A CRITICAL REVIEW OF THE 2024 CZECH PROPERTY TAX AMENDMENTS

KRITICKÁ ANALÝZA NOVELY ČESKEJ DANE Z NEHNUTEĽNOSTI Z ROKU 2024

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ABSTRACT

Despite their capability to support stable and sustainable public budgets, particularly at the local level, property taxes often remain underappreciated in taxation policy discussions. Although widely implemented, the fiscal potential of property taxes remains underexploited, particularly in Central and Eastern European countries. This situation was evident in the Czech Republic, prompting recent amendments aimed at enhancing the revenue-generating capacity of property taxes. This study examines the modifications to the Czech property tax system that took effect in the fiscal year 2024. The authors detail specific changes to the system, including updates to tax rates, exemptions, and administrative procedures. They provide a critical analysis of these changes, highlighting both their positive impacts and limitations. The study concludes that while the amendments represent a step forward in improving the efficiency and fairness of property taxation, challenges related to the implementation of new tax principles and tools for enhancing local control remain. A more profound conceptual overhaul of the property tax system may still be necessary to fully address the persisting issues and maximize the potential benefits of property taxation for local governments.

ABSTRAKT

Napriek ich schopnosti podporovať stabilné a udržateľné verejné rozpočty, najmä na miestnej úrovni, zostávajú dane z nehnuteľností často nepovšimnuté v diskusiách o daňovej politike. Hoci sú široko implementované, fiškálny potenciál týchto daní zostáva nedostatočne využitý, najmä v krajinách strednej a východnej Európy. Táto situácia bola evidentná tiež v Českej republike, čo viedlo k nedávnym zmenám zameraným na zvýšenie príjmovej kapacity dane z nehnuteľnosti. Tento článok skúma zmeny v systéme majetkových daní v Českej republike, ktoré nadobudli účinnosť od rozpočtového roku 2024. Autori podrobne popisujú konkrétne zmeny v systéme, vrátane zmien v daňových sadzbách, výnimkách aj administratívnych postupoch. Článok ponúka kritickú analýzu týchto zmien, pričom zdôrazňuje ich pozitívne dopady aj obmedzenia. Autori usudzujú, že hoci zmeny predstavujú krok vpred z pohľadu zlepšovania efektivity a spravodlivosti zdaňovania nehnuteľností, problémy týkajúce sa implementácie nových daňových princípov a nástrojov na posilnenie miestnej kontroly stále pretrvávajú. Hlbšia koncepčná reforma systému daní z nehnuteľností môže byť stále potrebná pre úplné vyriešenie pretrvávajúcich problémov a maximalizovanie potenciálnych prínosov tejto dane pre miestne samosprávy.

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I. INTRODUCTION

Compared to their better-known counterparts, such as income or value-added taxes, property taxes[3] often remain underemphasized in discussions on taxation. This trend is amplified by numerous recent initiatives from international bodies such as the EU and OECD, which predominantly overlook property taxation, concentrating instead on other tax types. Although income and consumption taxes usually generate a substantially larger share of overall revenue, the significance of property taxes should not be underestimated, as they can provide stable and lasting contributions to public finances, particularly at the level of local governments, thereby fostering a balanced tax system in any given jurisdiction. When discussing tax policy, the realistic potential of a tax to generate additional income is as critical as its existing revenue-generating capacity. With property taxes underutilized in certain countries, reforming them remains a pertinent issue in contemporary tax legislation.

Notably efficient[4] and among the least disruptive to economic growth[5], property taxes offer unique advantages within a taxation system. Their effectiveness lies in their complementary nature to income and turnover-based taxes, often responding inversely to economic fluctuations.[6] This inverse relationship creates a balanced revenue stream that helps stabilize the national fiscal system. When integrated thoughtfully, property taxes can diversify revenue sources, reducing the system's susceptibility to economic swings and enhancing overall fiscal resilience.[7]

Their applicability extends particularly to local taxation, where property taxes often form a key part of municipal revenues.[8] Countries like the US and the UK have long recognized the connection between property values, local development, and the provision of essential services, making property taxes a logical choice for local governance .[9] Many other nations also utilize property taxes, predominantly at the local level, to leverage their revenue potential for supporting community infrastructure and services.[10] However, despite their widespread use, revenues from property taxes are typically low[11], often to the extent that it undermines their effectiveness as a key contributor to municipal self-financing.

In the Czech Republic as well, property taxes have historically been a consistent revenue source for local municipalities. These taxes are assessed on a recurring basis, with all generated revenue being fully allocated to local municipalities. Despite their longstanding use in the country, property tax revenues in the Czech Republic have persistently fallen short even of the (usually modest) levels observed in other developed countries. This situation did not escape the

3 For the purposes of this paper, 'property taxes' refers exclusively to recurring taxes on real estate, specifically those that apply to the ownership of immovable property.

4 BRYS, B. et al.: Tax Design for Inclusive Economic Growth, OECD Taxation Working Papers, 26, OECD Publishing, 2016, p. 17; SLACK, E., & BIRD, R.: The Political Economy of Property Tax Reform, OECD Working Papers on Fiscal Federalism 18, OECD Publishing, 2014, p. 3.

