

Application of Mass Valuation in the Local Governments of the Republic of Serbia

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SUMMARY

With the entry into force of the Law on Property Tax whose provisions are applicable from January 2014, local governments in their jurisdiction have included a process of determining the rate of the original revenue of municipality. This jurisdiction, in addition to collecting the funds in favor of the budget of local governments, and seeks to expand the coverage of real property is taxed and better and fair collection of property taxes. Property tax base for real estate taxpayer's real property value, determined by each local government act of the competent authority. Taking into account the fact that the territorial organization of the Republic of Serbia makes 174 units of local government, it is assumed the existence of 174 ways of determining the value of real estate.

On the other hand, the Republic Geodetic Authority is 2011 in its jurisdiction included the assessment and management of real estate value procedures and methods of mass appraisal. Since then, the Republic Geodetic Authority developed a system of mass appraisal which is one of the main purposes is to ensure objectivity of the evaluation, a realistic assessment of the value liberated and temporary impact on the local real estate market as well as equal and fair treatment of all citizens.

Determining the value of real estate in the local government is a complex procedure that must be carried out to review what realistic values. In order to estimate more realistically executed it is necessary to apply a larger number of approaches valuation while not defined and does not establish an adequate system that will meet the multiple intimate necessity. Therefore, in this paper will be presented valuation of real estate in the case of one municipality from the perspective of mass valuation and determining the value of property by the local government.

REZIME

Stupanjem na snagu zakona o porezima na imovinu čije se odredbe primenjuju od januara 2014. godine jedinice lokalne samouprave su u svoju nadležnost uvrstile postupak utvrđivanja stope izvornih prihoda opštine. Ovom nadležnošću, pored ubiranja novčanih sredstava u korist budžeta lokalnih samouprava, teži se i proširivanju obuhvata nepokretnosti koje se oporezuje i bolje i fer naplaćivanje poreza na imovinu. Osnovica poreza na imovinu za nepokretnosti poreskog obveznika je vrednost nepokretnosti, koju utvrđuje svaka jedinica lokalne samouprave aktom nadležnog organa. Uzimajući u obzir činjenicu da teritorijalna organizacija Republike Srbije čini 174 jedinica lokalnih samouprava, pretpostavlja se postojanje 174 načina utvrđivanja vrednosti nepokretnosti.

Sa druge strane, Republički geodetski zavod je 2011. godine u svoju nadležnost uvrstio procenu i vođenje vrednosti nepokretnosti postupcima i metodama masovne procene (procena se vrši nad svim podacima koje postoje na tržištu nepokretnosti za celu teritoriju države). Od tada, Republički geodetski zavod razvija sistem masovne procene čija je uloga višestruka. Jedna od glavnih uloga ovog sistema u najvećem broju razvijenih zemalja je obračunavanje poreza na imovinu, koji se vrši na osnovu procenjene vrednosti nepokretnosti dobijene postupcima masovne procene. Sistem masovne procene bazira se na postulatima koji obezbeđuju pravičnost, jednakost i uniformnost. Rezultati koji nastaju iz sistema masovne procene su: transparentnost i otvorenost tržišta, ekonomičnost sistema – zajednički ekonomski cilj svih institucija koje koriste informacije sa tržišta nepokretnosti, neutralnost – ne postojanje preferencija određenih područja iz različitih potreba, skladnost sa socijalnom i ekonomskom politikom, administrativna praktičnost i drugo.

Ovaj rad ima za cilj da prikaže prednosti sistema masovne procene vrednosti nepokretnosti, a one će biti prikazane na primeru jedne opštine sagledavajući procenu nepokretnosti iz ugla masovne procene i iz ugla utvrđivanja vrednosti nepokretnosti od strane lokalne samouprave.

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1. INTRODUCTION

Real Estate property - the most conservative type of capital, always holds the interest for everyone, regardless of social status, cultural and economic level. Irrespective of the social structural changes, real estate property still remains esteemed and up to now it is collectively considered as the safest type of investment as well as the most acceptable sign of credibility and method of solvability. [1]

The Republic of Serbia is a country in transition. For this, and many other reasons, need to develop a system of real estate whose fundamentals are developing the market value is large. The formation of a complex system is not possible without cooperation with interactive to interested foreign investors. One such stakeholder is the local government.

