipality's e-portal is available here: <https://esluzby.pezinok.sk/informovanie-dani-z-nehnutelnosti-2.html>

306 For more information see: [https://www.researchgate.net/publication/276459154\\_Significance\\_of\\_Local\\_Taxes\\_in\\_Income\\_Structure\\_of\\_Slovak\\_Municipalities](https://www.researchgate.net/publication/276459154_Significance_of_Local_Taxes_in_Income_Structure_of_Slovak_Municipalities)

307 For more information on the portal see: <https://www.katasterportal.sk/kapor/informacie.do> or [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-sk-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-sk-en.do?member=1)

308 For more information see: <https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Slovakia/Pages/default.aspx>

309 For more information see: <https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Slovakia/Pages/Slovakia-Fiscal-Powers.aspx>

also controlled on a regular basis by a chief inspector. This officer, elected by the council, deals with the management of properties owned by the municipality and takes care of the budget. Finally, municipalities can be audited by an independent representative of the Slovak Board of Auditors.<sup>310</sup>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Although social perceptions of property-related taxes (due to its low rates) are positive, the government is considering changing its structure to better align it with the market value of each property. Many believe that a change like this would face strong opposition.<sup>311</sup> While these changes could be enforced at any moment, for the time being, the tax usually amounts to less than EUR 25 per year and rarely exceeds EUR 100. It is widely known that this tax is one of the lowest across the EU. As a result, citizens do not consider it as burdensome and pay their respective rates without hesitation.

#### **Country summary and take-aways:**

- With a EuroPACE readiness of 57.14%, Slovakia is a less adequate candidate for EuroPACE development.
- There are three kinds of real estate tax: (1) land tax, (2) building tax, and (3) apartment tax; the government is currently considering changing the structure of this tax.
- Small municipalities have found a way to actively take part in national initiatives by acting together in larger groups. One such example is the CITENERGO Association, created in the framework of the pan-European BISE Process (Better Integration through Specific Exchanges / for Sustainable Energy).
- Although a foreclosure mechanism can be considered in cases of mortgage defaults, it is never used by municipalities in cases real estate tax delinquencies. Other enforceability measures like penalties and interest rates are used instead.
- The municipal lien exists but does not necessarily have to be senior to commercial mortgages, as the order of imposition is decisive for the settlement of liens.

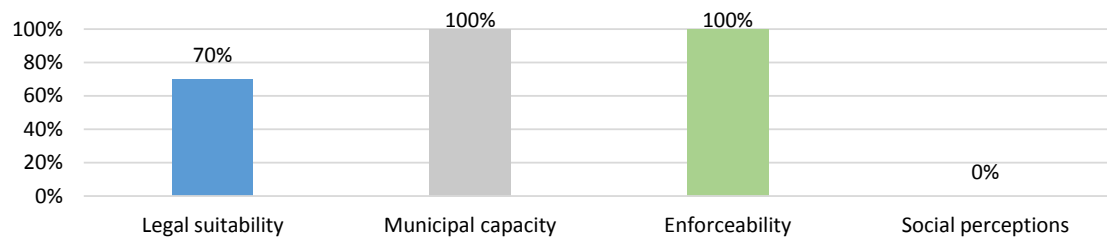
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<sup>310</sup> For more information see: <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN013811.pdf>

<sup>311</sup> For more information see: <https://spectator.sme.sk/c/20473110/real-estate-taxes-going-up-in-much-of-slovakia.html>

**Slovenia** ■

Very adequate country for EuroPACE implementation – overall grading for suitability: 82.14%



**SWOT Analysis**

Strengths	Weaknesses
Municipalities are actively participating in EE-related debates. Almost all have some experience in PPPs. Local communities adopt the Local Energy Concept (LEK) as an energy management programme. It incorporates the ways in which local communities can tailor solutions for efficient, economical, and environmentally friendly energy services in all buildings.	Various exceptions at the individual property level: temporary exemption for 10 years to taxpayers who own a newly constructed building or renovated buildings, if the value of these buildings has increased as a result of renovation by more than 50%. For a taxpayer with more than three family members who live in the owner’s house, the tax decreases by 10% for the fourth and every additional family member.
Opportunities	Threats
The existence of various local energy agencies that could be consulted or responsible for technical assistance, administration, audits, and more for EuroPACE development. In 2007, a consortium of local energy agencies of Slovenia (LEAS Consortium) was established to strengthen cooperation between local energy agencies and implementation of common goals in the local environment).	Real property tax enforced as of 1 January 2014 replaced the existing real estate tax by abolishing all previous legislation. However, the Real Estate Act was annulled by the Slovene Constitutional Court in March 2014 for not being in accordance with the Constitution and, as a result, legislative arrangement of the taxation of real estate is enforced the previous legislation is still in use. As of 1 January 2018, the Slovenian property tax system consists of two types of duties on the possession of real property. Changes in the tax are, therefore, foreseen again; thus, it is difficult to classify this as a stable scheme.