5 LEODOLTER, A., PRINCEN, S., & RUTKOWSKI, A.: Taxation of residential property in the euro area with a view to growth, equality and environmental sustainability, Quarterly Report on the Euro Area (QREA), 20(4), 2022, p. 31.

6 SHOUP, C.: The Property Tax versus Sales and Income Taxes, Proceedings of the Academy of Political Science, 35(1), 1983, pp. 40–41.

7 For example, during the COVID-19 pandemic, Hungarian municipalities that depended more heavily on property taxes faced a comparatively smaller decline in tax revenues than those that relied little or not at all on these taxes (PÁL, Á.: A Candle in the Wind? The Tax Autonomy of Hungarian Municipalities in Light of the Coronavirus Pandemic, Białystok Legal Studies, 29(1), 2024, pp. 139–140).

8 OECD: Housing Taxation in OECD Countries, OECD Tax Policy Studies, No. 29, OECD Publishing, 2022, para. 3.3.1.

9 KECSŐ, G.: A helyi önkormányzatok pénzügyi jogi jogállása: A jogállást meghatározó jogintézmények modelljei a bevételi oldalon, Anglia – USA – Magyarország [The financial legal status of local governments: Models of legal institutions determining status on the revenue side, England – USA – Hungary], ELTE Eötvös Kiadó, 2016.

10 As of 2021, property taxes were levied in all OECD member countries (OECD, op. cit. 6, para. 3.2.1), with the majority allocating revenues from recurrent taxes on immovable property fully or largely to local governments (OECD, op. cit. 6, para. 3.2.2).

11 OECD, op. cit. 6, para. 3.3.1.

notice of the OECD either.[12] Despite repeated expert recommendations to increase property taxes[13], these suggestions did not yield significant policy changes until recently. The fiscal challenges in recent years, compounded by factors such as the COVID-19 pandemic, energy crisis, and fiscal policy decisions, have underscored the urgent need for additional public revenue streams. This resurgence has reignited discussions on enhancing property tax revenues to more effectively meet the country's financial needs. In 2023, the Czech legislature passed amendments to relevant laws with the aim of substantially increasing property tax revenue across the nation.

This article critically examines the mentioned amendments to the property tax system, analyzing their nuances, implications, advantages, and drawbacks. Our goal is to provide a thorough evaluation of this reform, assessing its potential to enhance revenue streams, address disparities, and foster fiscal sustainability. We aim to explain why we consider these changes a step in the right direction, even though we acknowledge they may not completely resolve long-term fiscal challenges.

1. Structure of the paper and methodology

The paper begins with an introduction that outlines the objectives and scope of the study, emphasizing the critical examination of the evolving landscape of property taxes in the Czech Republic. The present section provides a structural overview of the work and outlines the methods used to conduct the research, followed by a section comprising a review of existing literature on the topic.

In the first substantive chapter, the article extensively examines the current property tax system in the Czech Republic. This section utilizes documentary analysis of tax laws, regulatory frameworks, and official government documents. Additionally, brief comparisons with other countries with a similar system help highlight the strengths and weaknesses of the present solutions, as well as areas where improvements could be made.

The second substantial chapter describes recent changes made to the property tax system in the Czech Republic. Here, policy analysis plays a crucial role, involving the examination of legislative documents, policy reports, and government announcements detailing these reforms. The chapter is divided into several parts, each discussing specific changes to the system. In each part, the authors critically evaluate and discuss the effectiveness and implications of the reforms through a qualitative analysis. By employing logical reasoning and argumentation, we articulate and substantiate our opinions on how these reforms have impacted the property tax system in the Czech Republic.

Finally, the paper concludes by summarizing key findings from the evaluation and discussion. It provides insights into the broader implications of the reforms and offers recommendations for future research or potential adjustments in policy to further enhance the effectiveness of the property tax system in the Czech Republic.

2. Literature review

The topic of property taxes, from a general perspective, is relatively well explored. Numerous works discuss what an ideal property tax system should look like (Theisen, 2008[14];

[12] OECD, op. cit. 6, para. 3.2.2.

[13] RADVAN, M.: Místní daně, Wolters Kluwer, 2012, p. 211; RADVAN, M., & KRANECOVÁ, J.: Is Ad Valorem Property Taxation a Solution for the Czech Republic? In: M. RADVAN, R. FRANZSEN, W. J. McCLUSKEY, & F. PLIMMER (Eds.), Real Property Taxes and Property Markets in CEE Countries and Central Asia, Maribor: Lex Localis, 2021, p. 76.

[14] THEISEN, T.: Optimal property taxation, European Real Estate Society (ERES), ERES eres2008_273, 2008.

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Norregaard, 2013[15]; Slack, 2022[16]) and how property taxes can be reformed to achieve such an ideal (Bahl & Wallace, 2008[17]; Rosengard, 2012[18]; Slack & Bird, 2014[19]; Blöchliger, 2015[20]; Grover et al., 2017[21]). These studies provide a comprehensive understanding of the principles and best practices underlying effective property tax systems.