Republic Geodetic Authority, starting from 2011 performs establish a system of mass appraisal, based on the market value of real estate for the whole territory of the Republic of Serbia. Units of local self-government provisions of the Property Tax from 2014, are obliged to carry out on its territory, the tax procedure in order to finance their own. For taxation procedures necessary transparency principle, under which involve clearly defined parameters and fortified as well as publicly available information to allow public inspection.

In next chapters will be displayed assessment from the perspective of determining the value of real estate by the local government in the case of the Podunavlje administrative district, evaluation of real estate from the perspective of mass appraisal in that territory. It will also be shown and detailed process of determining the value of real estate zones in the municipality of Velika Plana; Comparative results of the two procedures, and then the advantages of the system mass appraisal.

2. DETERMINATION OF THE VALUE OF REAL ESTATE IN UNITS OF LOCAL SELF-GOVERNMENTS

Local governments are tasked in 2013 to regulate their own source revenues starting in 2014. The main guidelines of determining income came through the Law on Property Tax. According to this law, the property tax paid on real estate located in the territory of the Republic of Serbia. Real estate that is taxed as: land (construction, agriculture, forestry, etc.), residential, commercial and other buildings, apartments, business premises, garages and other (surface and underground) buildings and their parts. Property tax base for real estate is determined by the value of real estate the local authority responsible for the identification, collection and control of direct revenues of the local government.

The value of real property under this law shall be determined on the basis of the area and the average price per square meter of appropriate real estate in the zone in which the real property is located. Zone represent parts of the territory of the local self-government by the competent authority of local government decision can be determined separately for settlement by type of settlement and outside the village or unique to the village and outside the village, according to municipal equipment and equipment of public buildings, transport links to central parts of the unit of local self-government unit, or with work zones and other amenities in the village [2]. According to the law, local governments are obliged to determine on its territory for at least two zones.

Law on Property Tax provides guidance, while she herself methodology for determining the tax base on property within the jurisdiction of local governments. In this way, more units of local government is given the space for "free style" zoning, and then the average price per square meter of real estate within each zone. Taking into account the fact that the territorial organization of the Republic of Serbia makes 174 units of local government, it is assumed the existence of 174 ways of determining the value of real estate. Due to the inability to work through this expose all 174 ways (due to the constraints of work to a maximum of 15 pages) in the next chapter will be shown the determination of the value of real estate in the Podunavlje District, with a detailed account of the municipality of Velika Plana.

2.1 Determining the value of real estate in the Podunavlje district

According to the Law on Public Administration, Administrative District is a regional center of government administration that includes district regional units of all organs of state administration for the purpose of performing state administration tasks outside the headquarters of the state administration. In the Republic of Serbia has 29 administrative districts. Administrative district in which the municipality is located Velika Plana is Podunavlje District, and consisting of Smederevo-City, the municipality of Smederevska Palanka and Velika Plana. In the city of Smederevo is the seat of the districts. City of Smederevo is territorially little larger than these two municipalities. From the standpoint of

the population, according to the last census in 2011, Smederevo has more inhabitants than Smedervska Palanka and Velika Plana together.

According to the Law on Property Tax, each local government is obliged to November 30 of the current year to publish laws which establish the zone, average price, and coefficients for real estate in the zones. According to the issued acts of 2013, the Municipality of Smederevo made a decision on determining the existence of 4 zones in the municipality. Smederevska Palanka according to the decision also established the 4 zones, while the municipality of Velika Plana made a decision on the formation of the 12 zones in the municipality.

In the city of Smederevo, the first and second zone forms part of the urban area, the third zone between urban and rural settlements and the fourth zone is the zone of rural settlements. In Smederevska Palanka, the first and second zone represents the central part of the urban area. The third zone covers an area suburbs and fourth zone area of rural settlements. The municipality of Velika Plana is divided into 12 zones.