## 1. Suitability of the legal framework for on-tax financing

To our best knowledge, the system of on-tax financing has not been tested in the country yet. As of 1 January 2018, the Slovenian property tax system consists of two types of duties on the possession of real property: property tax levied on premises such as buildings, apartments, garages, and secondary homes. The tax rate for premises depends of the type of property and its value. The tax rate for dwellings varies from 0.10-1% of the value. The tax rates on premises used for rest and recreation are in the range of 0.20-1.50%.<sup>312</sup> All taxes and custom duties are collected by the Financial Administration of the Republic of Slovenia.<sup>313</sup> The public service of waste disposal is carried out by companies on the basis of authorisations granted by local communities.<sup>314</sup> A sewage fee is also charged on the basis of the water supplied.<sup>315</sup>

Municipalities regulate, in their legal framework, the independent rates of compensation for the use of building land, municipal fees, self-contributions, fines for violations of municipal regulations, concession fees, and the price of services of compulsory local public utility services.<sup>316</sup> However, no real differences at the regional level can be found. The situation is more complicated with regards to exemptions at the individual property level. There is a temporary exemption for 10 years to taxpayers who own a newly constructed building or repaired or renovated buildings, if the value of these buildings has increased as a result of renovation by more than 50%. For a taxpayer with more than three family members who live in the owner's house, the tax decreases by 10% for the fourth and every additional family member.<sup>317</sup>

## 2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation

Cooperation between local authorities and the private sector is well established. Some impressive information could be found in 2009 report in this regard, which confirms that PPPs are already mature. To date, 55 municipalities (or 26.1%) have concluded PPP agreements. On average, the Slovenian municipality has 2.18 concluded contracts, but if we exclude from analysis municipalities that do not have such forms of cooperation, average would be 2.95.<sup>318</sup>

The Energy Advisory Network for Households (ENSVET) is part of a series of measures that were introduced as part of the National Energy Efficiency Action Plan 2014-2020. The main

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312 For more information see: [http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/Davki\\_in\\_carine/Angle%C5%A1ki/Taxation\\_in\\_Slovenia\\_2018.pdf](http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/Davki_in_carine/Angle%C5%A1ki/Taxation_in_Slovenia_2018.pdf)

313 For more information see: [http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/Davki\\_in\\_carine/Angle%C5%A1ki/Taxation\\_in\\_Slovenia\\_2018.pdf](http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/Davki_in_carine/Angle%C5%A1ki/Taxation_in_Slovenia_2018.pdf)

314 For more information see: <http://www.arso.gov.si/varstvo%20okolja/odpadki/>

315 For more information see: <https://www.investslovenia.org/business-environment/infrastructure-utilities/utilities/>

316 Ministry of Public Administration: [http://www.mju.gov.si/si/lokalna\\_samouprava/o\\_lokalni\\_samoupravi/financiranje\\_obcin/nacela\\_financiranja\\_lokalne\\_samouprave/](http://www.mju.gov.si/si/lokalna_samouprava/o_lokalni_samoupravi/financiranje_obcin/nacela_financiranja_lokalne_samouprave/)

317 For more information see: [http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/Davki\\_in\\_carine/Angle%C5%A1ki/Taxation\\_in\\_Slovenia\\_2018.pdf](http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/Davki_in_carine/Angle%C5%A1ki/Taxation_in_Slovenia_2018.pdf)

318 For more information see: [http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/javno\\_zas\\_partnerstvo/20110314\\_1.pdf](http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/javno_zas_partnerstvo/20110314_1.pdf)

goal is to increase interest and private investment in RES and the rational use of energy (RUE) through a network of regional advisory offices, where municipalities are active actors, as they also are in the Covenant of Mayors activities. Local communities adopt the Local Energy Concept (LEK) as an energy management programme, with the prior consent of the minister responsible for energy to work on solutions for efficient, economical, and environmentally friendly energy services in homes, businesses, and public institutions.<sup>319</sup>

### **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

Both property-related taxes are collected regularly, and enforceability can be considered satisfactory, as penalties and interest rates are imposed in cases of non-payment.<sup>320</sup> According to the mortgage bonds and municipal bond act, mortgage bonds and municipal bonds are bonds issued under the terms and conditions of this Act and backed by covered assets. The holders of such bonds enjoy a senior position on repayment from such assets. A mortgage loan agreement is to be concluded in writing, and any claims will be secured by a lien on a single or several pieces of real property. When a building is erected on the property, insurance will be taken out for the building with an insurance company for the duration of the agreement, and will cover the usual risks arising in respect of the site and the type of the building which is the subject of insurance for a sum insured that equals at least the replacement value of this building; the insurance policy shall be pledged to the lender. If a mortgage loan is secured by land charge, the issuer will be a lawful holder of a certificate of land charge. The Slovenian Land Register contains the legal facts relating to properties, such as owners, mortgages, and easements. A Land Cadastre is also available, which focuses on the factual circumstances of properties.<sup>321</sup>

Local authorities are in possession of autonomous budgets. The supervisory committee of the local authority and the Court of Audit are responsible for its control. The state focuses mostly on controlling spendings from the funds allocated from the central budget.<sup>322</sup>

### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Real Property Tax enforced with 1 January 2014 replaced all existing taxation of real estate in Slovenia. However, the Real Estate Act was annulled by Slovene Constitutional Court in March 2014 for not being in accordance with the constitution; and as a result, the proper legislative arrangement of the taxation of real estate is enforced the previous legislation is still in use (although being abolished by the annulled Real Property Tax Act).