Several works specifically focus on the property tax system in the Czech Republic, either addressing the topic in its entirety or incorporating it as a significant part of their broader analysis. These works often include partial or complete analyses of the then-existing system[22] and propose various suggestions for its reform. They offer valuable insights into the unique aspects and challenges of the Czech property tax framework and provide recommendations for potential improvements (Marková, 2005[23]; Radvan, 2012[24]; Janoušková & Sobotovičová, 2016[25]; Janoušková & Sobotovičová, 2016[26]; Formanová et al., 2020[27]; Papoušková & Zelenská, 2021[28]; Radvan & Kranecová, 2021[29]).

In contrast to the extensive literature on property tax systems in general and the specific discussions on the Czech Republic, there is a limited number of popularization articles in newspapers dedicated to evaluating the recent reforms of the Czech property tax system that came into effect in 2024. This lack of analysis leaves a significant gap in understanding the impact and effectiveness of these reforms. The present work aims to fill this gap by providing a thorough evaluation of the recent changes in the Czech property tax system.

II. THE SYSTEM OF PROPERTY TAXATION IN THE CZECH REPUBLIC

The framework of property taxation in the Czech Republic is established by Act No. 338/1992 Coll. of the Czech National Council on Immovable Property Tax (referred to as the 'Immovable Property Tax Act' or 'IPTA'). This legislation outlines the comprehensive structure of the tax. Unlike in other countries, where the status of property tax as a local tax results in its optional implementation by individual municipalities, the IPTA legally requires the Czech

[15] NORREGAARD, J.: A fair assessment: Property taxes are an effective but unpopular way to reduce inequality, Finance & Development, 0050(004), A010, 2013.

[16] SLACK, E.: Property taxes in the real world, Canadian Tax Journal / Revue Fiscale Canadienne, 70(Supp.), 2022, pp. 133–158.

[17] BAHL, R., & WALLACE, S.: Reforming the Property Tax in Developing Countries: A New Approach, International Center for Public Policy Working Paper Series, Paper0819. International Center for Public Policy, Andrew Young School of Policy Studies, Georgia State University, 2008.

[18] ROSENGARD, J. K.: The tax everyone loves to hate: Principles of property tax reform, M-RCBG Faculty Working Paper Series No. 2012-10, Mossavar-Rahmani Center for Business & Government, Harvard Kennedy School, 2012.

[19] SLACK, E., & BIRD, op. cit. 2.

[20] BLÖCHLIGER, H.: Reforming the tax on immovable property: Taking care of the unloved, OECD Economics Department Working Papers, No. 1205, OECD Publishing, 2015.

[21] GROVER, R., TÖRHÖNEN, M.-P., MUNRO-FAURE, P., & ANAND, A.: Achieving successful implementation of value-based property tax reforms in emerging European economies, Journal of European Real Estate Research, 10(1), 2017, pp. 91–106.

[22] Which has not undergone significant conceptual reforms since the adoption of the current Act in 1992.

[23] MARKOVÁ, H.: Finanční zdroje místních společenství a Evropská charta místní samosprávy v podmínkach ČR, In: M. RADVAN & P. MRKÝVKA (Eds.), Financování územní samosprávy ve sjednocující se Evropě: Sborník 1. mezinárodního právnického symposia, Brno 12.9.2003. Masarykova univerzita, 2005.

[24] RADVAN, 2012, op. cit. 11.

[25] JANOUŠKOVÁ, J., & SOBOTOVIČOVÁ, Š.: Immovable property tax in the Czech Republic as an instrument of fiscal decentralization, Technological and Economic Development of Economy, 22(6), 2016, pp. 767–782.

[26] JANOUŠKOVÁ, J., & SOBOTOVIČOVÁ, Š.: Využití koeficientů ke zvýšení výnosů daně z nemovitých věcí v Moravskoslezském kraji, Sborník příspěvků XIX. mezinárodní kolokvium o regionálních vědách Čejkovice 15.–17. 6. 2016, 2016, pp. 883–890.

[27] FORMANOVÁ, L., HALAMOVÁ, M., & ANDRLÍK, B.: Utilization of a local coefficient for immovable property tax in the Czech Republic, Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, 2020.

[28] PAPOUŠKOVÁ, Z., & ZELENSKÁ, T.: Možnosti obce ovlivnit výši daně z nemovitých věcí, Acta Iuridica Olomucensia, 16(3), 2021, pp. 51-59.

[29] RADVAN, M., & KRANECOVÁ, op. cit. 11.

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municipalities to implement the tax, which lack any discretionary power to exempt themselves from this duty.[30] Moreover, property tax in the Czech Republic is administered by the national tax authority; therefore, it is not the duty of municipalities to deal with the collection of the tax. While this arrangement alleviates the administrative burden on municipalities, it introduces challenges related to equity at the local level, as municipalities lack the means to identify delinquent taxpayers.[31]

Although the property tax is centrally administered and its parameters are decisively determined at the national level (in the IPTA), the entire revenue generated from this tax is directed to the municipalities where it originates. Additionally, municipalities have some degree of influence over the tax's structure and amount, which leads some experts to consider property tax effectively a local tax.[32]

Section 1 of the Immovable Property Tax Act splits property tax into two primary categories: land tax and tax on buildings and taxable units (Section 1). The subjects liable for these taxes are similarly structured in both categories. Typically, the property owner is the taxpayer. However, there are exceptions: for state-owned properties, properties managed by specific funds, properties with building rights, and certain lease situations, the taxpayer may be someone other than the owner, usually those authorized to manage, administer, or use the property. According to a default rule, if the property owner is unidentified or if the property is managed by specific state authorities[33], the responsibility for paying the property tax falls to the property's user.[34]

1. Land tax

According to Section 2 of the IPTA, land tax applies to all registered plots in the Czech Republic, except for those classified as non-taxable. Specifically, the built-up area of land covered by taxable buildings, forest land with protective forests and forests of special purpose, water surfaces, defense zones, and land associated with taxable residential units are not included in the scope of the land tax under the Czech property tax regulations. This is because these lands are either indirectly taxed through the building tax or are not intended for economic use.