In the table below, according to the decisions on determining the average price per square meter of appropriate types of real estate in the municipalities for 2015, there are an average price per square meter of apartments within each zone. Average prices are expressed in the official currency of the Republic of Serbia - RSD and currency - the euro.

Table 1: value zone and the average price of apartments in each zone by municipalities

| Zone number | THE CITY OF SMEDEREVO | | municipality SMEDEREVSKA PALANKA | | municipality VELIKA PLANA | |
|-------------|-----------------------|-------------------------|----------------------------------|-------------------------|---------------------------|-------------------------|
| | <i>DIN/m2</i> | <i>EUR/m2 (rounded)</i> | <i>DIN/m2</i> | <i>EUR/m2 (rounded)</i> | <i>DIN/m2</i> | <i>EUR/m2 (rounded)</i> |
| | <i>currency</i> | | <i>currency</i> | | <i>currency</i> | |
| 1 | 55.000 | 450 | 44.097 | 370 | 53.483 | 450 |
| 2 | 45.000 | 375 | 29.490 | 250 | 47.540 | 400 |
| 3 | 35.000 | 300 | 33.520 | 280 | 41.598 | 350 |
| 4 | 25.000 | 210 | 33.520 | 280 | 35.655 | 300 |
| 5 | | | | | 29.713 | 250 |
| 6 | | | | | 23.770 | 200 |
| 7 | | | | | 21.393 | 180 |
| 8 | | | | | 17.828 | 150 |
| 9 | | | | | 14.262 | 120 |
| 10 | | | | | / | / |
| 11 | | | | | / | / |
| 12 | | | | | 29.713 | 250 |

Since the entry into force of the Law on Property Tax, the decision on determining the average price are adopted in 2014 and 2015. Decision on the establishment of zones are adopted 2013 and have not undergone a change for 2015. In the municipality of Velika Plana, in 10 and 11 zone, average housing prices are not provided because there are no apartments in these areas, and therefore there are no sales of property. On the basis of the number of zones, average prices and the "marketability" of municipalities come to the conclusion that the value of dwellings are not determined in a uniform manner in each municipality.

It can also be assumed that the value of dwellings are not determined based on market values in each municipality. According to a survey conducted in the municipality of Velika Plana, during the formation of real estate significantly to take account of social policy. What can also be assumed that social policy is not enforced only through property tax rates, but also by determining the value of real estate.

2.2 Determining the value of real estate in the municipality of Velika Plana

A random selection of 30 municipalities and a review of their decisions on the formation zone, observed the formation of 3 to 4 zones for each municipality, regardless of whether it is a small municipality or city. Without consideration of the largest cities: Belgrade, Novi Sad, Nis and Kragujevac. The exception to the selected sample of municipalities is a municipality Velika Plana, which is in its Decision on the establishment of zones passed 12 zones for the entire territory. For this reason, this section will be explained briefly the procedure and manner of determining the zone and average prices of dwellings.

The process of determining the value of real estate in the municipality of Velika Plana was carried out as follows:

- A working team composed of the following professions in the municipality of economists, lawyers, planners (geographers, mathematicians). Each member of the team is already working on specific professions for local government.
- Gathering data from the following institutions: the real estate cadastre, electricity distribution, sales contracts from the Courts, the data from the revenue administration, public enterprises (spatial plans). Data were collected to form a base population of the municipality with the necessary information for taxation.
- Based on the data collected, according to the legislation, was formed 12 zones, of which the first zone – are the best equipped.
- Within each zone, determined by the market value of the property. The law stipulates that local self-government units determine the value of real estate. However, as the term "value of real estate" general character is allowed a choice each municipality to determine the value of real estate. The municipality of Velika Plana in the process of determining the