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319 For more information see: <http://www.energetika-portal.si/podrocja/energetika/lokalni-energetski-koncept/>

320 For more information see: <https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina?urlurid=20133676>

321 For more information see: [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-si-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-si-en.do?member=1)

322 For more information see: <https://rm.coe.int/1680747fb1>

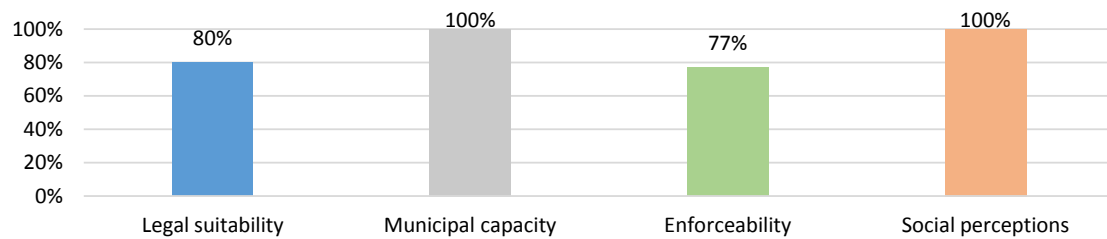
As of 1 January 2018, the Slovenian property tax system consists of two types of duties on the possession of real property, what can make it complicated to follow for citizens. Changes in the tax are again foreseen; thus, it is difficult to classify it as a stable scheme.

**Country summary and take-aways:**

- With a EuroPACE readiness of 82.14%, Slovenia is a very adequate candidate for EuroPACE development.
- As of 1 January 2018, the Slovenian property tax system consists of two types of duties on possession of real property: property tax levied on premises such as buildings and parts of buildings, including apartments, garages and secondary homes, and charges for the use of building land levied on vacant and constructed building land possessed by legal persons and individuals.
- Local communities adopt the Local Energy Concept (LEK) as an energy management programme. It provides the ways in which local communities can tailor solutions for efficient, economical, and environmentally friendly energy services in homes, businesses, and public institutions, which could also be of use for EuroPACE.
- According to the mortgage bonds and municipal bond act, mortgage bonds and municipal bonds are bonds issued under the terms and conditions of this Act and backed by covered assets. The holders of such bonds enjoy a senior position on repayment from such assets.

**Spain** ■

Very adequate country for EuroPACE implementation – overall grading for suitability: 82.14%



**SWOT Analysis**

Strengths	Weaknesses
Tax collection is extremely high with a very low payment default thanks to enforcement procedures. Ongoing pilot project to launch a first residential on-tax financing scheme in the city of Olot.	Complicated senior lien imposition. Significant differences in tax rates at the individual property level.
Opportunities	Threats
1,817 municipalities are part of the Covenant of Mayors initiative and have issued local action plans to foster EE, which proves their involvement in climate actions.	Various differences at the individual property level exist across the country.

**1. Suitability of the legal framework for on-tax financing**

Currently, there is an effort to launch a first residential on-tax financing pilot project in the city of Olot, Catalonia. It is expected to go live in early 2019.

There are several property-related taxes, such as the property tax (IBI – *Impuesto sobre Bienes Inmuebles*) that would be, from a technical and administrative point of view, suitable to carry on-tax financing. The IBI is regulated by the Royal Decree 1/2004<sup>323</sup> on housing stock (*Ley del Catastro Inmobiliario*). However, from a legal standpoint, there should be a bill amendment specifically addressing the possibility to use one of these property-related taxes as a carrier of a financing

323 For more information see: <https://www.boe.es/buscar/doc.php?id=BOE-A-2004-4163>

that will be handled by a third party (i.e. an investor) and not used for public budget purposes, which is the very purpose and spirit of any tax. Local authorities are responsible for collection of the tax and they can, at their discretion, either collect directly or through a subcontracted third party. For those small villages or towns that cannot afford to have a tax office, they rely on bigger municipalities or on a regional authority. Additionally, all private buildings in Spain have to pay local charges/bills such as sewage, garbage collection, or water treatment, among others. There is a national legislation (*Ley Reguladora de las Haciendas Locales*)<sup>324</sup> that regulates how local tax authorities can apply charges/bills.

Local authorities can also implement new taxes, but not at their full discretion. While local administrations have the authority to change the rate of a tax, it has to be within the boundaries of the corresponding Law (regional or national).

Difference in rates across regions do not really exist. The only difference is the body doing the collection. For small villages, which have very limited resources and cannot afford a fully operational tax collection system, the collection might be done by either a bigger municipality in the same area or by the regional government (*Diputación*), the activity of which is regulated by the *Ley 7/85 Reguladora de las Bases de Régimen Local* (LRBRL).<sup>325</sup> Nevertheless, differences at the individual property level are common. Sometimes, even though the law establishes criteria and procedures to establish the value of the asset and how to calculate the tax, there are conflictive/incoherent situations that make it difficult for the local authorities to have a specific criterion.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

There are a number of successful experiences on cooperation between public and private actors. To name a few, ESCo projects and other PPPs in this respect have been implemented across the country for a variety of projects. 1,817 municipalities are part of the Covenant of Mayors initiative and have issued local action plans to foster EE based on the national plan for EE promoted by idea,<sup>326</sup> the National Agency for Energy Savings. A number of municipalities have successfully launched EE programmes in the form of grants, subsidies, tax deductions, and technical assistance. There has also been a positive experience in deploying ELENA projects for EE programmes. Furthermore, most of the regions have regional energy agencies promoting EE programmes and channelling grants, subsidies, and financing.