Additionally, Section 4 of the IPTA outlines numerous examples where specific types of land are exempt from the payment obligation, reflecting various public, environmental, and institutional uses to support specific societal functions and environmental goals. Land owned by the Czech Republic or municipalities and diplomatic and consular properties used by foreign representatives are exempt from land tax. Similarly, land associated with cultural heritage sites, religious facilities managed by registered churches or religious societies, and public-benefit organizations—including educational, healthcare, and social service facilities—are exempt. Land used for certain environmental and infrastructure purposes benefits from exemptions as well.[35] Public and private cemeteries, nature conservation areas (excluding national parks and protected landscape areas), and land with other environmental significance also fall under the exemption umbrella. Agricultural land may be exempt for up to five years, and forestry land for up to twenty-five years, following reclamation and requalification for agricultural or forestry

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30 VARTAŠOVÁ, A., & ČERVENÁ, K.: Real Property Tax in the Countries of Visegrad Group – Comparative View, Studia Iuridica Lublinensia, 31(1), 2022, p. 200.

31 RADVAN, M., & KRANECOVÁ, op. cit. 11, p. 76.

32 MARKOVÁ, op. cit. 21; RADVAN, M.: Municipal charges on communal waste: Do they compete with the immovable property tax? Journal of Financial Management of Property and Construction, 24(2), 2019.

33 Namely, the State Land Office (*Státní pozemkový úřad*) or the Office for Government Representation in Property Affairs (*Úřad pro zastupování státu ve věcech majetkových*).

34 Sections 3 and 8 of the IPTA.

35 This includes land designated for small hydropower stations, wind energy facilities, biogas plants, geothermal energy sources, and wastewater treatment plants, as well as land used for the remediation of contaminated sites, groundwater, or other structures.

use. Furthermore, land within government-approved industrial zones may receive exemptions for up to five years if a municipality opts to apply such relief, especially if the land is intended for investment incentives.

Municipalities therefore have some role in determining the exemptions through local regulations. Besides exemptions for land within designated industrial zones, they can choose to exempt agricultural land and certain other types of land with limited possibility of economic use. As noted, municipalities in the Czech Republic have limited discretion over land tax exemptions, with most exemptions being dictated by national law. This contrasts, for instance, with the Slovak regulation, which affords municipalities broader discretion, enabling them to determine most exemptions independently, with only a few categories mandated by national legislation. This kind of regulation makes the Czech system more centralized in its approach compared to the greater local flexibility offered to Slovak municipalities.

In the Czech Republic, the primary basis for land tax is the property's area in square meters as of the start of the taxable period. Built-up areas, courtyards, development land, paved areas, and other land types are taxed on this basis. Agricultural land, however, employs a modified ad valorem approach, with the tax base calculated by multiplying the land area by the average price per square meter as specified in a (regularly updated) ministerial decree. For forest land, the tax base can be determined by property value established under existing pricing regulations or by multiplying the area by a fixed rate of 3.80 CZK (Section 5 IPTA). The latter option is generally preferred due to its cost-effectiveness.[36]

Section 6 of the IPTA specifies fixed tax rates for different land types: 1.35% for agricultural land and 0.45% for permanent grassland and forest land. For other land types, the tax base is measured in square meters (m^2), with tax rates set accordingly: 0.08 CZK per m^2 for agriculturally unusable land and 1.80 CZK per m^2 for paved agricultural areas. Building plots are taxed at a base rate of 3.50 CZK per m^2, which is then adjusted using a 'location rent' multiplier (see Radvan, 2019b, 16). This multiplier depends on the municipality's size and is set by default at 1.0, 1.4, 1.6, 2.0, 2.5, 3.5, and 4.5. Municipalities have the authority to modify this coefficient upwards by one category and downwards by one to three categories through legally binding ordinances. These adjustments can even vary depending on specific areas within one municipal territory.

2. Tax on Buildings and Taxable Units

Section 7 of the IPTA states that the building and taxable unit tax applies to completed or occupied buildings, specific engineering structures[37], and segments of buildings listed in the land registry as individual units, known as 'taxable units,' designated for either residential (flats) or non-residential use. If these units are taxed within a building, no additional building tax is imposed on the building itself. The tax base for buildings is their area in square meters, while for taxable units, it is the 'adjusted floor area,' which is calculated as the total floor area multiplied by a coefficient of 1.20 or 1.22 if there is associated land (Section 10).