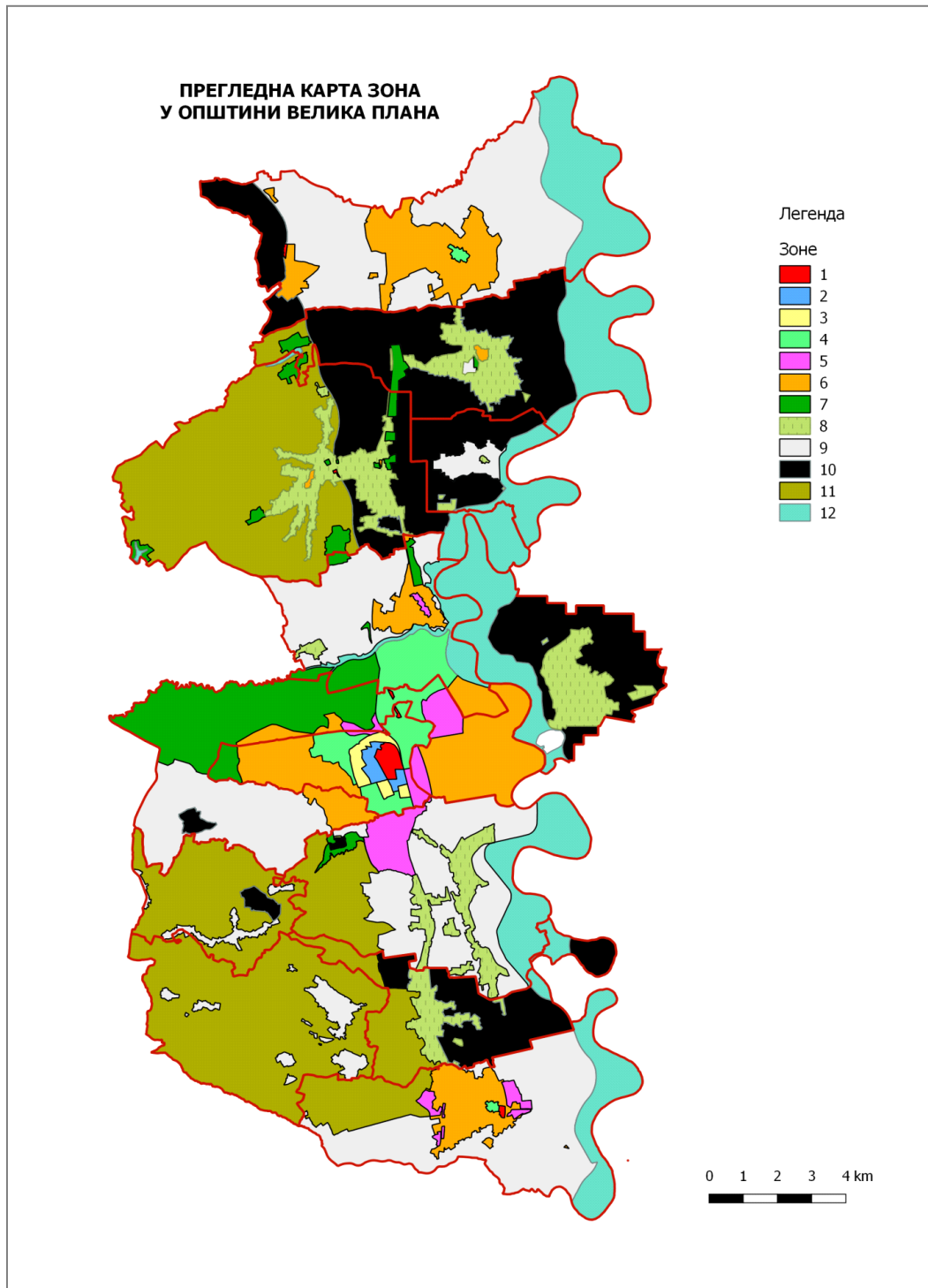
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value of real estate, based on the fair market value of real estate. By looking at the contract price and in finding that the price of the contracts were not from the open market, a working team focused on gathering information from the market. In areas where it has not been played is not a dwellings transactions, the value is assigned as in border zones.

- After determining the average price per square meter for the corresponding immobility within each zone, a decision was made on establishing the rate of property tax in the municipality of Velika Plana.
- The implementation of this procedure property tax, to the fullest extent to take account of social policy. The intention was to get as much as possible to comply with the principle of neutrality - that some taxpayers would not be damaged or reward. Then follows the principle of transparency in terms of publicly available decision on the implementation of these measures of taxation.