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324 For more information see: <https://www.boe.es/buscar/act.php?id=BOE-A-2004-4214>

325 For more information see: <https://www.boe.es/buscar/doc.php?id=BOE-A-1985-5392>

326 For more information see: <http://www.idae.es/tecnologias/eficiencia-energetica/plan-nacional-de-accion-de-eficiencia-energetica-2017-2020>



### 3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies

Tax collection is regular, high, and with a very low payment default thanks to enforcement procedures. The law of local tax authorities (*Haciendas Locales*) regulates the penalties and charges to be applied as well as the procedures to undergo. There are publicly available information and documents as well as public records on transactions and incidences as per the Law 19/2013,<sup>327</sup> of 9 December, on Transparency, Access to Public Information, and Good Governance. Foreclosure procedures are also available. Both specific law and administrative procedures are defined in the recently updated Law 5/2018<sup>328</sup> from 11 June 2018 to enforce foreclosure. The situation with lien seniority is a bit more complicated, even though in theory these are available. Local authorities can impose a senior lien on a property through the Property Register, but it is a truly complex process. Even though the administrative process is available and regulated by the law for mortgages (*Ley Hipotecaria*),<sup>329</sup> it proves not to be smooth and there are legal contests on its application.

Moreover, the National Property Register<sup>330</sup> is a very well established and reliable institution that compiles a broad array of information concerning all the buildings in the country with all the records public.

When it comes to municipal finances, these are fully autonomous but constrained by a national bill regulating how local authorities can manage their municipal budget, setting strict compliance rules. Also, earmarked budgets are available. Budgeting is an extremely important process and it is reviewed on a yearly basis. Budget allocation and funds are specifically earmarked and assigned to specific projects and cannot be used for other actions once the budget has been approved by the corresponding procedures. There is a national and independent entity called the National Court of Auditors (*Tribunal de Cuentas*).<sup>331</sup> The Spanish Constitution of 1978 conferred on the Court of Auditors the audit of the public sector and the prosecution of accounting liability.

### 4. Political, institutional, and social perceptions and acceptance of EuroPACE

The tax is the main revenue source of municipalities and, therefore, there is a strong institutional will to maintain and protect the property-related taxes system. Over the recent years, there has been a political debate and legislation attempts to use property taxes as an incentive to avoid empty households and therefore give families in need access to them. Likewise, there is a political debate on how to use property taxes to cope with the challenge posed by the “Gentrification” phenomenon happening mainly in touristic cities.

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327 For more information see: [https://www.boe.es/diario\\_boe/txt.php?id=BOE-A-2013-12887](https://www.boe.es/diario_boe/txt.php?id=BOE-A-2013-12887)

328 For more information see: <https://www.boe.es/boe/dias/2018/06/12/pdfs/BOE-A-2018-7833.pdf>

329 For more information see: <https://www.boe.es/buscar/doc.php?id=BOE-A-1946-2453>

330 For more information see: <http://www.mjusticia.gob.es/cs/Satellite/Portal/es/areas-tematicas/registros/registro-propiedad>

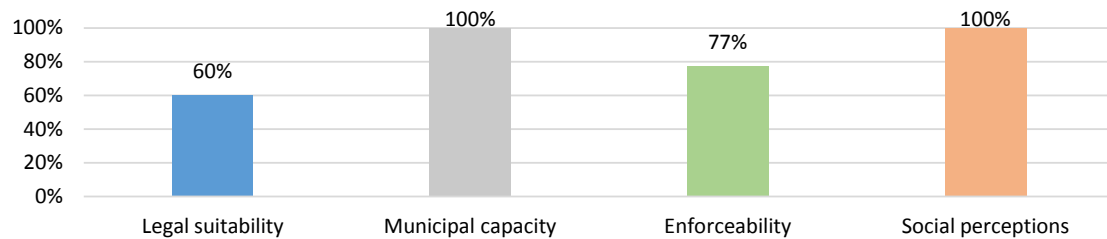
331 For more information see: <https://www.tcu.es/tribunal-de-cuentas/en/>

**Country summary and take-aways:**

- With a EuroPACE readiness of 82.14%, Spain is a very adequate candidate for EuroPACE development and that is one of the reasons the pilot project is taking place there (Olot, Catalonia).
- There are several property-related taxes such as the property tax (IBI – *Impuesto sobre Bienes Inmuebles*) that would be, from a technical and administrative point of view, suitable to carry on-tax financing.
- Municipalities are well-prepared for cooperation on technical projects with private partners, as well as those fostering EE locally.
- Enforcement procedures are transparent and foreclosures in cases of tax delinquencies can be considered effective.
- Lien seniority is questionable as it exists only in theory.