As in the case of the land tax, the IPTA provides extensive exemptions from the tax on buildings and taxable units. These exemptions cover a broad range of public, diplomatic, educational, and environmental uses, supporting specific societal functions and goals. Consequently, the list of exemptions closely mirrors those applicable to the land tax. Buildings and units owned by the Czech Republic or the local municipality, as well as diplomatic properties, are exempt. Publicly accessible monuments, properties used for religious ceremonies and administration, and the properties of public benefit organizations, including associations and trade unions, also enjoy exemption. Utility infrastructure and public

[36] RADVAN, M., & KRANECOVÁ, op. cit. 11, p. 61.

[37] Chimneys and towers listed in the Annex to the Immovable Property Tax Act.

transportation facilities used for public transport are exempt as well. Properties owned by regional governments, public research institutions, and public universities also benefit from exemptions. Educational and social services receive exemptions for buildings used by schools, childcare facilities, museums, galleries, libraries, public archives, healthcare facilities, social service institutions, foundations, and associations for disabled persons. Residential buildings and recreational properties owned by disabled individuals receiving subsistence benefits are also exempt.

Renewable energy and environmental uses are supported through exemptions for facilities used for site remediation, small hydropower plants, wind energy, biogas energy, geothermal energy, and biomass energy. Renovations of cultural monuments and heating systems using renewable energy are promoted through temporary building tax waivers. Lastly, industrial zones in government-approved areas may receive exemptions for up to five years if a municipality chooses to provide such relief. Compared to land tax, municipalities have even less discretion to influence the range of exemptions for building and taxable unit tax. Industrial zones are the sole instances where the decision concerning exemptions is left to them.

Section 11, paragraph 1, sets fixed rates per square meter of built-up area for building taxation as well: 3.50 CZK for residential buildings and ancillary buildings[38], housing units, and units used for non-business purposes; 11.00 CZK for family recreation buildings; 14.50 CZK for garages; 3.50 CZK for buildings used for agriculture, forestry, or water management; 18.00 CZK for buildings used for other business purposes; and 11.00 CZK for other taxable buildings. Paragraph 2 increases these rates by 1.40 CZK per each additional above-ground floor if the floor area exceeds specific proportions[39], with multi-story buildings benefiting from this scheme compared to one-story buildings.

As with the land tax on building plots, 'location rent' coefficients are applied to residential buildings, their associated structures, and flats or other taxable units not used for business purposes. These coefficients match the values used for building plots. Municipalities have the authority to adjust these coefficients upward by one category or downward by one to three categories. However, a notable difference from land taxation is that municipalities can introduce a multiplier of 1.5 for all types of buildings where the location rent is not applicable.

According to Section 11a, the property tax for residential buildings that include non-residential spaces used for business sees an additional increase. This applies to all residential buildings with non-residential spaces used for business purposes, excluding those that are tax-exempt or used in agricultural production, forestry, or water management. The supplementary tax is calculated by multiplying the floor area of the non-residential space or room (in square meters) by 3.50 CZK. The described increase is an additional charge on top of the existing tax for residential buildings, which remains in effect.

For housing units (taxable units), the additional charge is calculated by multiplying the adjusted floor area of the business premises by the positive difference between the tax rate for the type of business activity being conducted (typically 18.00 CZK) and the standard residential rate (3.50 CZK). This rule tends to place business operations in residential taxable units at a significant disadvantage compared to those within residential buildings, often leading to substantially higher effective tax rates for the former. However, if the same premises are used for both residential and commercial purposes at the same time, they do not face the mentioned extra charge.[40]

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38 In the case of ancillary buildings, only the area exceeding 16 m² is taxed.

39 Namely, two-thirds of the built-up area for taxable structures not used for business purposes and one-third of the built-up area for taxable structures used for business purposes.

40 Financial Administration of the Czech Republic [Finanční správa]: Novela zákona o dani z nemovitých věcí (konsolidační balíček): Stručný popis významných změn v zákonu o dani z nemovitých věcí na rok 2024, 2024, p. 8.

3. Common features of the property tax system in the Czech Republic

Starting from the tax period of 2024, a new inflation coefficient for property taxation came into effect. The inflation coefficient was introduced to adjust the final tax on land and the final tax on buildings and taxable units based on the rise in the consumer price index. Given that the inflation coefficient was introduced as part of the 2024 amendments, its application is discussed in more detail in the next section.

A crucial provision for municipalities is found in Section 12 of the IPTA, which grants them the authority to set another type of coefficients, known as the 'local coefficient.' These coefficients serve as the ultimate variable influencing the final property tax amount. The coefficients for agricultural lands, forests, and unusable land range from 0.5 to 1.5, whereas for other property types, they can go from 0.5 all the way up to 5.0. This flexibility allows municipalities to adjust the final tax amount very significantly at their discretion. Additionally, for the latter group (all other property types except agricultural land, forests, and unusable land), municipalities can establish different coefficients for various areas within their territory, which enables them to tailor the tax impact to specific local conditions.

As illustrated by the explanations above, property taxation in the Czech Republic is notably complex, primarily due to the incorporation of various coefficients that adjust the tax rate or total tax liability. These coefficients act as simpler substitutes for a proper value-based system, allowing the existing framework (that decisively relies on area-based evaluation) to account for the different characteristics of properties.[41] While certain adjustments are legally mandated in order to uphold basic equity standards, municipalities also have significant flexibility to implement additional changes using the local coefficient. This enables them to tailor the system to better meet their local needs.