In the picture below, shows the overview map of zones in the municipality of Velika Plana defined by the decision in 2013.



Picture 1: Overview map zone in the municipality of Velika Plana

3. THE REAL ESTATE MARKET OF THE REPUBLIC OF SERBIA

When talking about the real estate market in the Republic of Serbia, specifically about the dwellings market, it talks about the existence of latent market. Latent market is not transparent market, however they are “more or less know” where that house could buy and for how much, if the customer decide for purchase at a specific location and a bit investigate desired location. Unlike the dwellings market, which is considered to be in the Republic of Serbia for the most developed and most profitable market, other real estate market can not be classified in the group of latent market because it is not their existence can not be certain. The best edition of the market is transparent real estate market, which in addition to "first-hand" offers evidence that confirms that information within a very short period of time. Possibility for playing fair and market transactions is a transparent market at the highest level, to the benefit of all market participants. For these reasons, in the Republic of Serbia has been actively working to achieve transparency in the real estate market. One such important task for each country, the Republic of Serbia awarded the Republic Geodetic Authority.

3.1 Valuation of real estate

Republic Geodetic Authority has awarded legislation exercise assessment and management of real estate value. Under the appraisal involves the determination of the market value of the property whose value is determined by the procedures and methods of mass appraisal. [3]

Regulations on the valuation of real estate from 2014, prescribes the method of data collection, process, method and methodology for assessing the value of real estate, as well as the classification of real estate in the assessment procedure, the connection with cadastral data and other information, or the manner of publication of data on prices and values real estate on the market. [4]

Republic Geodetic Authority during 2014 completed the first phase of the development of mass appraisal system in the Republic of Serbia. The first phase involves the introduction of the Register of real estate transactions to collect data from the entire territory of the country. In late 2014, the Republic Geodetic Authority has begun the process of transparency in the real estate market. Process transparency of the real estate market is shod legislation. This process began a public disclosure of data from the Registry of real estate transactions aimed at the availability of basic data from the real estate market.

3.2 Mass appraisal of real estate in the Republic of Serbia

Mass appraisal, according to the legislation of 2009, is defined as the process of determining the market value of the property with the use of standardized methods in line with the relevant international standards, guidelines and best practices. Mass assessment is done through the development of real estate valuation models for each individual submarkets of real estate in the territory of the Republic of Serbia. [4]

Republic Geodetic Authority, since 2011, developed a system of mass appraisal, whose role is multifaceted. One of the main roles of the systems in most developed countries is the levying of property taxes, which is based on the estimated value of the property obtained by the methods of mass appraisal. The system of mass appraisal is based on the principles that ensure fairness, equality and uniformity. Results arising from mass appraisal system are: transparency and openness of the market economy system - a common economic objective of all institutions that use information from the real estate market, neutrality - not the existence of preferences of certain areas of different needs, compliance with social and economic policy, administrative convenience and second.