**Sweden** ■

**Moderately adequate country for EuroPACE implementation – overall grading for suitability: 75%**



**SWOT Analysis**

<p><b>Strengths</b></p> <p>Several BID-inspired long-term development partnerships are in place, like the development process taking place in Gamlestaden and Gothenburg, driven by an association of 45 local property owners, which has been in operation since 2001.</p>	<p><b>Weakness</b></p> <p>Centralisation of local taxes (collection mechanism, imposing new local charges, and decisions on tax rates).</p>
<p><b>Opportunities</b></p> <p>Municipalities are active in EE-related fields and have experience in managing technical initiatives in this respect.</p>	<p><b>Threats</b></p> <p>Municipalities are responsible for the provision of the majority of public services, such as education, healthcare, public transport, infrastructure, sport and culture facilities, and services, among others. As a result, not all of them may be willing to extend the list of duties (if EuroPACE is introduced).</p>

**1. Suitability of the legal framework for on-tax financing**

There are several BID-inspired long-term development partnerships in place, for example in: Gamlestaden, Gothenburg Centrala Hisingen in Gothenburg, Järva in Stockholm, Sofielund in Malmö, in the town of Landskrona, as well as in city centres and rural areas in various places across the country.<sup>332</sup> These partnerships are always driven by an associations of the local property owners with the municipality and the local businesses.<sup>333</sup>

<sup>332</sup> For more information on BIDs in Sweden see: <http://www.bidsinsweden.se/bid/#.W5fIEvZx2Uk>

<sup>333</sup> For more information see: <http://www.lantm.lth.se/fileadmin/fastighetsvetenskap/utbildning/Examensarbete/>

Concerning real estate with homes that have been completed, the owner must pay municipal property fee (*kommunal fastighetsavgift*).<sup>334</sup> The municipal property fee is equal to 0.75% (houses) or 0.3% (apartments) of the value of the property. Tax amount ceilings apply. Every property is categorised and given a code specifying the type of property. Property taxes, including the municipal property fee, are collected by the centralised tax office (*Skatteverket*). The municipal property fee is paid once a year, when the taxpayer submits the PIT declaration.<sup>335</sup> Households are additionally charged for the waste collection.<sup>336</sup> Water supply and sewage disposal are the responsibility of municipal authorities, and these services are subsidised by the state.<sup>337</sup>

The local or regional administration has no right to establish new local taxes and fees. Local taxes, including the rates, are specified in the national law, which can only be introduced or amended by the parliament. Hence, the system is uniform throughout the entire country.

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities' experience and policy objectives concerning EE and/or climate mitigation**

There are a number of examples of cooperation between the public and private sector in Sweden. A notable example on the national level is the Arlanda Airport Rail Link.<sup>338</sup> Most projects on the municipality level are related to the construction of sport and cultural facilities.

Concerning EE-oriented actions, a National Renewable Energy Action Plan (NREAP) exists. The NREAP also focuses also on municipal targets. Moreover, we can identify energy efficiency advisors in most municipalities and a significant number (56/290) of municipalities participate in Covenant of Mayors initiatives. During 2006-2010, Sweden had a programme of grants for residential heating conversion. Owners of residential properties and related premises could receive a grant covering up to 30% of the cost of materials and labour up to a maximum per household for conversion from direct electric heating to systems using district heating, biofuels, or a geothermal/ground/lake heat pump. It has been successfully administered by the municipalities.<sup>339</sup>

## **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

The tax is a stable scheme as administrative sanctions for delinquencies include tax surcharges and delay fines. Tax surcharges are also imposed if the taxpayer has supplied incorrect information or failed to file a tax return.<sup>340</sup> Real estate taxes are automatically added by the tax office to

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334 <https://www.skatteverket.se/privat/fastigheterochbostad/fastighetsavgiftochfastighetsskatt.4.69ef368911e1304a625800013531.html>

335 This information was obtained via phone conversation with an employee of the Swedish Tax Office.

336 For more information see: <http://www.expatsfocus.com/expatriate-sweden-utilities>

337 For more information see: <http://www.expatsfocus.com/expatriate-sweden-utilities>

338 For more information see: <http://www.cati.org.pl/download/PPP/SWIAT/WPROWADZONE/PPP%20ARLANDA.pdf>

339 For more information see: <https://www.sciencedirect.com/science/article/pii/S0360544217304140>

340 This information was obtained via phone conversation with an employee of the Swedish Tax Office.

the yearly income tax statement and mailed to the taxpayer via traditional post or the dedicated official state-run electronic mailing system. If the payment of the tax is delayed, reminders are sent and delay fines are imposed.<sup>341</sup> While foreclosures can be considered effective, no such thing as a senior lien exists. This is because taxes and fees have no special standing – there is no administrative lien which would be senior to a mortgage.<sup>342</sup>

Land register is part of the Real Property Register – “a multi-purpose national register providing information on: real property and joint property units; administrative divisions; location addresses; geometric area of the property/cadastral maps, ownership, mortgages and mortgage deeds, easements and usufructs, plans and land use regulations, ancient monuments, and parcelling measures or the like, site leasehold rights, history; buildings; property taxation information which is managed by the Swedish mapping, cadastral and land registration authority (*Lantmäteriet*)”.<sup>343</sup> Recently, Sweden’s land registry authority and a group of participating banks, businesses, and start-ups have confirmed on of the final phases of an ongoing blockchain pilot which might significantly expand current functionalities.<sup>344</sup>