The amendments effective from 2024 have arguably complicated the property taxation system in the Czech Republic even more. The next section provides a summary of these changes, outlining the most important modifications and their implications.

III. EVALUATION OF THE AMENDMENTS EFFECTIVE FROM 2024[42]

Although property taxes typically fall short of generating the highest revenues among tax types[43], their yield has historically been particularly low in the Czech Republic, especially when compared to other countries. Data from the European Commission indicate that in 2022, the average share of recurrent taxes on immovable property relative to GDP was 1.0% for both the Euro Area and EU member states. The Czech Republic, however, reported a significantly lower figure of just 0.2%.[44] This trend is corroborated by OECD data for 2021, which shows that the average share of property tax revenue as a percentage of GDP among OECD member states was 1.0%. In contrast, the Czech Republic's ratio was a mere 0.2%.[45]

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41 McCLUSKEY, W. J., PLIMMER, F., & FRANZSEN, R: Introduction and Observations, In: M. RADVAN, R. FRANZSEN, W. J. McCLUSKEY, & F. PLIMMER (Eds.), Real Property Taxes and Property Markets in CEE Countries and Central Asia, Maribor: Lex Localis, 2021, p. 5.

42 A more detailed description of the changes, along with the new wording of the respective provisions, was published by the Financial Administration of the Czech Republic (*Finanční správa*) and is accessible at the following address: https://www.financnisprava.cz/assets/cs/prilohy/d-seznam-dani/Novela_zakona_o_dani_z_nemovitych_ veci_ zmeny 2024.pdf (Financial Administration of the Czech Republic, 2024). The authors referenced this source when summarizing the changes to the property tax system in the subchapters of Chapter 2.

43 SLACK, E., & BIRD, op. cit. 2., pp. 3–4; GROVER, R. et al., op. cit. 19, p. 93.

44 European Commission: Data on Taxation Trends – Property taxes, 2024. Retrieved from https://ec.europa.eu/taxation_customs/document/download/190b142c-f6ea-4549-a37b-4273ff32c8a2_en (Accessed 2 August 2024).

45 OECD: Revenue Statistics – OECD countries: Comparative tables: Chapter 4 – Countries – Tax revenue and % of GDP by selected taxes, 2024. Retrieved from https://stats.oecd.org/Index.aspx?QueryId=78526 (Accessed 2 August 2024).

Further analysis of all taxes on immovable property, including transaction taxes, reveals an even greater disparity. The OECD average for 2021 was 1.9% of GDP when considering this indicator, while the Czech Republic's figure remained at 0.2%, reflecting the absence of a property transfer tax in the country. This stands in stark contrast to the practices of most OECD nations, where such taxes are commonly levied.[46] When a property transaction tax is not imposed, the budgetary shortfall resulting from low-yield recurrent property taxation becomes even more severe. The referenced statistics therefore underscore a significant lag in property tax revenues in the Czech Republic compared to its international peers.

The mentioned trend has led experts in the country to advocate for a reform that achieves an increase in property tax revenues and enhances the financial autonomy of local governments.[47] Despite these recommendations, efforts to address the issue had been largely ignored until recent events brought the need for reform into sharper focus. The recent economic challenges exacerbated by the COVID-19 pandemic and the subsequent energy crisis forced the government to reconsider its fiscal strategies. In response, a consolidation plan was developed to address budgetary shortfalls, with a crucial component being an increase in property tax revenues. The 2024 amendments to the property tax system represent a significant step in this direction, aiming to bolster property tax receipts as part of the broader fiscal consolidation efforts.

1. Increase in tax rates

The aim of the amendments was not to fundamentally overhaul the Czech property tax system; instead, the concrete goal was to achieve a 1.8-fold average increase in property tax revenues compared to the previous period. One of the key actions taken in this regard was the substantial modification of tax rates. From 2024, tax rates for various categories of properties have increased considerably. For agricultural land, the tax rate has increased from 0.75% to 1.35% of the land's value (see above). Similarly, the rates for permanent grassland and forest land with economic forests were both raised from 0.25% to 0.45%. For built-up areas and yards, the tax rate per square meter has risen from 0.20 CZK to 0.35 CZK, while the rate for building plots has more than doubled from 2.00 CZK to 3.50 CZK per square meter. The recent reforms also introduced a specific tax rate of 0.08 CZK for land classified as unproductive, marshy, green, or meadow (which, in the absence of a specific category for these land types, were previously taxed at 0.20 CZK per square meter). For land used for other purposes, the new tax rate rose to 0.35 CZK per square meter, up from the previous rate of 0.20 CZK.

Tax rates for taxable buildings and units have also been adjusted, with rates for residential buildings or units and associated structures rising from 2.00 CZK to 3.50 CZK per square meter. Buildings used for family recreation have seen a substantial increase from 6.00 CZK to 11.00 CZK per square meter, while garages have seen an even greater rise from 8.00 CZK to 14.50 CZK per square meter. Rates for buildings and taxable units used in various business activities have been notably increased as well. For agricultural and forestry-related buildings, it has risen from 2.00 CZK to 3.50 CZK per square meter, while buildings used for any other types of business activities have seen a jump from 10.00 CZK to 18.00 CZK per square meter.