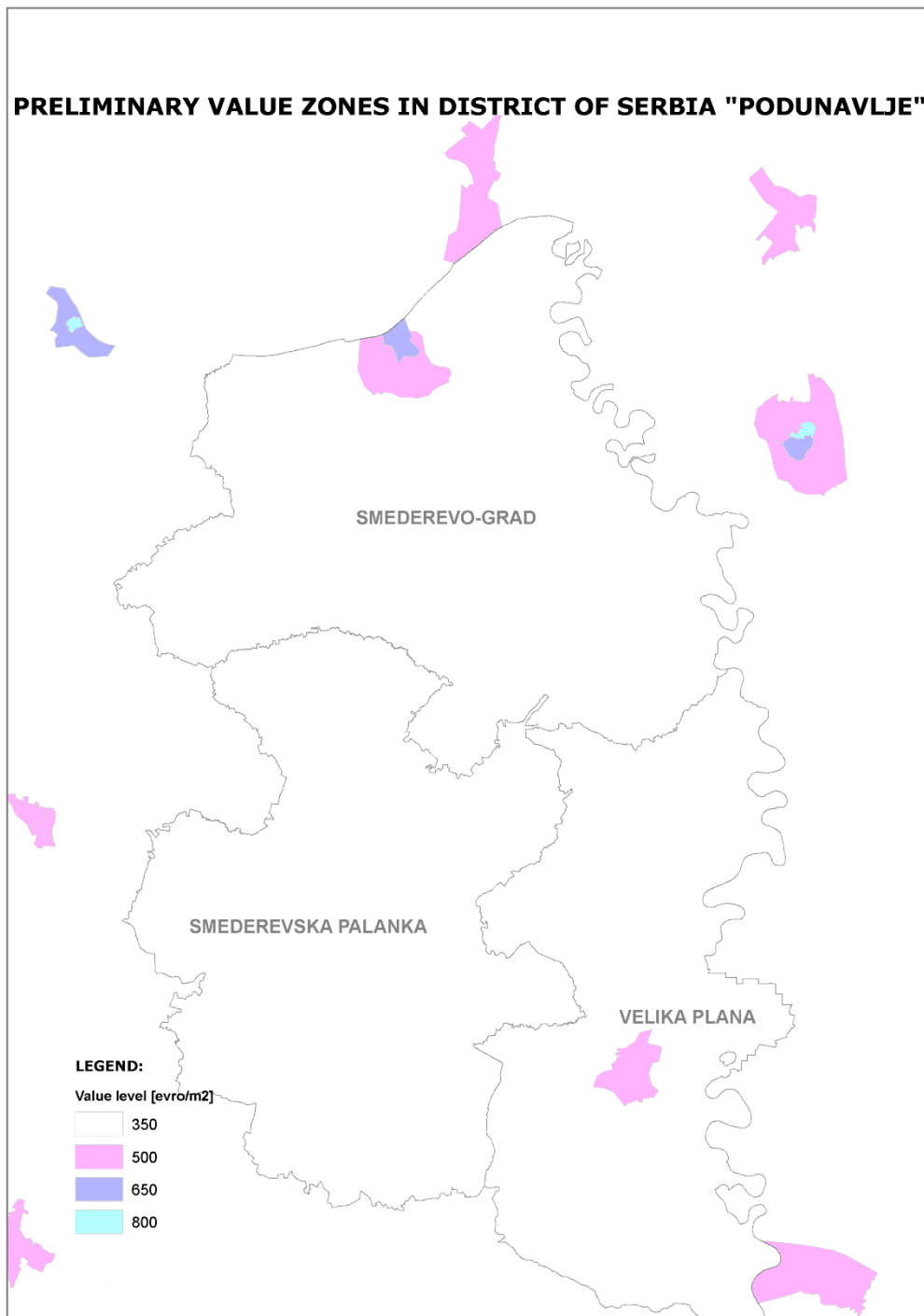
3.2.1 The Dwellings model by methods of mass appraisal

Along with the development process transparent real estate market in the Republic of Serbia, during the year 2014 approached the development of models for the valuation of real estate. At the time of creating this work, the phase which can be reached by defining the model process is completed the formation of values zones and value levels are based on the characteristic of real estate. According to the regulation of appraisal, value zones represent areas in which the characteristic of real estate have approximately the same unit price, on the whole territory of the Republic of Serbia.

The value level represents the mean level of realized price for the characteristic value of immovable property within the value zone. The picture below, shows a graphic representation of the preliminary value zones for the Podunavlje district. Value zones are marked as preliminary because it is not carried out a complete verification of data. The characteristic of real estate is the most common real estate in meeting the transferred properties. The parameters used in this model are dwellings surface, the floor on which the dwelling is marketed and the number of rooms.

- The results of mass appraisal methods in Podunavlje district showed the following:
- The City of Smederevo is characterized by three value zone. The value levels within each zone are: 350 euro/m², 500 euro/m² and 650 euro/m².
- The municipality of Smederevska Palanka has one value zone, whose value level is 350 Euro/m².

- The municipality of Velika Plana has two value zone. The value levels within each zone are: 350 euro/m² and 500 euro/m².