Municipalities in Sweden are responsible for the provision of the majority of public services, such as education, healthcare, public transport, infrastructure, sport and culture facilities, and services among others. These services are financed mainly from taxes and, to a lesser extent, from state grants. Local authorities receive revenue not only from property taxes but also from income taxes, which are the primary source of revenue. Importantly, local governments can set local PIT rates, which is probably the reason why they do not need to do it in cases of municipal property fee. The municipality decides how to spend its income, and only afterwards shares the budget with the auditing bodies. The auditing bodies are: the Council for Municipal Accounting (*Rådet för Kommunal Redovisning – RKR*)<sup>345</sup> and the Council for the Promotion of Municipal Analysis (*Rådet för främjande av kommunala analyser – RKA*).<sup>346</sup>

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Property taxes have been in their current form, with some minor changes, since at least 2008. In a document published by the Swedish MF in February 2008,<sup>347</sup> in which two alternative taxation schemes were proposed, the MF states that the 2008 reform of property taxes is the answer to the criticism of property taxation prior to the reform.

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341 This information was obtained via phone conversation with an employee of the Swedish Tax Office.

342 For more information see Enforcement Code (SFS 1981:774) and the Rights of Priority Act (SFS 1970:979).

343 For more information see [https://e-justice.europa.eu/content\\_land\\_registers\\_in\\_member\\_states-109-se-en.do?member=1](https://e-justice.europa.eu/content_land_registers_in_member_states-109-se-en.do?member=1)

344 For more information see: <https://www.coindesk.com/sweden-demos-live-land-registry-transaction-on-a-blockchain/>

345 For more information see: <http://www.rkr.se/>

346 For more information see: <http://www.rka.nu/>

347 For more information see: <https://www.regeringskansliet.se/contentassets/454277775b984fb880e6e121ea36edf2/en-begransad-fastighetsavgift-for-pensionarer-m.m>

The law on *kommunal fastighetsavgift* was later slightly amended in 2009.<sup>348</sup> Furthermore, in 2012 the Swedish government investigated methods of simplifying the collection.<sup>349</sup> The government proposed to replace the tax based on the value of the property with a tax based on the tax per square metre of living space and empty space. However, this proposal was heavily criticised, and in the end not introduced.<sup>350</sup>

### Country summary and take-aways:

- With a EuroPACE readiness of 75%, Sweden is a moderately adequate candidate for EuroPACE development.
- The biggest concern is related to the centralisation of the property tax administration and collection.
- A municipal property fee (*kommunal fastighetsavgift*) exists and is collected by the central tax office (*Skatteverket*).
- In line with the Enforcement Code (SFS 1981:774), a foreclosure mechanism for tax delinquencies exists and can be assessed as transparent.
- According to the Enforcement Code (SFS 1981:774) and the Rights of Priority Act (SFS 1970:979), taxes and fees have no special standing in the order of pledges – there is no “administrative lien” which would be senior to a commercial mortgage.

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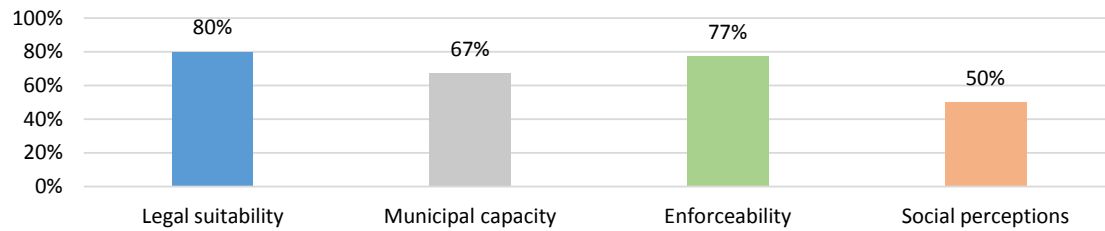
348 For more information see: <https://www.lagboken.se/views/pages/getfile.ashx?portalId=56&docId=215614&propId=5&download=1>

349 For more information see: <https://www.regeringen.se/rattsliga-dokument/statens-offentliga-utredningar/2012/08/sou-201252/>

350 For more information see: <https://www.dn.se/debatt/taxeringsutredningen-vill-infora-en-ny-fastighetskatt/>

## United Kingdom ■

Moderately adequate country for EuroPACE implementation – overall grading for suitability: 75%



### SWOT Analysis

Strengths	Weaknesses
Council tax is difficult to avoid or evade and therefore has one of the highest collection rates of any tax, with in-year collection rates of over 97% in 2014-15. At this time, the tax raised enough money to cover 24.3% of council expenditures.	Although PPPs have delivered GBP 56 billion of private sector capital investment in over 700 UK infrastructure projects, most projects are administered at the national level. Many municipalities have no experience in cooperating with private actors, which is a key element for EuroPACE.
Opportunities	Threats
BIDs are popular across the country, although still relatively new when compared to the US and Canada. And while these are not typical residential on-tax financing schemes, they are a good starting point for EuroPACE development.	Although the council tax scheme can be considered stable, it is considered unfair by a number of experts (i.e. the Resolution Foundation). Introduced in 1992, its aim was to replace the highly unpopular community charge; however, it did not eliminate the shortcomings of its predecessor. Finally, no revaluation of properties has taken place since 1991; thus, a tax amendment may occur at any point in the future.