The tax rate increase is the most visible change in the Immovable Property Tax Act. It must be noted that the initial draft of the act amending the IPTA planned to split the immovable property tax into two parts. While the amount of the municipal part was to remain unchanged, the Ministry of Finance planned to introduce a new – state part of the tax.[48] The reason was to

[46] OECD: Tax on property (indicator), 2024. https://doi.org/10.1787/213673fa-en.
[47] RADVAN, 2012, op. cit. 11, p. 211; RADVAN, M., & KRANECOVÁ, op. cit. 11, p. 76.
[48] RYŠAVÁ, M., & VLKOVÁ, J.: Stanjurovy plány s daní z nemovitosti: Lidem se zvedne až dvojnásobně a obce si nepolepší, Hospodářské noviny, 9 May 2023.

obtain additional revenue for the state budget, which had been running deficits for several years and worsened further due to the COVID-19 pandemic and the Russian aggression in Ukraine. However, the proposal met with great resistance from municipalities. In the end, a compromise was reached: the immovable property tax rates, and thus the property tax revenue received by municipalities, were increased. However, adjustments were made to the budget allocation of shared taxes (VAT, personal, and corporate income taxes), benefiting the state budget at the expense of municipal budgets.[49]

It should be emphasized that fixed tax rates—and generally all fixed amounts in tax law—are particularly unsuitable for highly sensitive taxes such as property taxes. Politicians responsible for tax policy are aware that property owners are also taxpayers and voters. Raising tax rates demands considerable political courage, which is not often exhibited. As a result, tax rates are raised less frequently than needed, often resulting in significant hikes when they do occur. There are two potential solutions to this issue: the more challenging one is to develop an entirely new Immovable Property Tax Act based on the ad valorem principle with percentage tax rates. The simpler approach, which was adopted this time, is to introduce an inflation coefficient (see below).

2. Introduction of the inflation coefficient

As mentioned in the preceding section, the changes effective from 2024 have also introduced a so-called inflation coefficient into the Czech property tax system. The coefficient is designed to adjust property tax rates annually in line with general price level changes. It is applied to the final tax amounts for land, buildings, and taxable units, with the notable exception of agricultural land, which remains at a fixed rate of 1.0 since inflation adjustments are already incorporated into its valuation (see above).

The inflation coefficient is calculated based on the ratio of the base consumer price index for households in May of the calendar year preceding the tax period to 100. If this ratio shows a year-over-year increase of 20% or more, the inflation coefficient for the current tax period will increase by the maximum allowable value of 20%. If the increase is less, the coefficient will remain at least the same as the previous period's value. The Ministry of Finance will announce any changes to the inflation coefficient by June 30th of the year prior to the year of tax period, rounding the coefficient down to one decimal place. Taxpayers are not required to file a new tax return due to changes in the coefficient; the tax authority will automatically recalculate and inform taxpayers of their updated tax liabilities.

The inflation coefficient appears to be an effective tool for ensuring the immovable property tax rate is adjusted continuously. This approach eliminates the need to persuade politicians to take bold steps to raise tax rates and revenues after several years. An even more advantageous solution would be to incorporate an inflation coefficient into the general tax code (i.e., the Tax Procedural Code in the Czech Republic). This would enable automatic adjustments not only to immovable property tax rates but also to all tax rates across various taxes, in line with inflation. The inflation coefficient should apply to all fixed amounts in tax law as well, such as basic tax relief and tax allowances for children in personal income taxation.

3. Property tax increase for business use in residential buildings

The amendments also touch on the additional tax on non-residential spaces used for business purposes in residential buildings specified in Sec. 11a of the IPTA will rise from 2.00 CZK to 3.50 CZK per square meter. Notably, this additional taxation now also applies to rooms used for accommodation services, which were previously not subject to this burden. Exceptions for

[49] Union of Towns and Municipalities of the Czech Republic [Svaz míst a obcí ČR]: U daně z nemovitosti nakonec zvítězil zdravý rozum a naše argumenty, SMO ČR, 24 August 2023.

agricultural, forestry, and water management businesses remain applicable. Taxpayers using residential rooms for business accommodation must file a property tax return reflecting this increase unless they have already accounted for it in 2023.

The increased tax on business premises within residential buildings is directly related to the overall rise in tax rates, as analyzed above. A notable amendment is the inclusion of rooms used for accommodation services, which are frequently used for Airbnb-type rentals. There is no doubt that these short-term rentals exhibit all the characteristics of a business. Consequently, the taxation of these premises should align with the methods used for taxing business properties.

4.Taxation adheres more strictly to cadastral registration

From 2024, both garages and buildings used for family recreation are taxed based on their cadastral registration rather than their actual use, which could lead to discrepancies with the cadastral classification. This change aligns the tax treatment with the recorded use in the cadaster. As mentioned previously, the tax rates have increased for these types of properties: garages are now taxed at 3.50 CZK per square meter, and family recreation buildings at 11 CZK per square meter, with a possible multiplier. Additionally, all definitions of land and building use in tax regulations now strictly follow the cadastral classifications, regardless of actual usage or current conditions.