Picture 2: Preliminary value zone for Podunavlje district

3.3 Comparative analysis of the value of dwellings

In Table 1, shows the average value of dwellings per the defined zones for the three municipalities. The results showed that the main influence on the formation of values is social policy which has played in the city of Smederevo, where the value of real estate does not represent the market value. In the municipality of Velika Plana social policy is reflected through the formation height of the property tax rate, and the average value of the apartment are formed on the basis of market value.

In reviewing the results obtained by methods of mass appraisal, it is concluded that the City of Smederevo contains the zone with the highest value, with the average value of the characteristic flat 650 Euros/m². The local government has determined that the average price of apartments in the best equipped zone in the city of Smederevo is 450 euros/m². Number of zones is different.

In the municipality of Smederevska Palanka, according to the methods of mass appraisal there is a one zone in value, with the average price of the characteristic dwellings 350evra/m². According to data from the local level, there are four zones, where the first and best-equipped zone is 370evra/m².

In the municipality of Velika Plana, units of local government has formed 12 detailed zone. In the first zone and best-equipped zone average value of the dwellings is 450 euros/m². Mass appraisal procedures, in the municipality of Velika Plana there are two value zone, where the zone with the highest level of value-is 500evra/m².

Tabulation of comparative results is presented in Table 2. The number of zones and the average price of dwellings, obtained in two ways.

According to the law, local governments are obliged to designate their territory for at least two zones. Methods mass estimates have no restrictions of this kind, but the value zone is determined entirely based on traffic to the real estate market.

Considering the fact that the development of a system of mass appraisal stage of achieving transparency in the market and the preliminary results, it is clear that lack a sufficient number of parameters for a more detailed analysis, which does not mean that the results are not correct but are more general. Even due to lack of necessary factors, such as, for example, years of construction or upgrading of years, reveals characteristics of the system when its full implementation promises fairness, equality and uniformity.

Table 2: Tabulation - the number of zones and the average value of dwellings in each municipality

| Number zone | THE CITY OF SMEDEREVO | | municipality SMEDEREVSKA PALANKA | | municipality VELIKA PLANA | |
|-------------|--|---------------|----------------------------------|---------------|---------------------------|---------------|
| | <i>currency: euros/m2</i> A local government unit | mas appraisal | A local government unit | mas appraisal | A local government unit | mas appraisal |
| 1 | 450 | 650 | 370 | 350 | 450 | 500 |
| 2 | 375 | 500 | 250 | | 400 | 350 |
| 3 | 300 | 350 | 280 | | 350 | |
| 4 | 210 | | 280 | | 300 | |
| 5 | | | | | 250 | |
| 6 | | | | | 200 | |
| 7 | | | | | 180 | |
| 8 | | | | | 150 | |
| 9 | | | | | 120 | |
| 10 | | | | | / | |
| 11 | | | | | / | |
| 12 | | | | | 250 | |

4. CONCLUSIONS

In EU countries, which have not developed a tax system based on market values of real estate, suggested that one of the reasons for the lack of reliable information from the real estate market, and as a second insufficient funds to develop a system of mass appraisal. While the third reason cited political decisions, which require changing the basis for taxation.

In the Republic of Serbia has begun the process of transparency in the real estate market, which will contribute to obtaining reliable information from the real estate market. Lining the basis of every success, is established by legal regulations. Based on the strategic objectives that were established in the Republic Geodetic Authority, complete construction of a system of mass appraisal is expected through 4-5 years. One of the tendencies in the near future cooperation with the local government on the topic of market value of real estate in order for every citizen of the Republic of Serbia ensure equality, fairness, uniformity in its real estate taxes. In moments when tax system does not support the above principles, is hampered by the possibility of monitoring the manner of taxation. As a result, situations arise where individual property owners pay less and some more property taxes in relation to the actual value of real estate.

The idea, then the aim system mass appraisal is that in addition to maintaining and improving the real estate cadastre, enabling all citizens equal treatment of taxation, to all participants in the real estate market are familiar with the real situation on the real estate market, the opportunity to Ministry of Finance for a modern approach to tax system, cost of stakeholders, and at the end of every opportunity to promote their policies whether it be political in character, social, financial or otherwise.

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