### 1. Suitability of the legal framework for on-tax financing

BIDs are popular across the country, although still relatively new when compared to the US and Canada. They were introduced as part of the Local Government Act in 2003 and came into force in 2004. The first BID in the UK was in Kingston in Surrey, and today (August 2018), the number

of BIDs across the UK stands at 290, with the majority of BIDs located in towns or cities. Thirty BIDs can be found in London, whereas Bristol has 7.<sup>351</sup>

The council tax, a main form of local property charge, is levied on households. It is collected annually by the local authorities which keep a “Valuation List” of all the domestic property in its area with a corresponding charge.<sup>352</sup> As a result, significant differences in the collection rates across the regions exist, but individual exemptions are not peculiar to the UK alone and should not be considered significant. Local governments spend around 18% of council tax revenue on dealing with rubbish, but that masks a lot of variation between regions and councils. Additionally, water supplies and sewerage are charged separately on every households.<sup>353</sup>

## **2. Municipal capacity to develop an on-tax financing mechanism – municipalities’ experience and policy objectives concerning EE and/or climate mitigation**

PPPs have delivered GBP 56 billion of private sector capital investment in over 700 UK infrastructure projects. These include new schools, hospitals, roads, housing, prisons, and military equipment and accommodation.<sup>354</sup> The projects are administrated on the national level.

The situation is less remarkable when it comes to EE-oriented actions. Only 36 signatories from the UK can be found in the Covenant of Mayors database. However, the Clean Growth Strategy (CGS), the Government’s long-term plan for meeting carbon budgets contains a number of new policy commitments to improve homes. The programme is administered by local governments and can be considered successful.<sup>355</sup>

## **3. Enforceability of local taxes and/or property taxes and assessment of charges, defaults, and delinquencies**

According to the MF, council tax is difficult to avoid or evade and therefore has one of the highest collection rates of any tax, with in-year collection rates of 97% in 2014-15. Her Majesty’s Revenue and Customs (HM Revenue and Customs or HMRC) – the UK’s tax, payments, and customs authority – can start magistrates’ court proceedings for small claims, which are defined as debts of less than GBP 2,000 owed for no longer than a year. For larger claims, proceedings are brought in the County Court. If the taxpayer has a judgement ordered against him, this will appear on a Register of Judgements, Orders, and Fines, which is a matter of public record. This will affect the debtor’s credit rating. The HMRC can then take steps to enforce the judgement and recover the money from the debtor. An action in distress gives the HMRC the right to seize

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351 For more information see: <http://researchbriefings.files.parliament.uk/documents/SN04591/SN04591.pdf>

352 For more information see: <https://www.gov.uk/browse/housing-local-services/council-tax>

353 For more information see: <https://www.water.org.uk/consumers/find-your-supplier>

354 For more information see: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/205112/pf2\\_infrastructure\\_new\\_approach\\_to\\_public\\_private\\_partnerships\\_051212.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/205112/pf2_infrastructure_new_approach_to_public_private_partnerships_051212.pdf)

355 For more information see: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/700496/clean-growth-strategy-correction-april-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/700496/clean-growth-strategy-correction-april-2018.pdf)



a debtor's personal possessions and sell them to pay the outstanding debt and costs. If they are sold for less than the debt, the taxpayer remains liable for the difference. If the tax remains unpaid, the HMRC can take serious remedial action. This includes petitioning for bankruptcy against any individual. This would force the individual's assets sold to pay the debt.

As a HMRC representative has confirmed in a phone call, federal tax lien is a lien imposed by law to secure the payment of taxes. It attaches to a person's property, but it may be imposed for both unpaid property taxes and in connection with any kind of personal federal tax, including income tax, gift tax, or estate tax. If property is sold while a lien is in effect, the will be paid out of the sales proceeds before the taxpayer receives the sales price.

HM Land Registry holds records about most properties built and sold in England or Wales since 1993, including the title register, title plan, and flood risk indicator.<sup>356</sup> The index map contains information on all land and property that's registered or being registered with HM Land Registry, including eventual pledges.

#### **4. Political, institutional, and social perceptions and acceptance of EuroPACE**

Changes in the council tax are widely discussed these days. The current scheme is considered irrational and unfair by various experts (e.g. the Resolution Foundation) as no revaluation of properties has taken place since 1991 thus this local tax amendment might take place anytime soon.

#### **Country summary and take-aways:**

- With a EuroPACE readiness of 75%, the UK is a moderately adequate candidate for EuroPACE development, even if in a post-Brexit reality.
- As no revaluation of properties has taken place since 1991, a tax amendment may occur soon, which can increase the system's uncertainty.
- Introduced in 1992, the council tax can be considered a stable fiscal mechanism.
- Effective foreclosure procedures exist. Procedures are clear and transparent.
- A federal tax lien is a lien imposed by law to secure the payment of taxes.

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<sup>356</sup> For more information see: <https://www.gov.uk/get-information-about-property-and-land/search-the-register>

# References

\* All sources used for country descriptions, given their length and complexity are mentioned only in form of footnotes in PART B.

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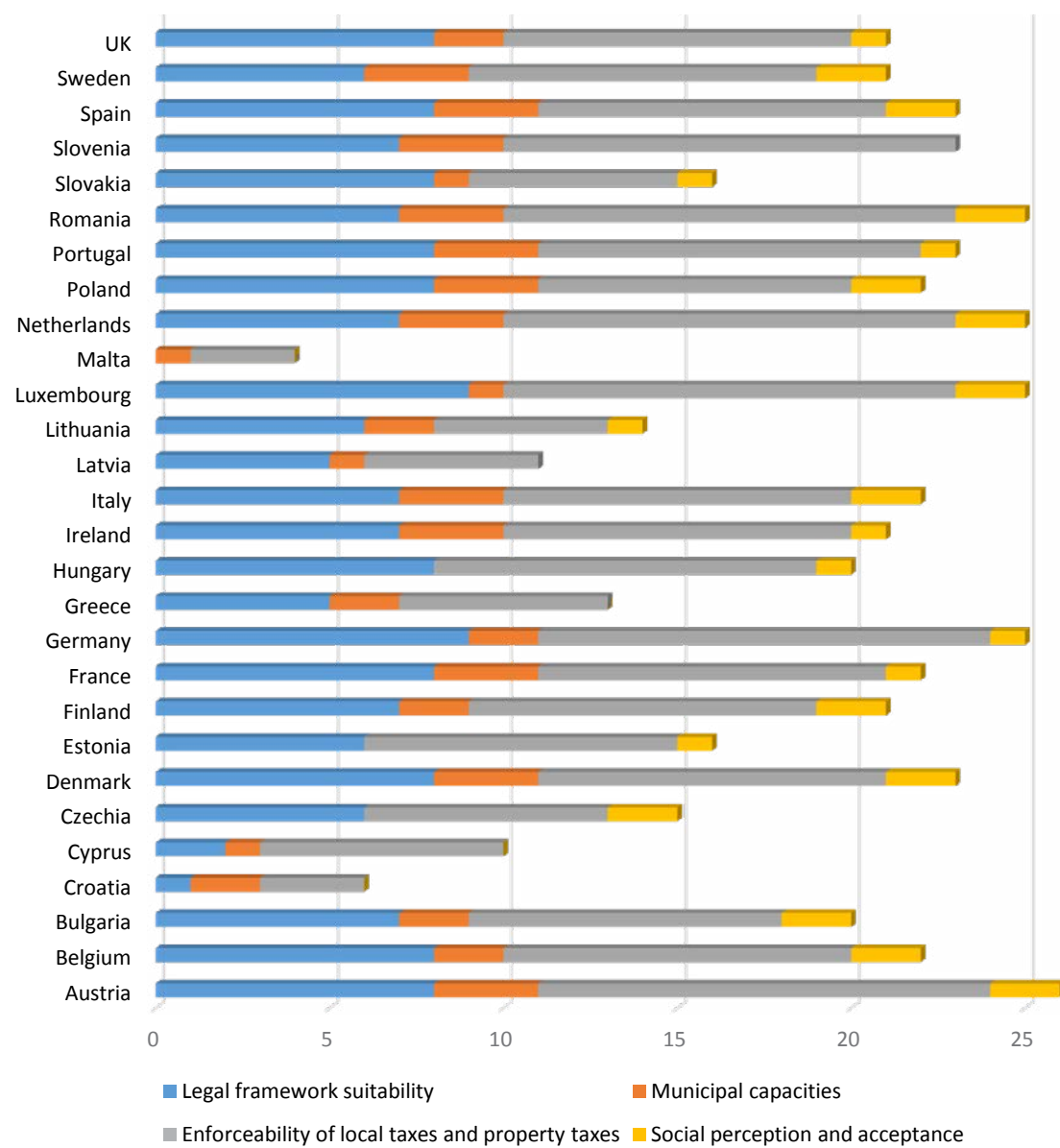
EU Energy Efficiency, Buildings: <https://ec.europa.eu/energy/en/topics/energy-efficiency/buildings>

Nearly zero-energy buildings: <https://ec.europa.eu/energy/en/topics/energyefficiency/buildings/nearly-zero-energy-buildings>

The Regional Office for Europe of the World Health Organization: [http://www.euro.who.int/\\_\\_data/assets/pdf\\_file/0020/248600/Combined-or-multiple-exposure-tohealth-stressors-in-indoor-built-environments.pdf](http://www.euro.who.int/__data/assets/pdf_file/0020/248600/Combined-or-multiple-exposure-tohealth-stressors-in-indoor-built-environments.pdf)

The current report of the Intergovernmental Panel on Climate Change (IPCC) suggests that the temperature should not exceed 1.5°C: <http://www.ipcc.ch/report/sr15/>

# Annexes



EU countries suitability for EuroPACE implementation, cumulative