The recent changes aligning property taxation with cadastral registration by type represent a shift towards the principle of formal truth. This principle is the first amendment to which we have reservations. The Ministry of Finance argues that it simplifies property tax administration by eliminating the need for local investigations to accurately identify the object of taxation. This principle has also been applied to land tax for several years, but previous implementation elsewhere does not justify its application here. Tax law is generally based on the principle of material truth, as outlined in the Tax Procedural Code, and property taxation should adhere to these principles. The new principle of formal truth risks taxpayers failing to meet other legal obligations (such as land law, building law, and other administrative requirements) to maintain lower taxation benefits if property use changes. Additionally, the Ministry's argument about simplifying tax administration is partially flawed. In today's digital age, the need for local investigations is minimal, with free digital tools like Google Maps and Google Street View available for verification. For these reasons, we believe this change represents a step in the wrong direction.

5. Updates to building plots and paved areas

Under the revised provisions, the definition of building plots includes land designated for construction by a valid permit, even if the land already has other taxable buildings. Taxpayers with such permits will need to file a tax return for the land, regardless of existing structures. Additionally, the new regulations will tax paved areas across all land types, not just previously specified categories. This includes paved surfaces like driveways and pools, even if they're not used for business. The law ensures that if these paved areas are part of a larger plot, they will be considered separate for tax purposes. The amendments related to building plots and paved areas are primarily technical, aligning with changes in building law regulations. By specifically addressing paved areas, these changes seek to enhance fairness in their taxation.

6. Property users gain taxpayer status in certain cases

The responsibility for property taxes has expanded with the new rules to include users of land, buildings, or taxable units when ownership is unknown or managed by the State Land Office or the Office for Representation of the State in Property Matters. This change broadens the scope of taxpayers to encompass those without formal rental agreements, such as users of state-managed properties or properties with unknown ownership. Consequently, these individuals now need to file tax returns for these properties, a requirement that was not enforced previously. These changes should also be considered technical in nature.

7. New filing rules

The changes effective from 2024 also introduce new rules for handling tax declarations. According to them, taxpayers will no longer need to file a tax return to claim exemptions for agricultural land, non-productive land, or properties within industrial zones if a municipality provides these exemptions through a local by-law. The tax authority will automatically apply these regulations and notify taxpayers of any exemption adjustments, updating the tax amount accordingly. Conversely, if a municipality revokes these exemptions, taxpayers are required to submit a tax return for the relevant period. This ensures that properties previously exempted are correctly reflected in the tax records. These changes are welcomed as they aim to simplify the process and delegate more responsibilities to the tax authority, promoting clarity in property tax management.

8. Adjustments to minimum property taxes

With the overall increase in the total tax burden discussed earlier, there are also adjustments to certain minimum tax amounts. From 2024, the minimum tax for a co-owned property is increased to 90 CZK, up from the previous minimum of 50 CZK. This means if the calculated tax is less than 90 CZK, taxpayers will pay this minimum amount. Additionally, the threshold for waiving the total property tax within a single financial authority is raised from 30 CZK to 50 CZK, so if the total tax is below this amount, it will still be assessed but not collected.

9. Changes in property tax exemptions

The new rules removed property tax exemptions for waste management facilities and related environmental property uses. This includes both the buildings and associated land. However, exemptions still apply to properties used exclusively for cleaning up contaminated sites. In contrast, new exemptions were introduced for transmission, transport, and distribution systems, as well as heat distribution systems under energy laws. Properties in these categories will now be fully or partially exempt. Additionally, the exemption for forest lands got stricter by shifting from 'land designated for forest functions' to 'forest land.' This means properties previously considered exempt may need to be re-evaluated and reported under the new rules.

New exemptions will apply to properties used for childcare and by social cooperatives, as well as to land and buildings in national parks and nature-friendly zones. Municipalities will also be exempt from tax on land burdened by building rights if they are the builders. Ponds used for intensive fish farming are no longer taxed, as no water surface areas are subject to tax under the new rules.

Rules regarding tax exemptions often spark considerable debate. There is no doubt that sustainability principles are increasingly important, not only in tax law but across various fields. While it makes sense to support tax exemptions clearly linked to environmental protection, justifying the new exemptions for transmission, transport, distribution systems, and heat distribution energy systems is more challenging. Similar arguments apply to the exemption of properties used for public transportation: private enterprises that generate profits and contribute economic value should not be exempt from taxation. This perspective also extends to commercial ponds; the argument that their revenue is minimal is insufficient. By this logic, the taxation of commercial forests could also be challenged, and, ultimately, the entire immovable property tax might be questioned.

10. Enhanced municipal control

The recent reforms have also affected the extent of municipal authority in property taxation. Previously, municipalities could only exempt specific agricultural lands, such as arable land, vineyards, and orchards, but not gardens. They had the option to exclude these lands from taxation only if they were located within designated built-up areas or development zones. Moreover, the ability to set local coefficients for property tax rates was more restricted, with municipalities required to apply coefficients between 1.1 and 5.0, offering less flexibility to lower tax burdens. Now, starting from 2024, municipalities can exempt all agricultural lands, including gardens, and any land categorized as unproductive or marshy, as long as these exemptions are clearly defined in local by-laws. Under the revised rules, municipalities can adjust local tax coefficients within a broader range of 0.5 to 5.0 for most properties. Moreover, they now have the option to set coefficients between 0.5 and 1.5 specifically for agricultural and certain unproductive lands, which was not possible before. Notably, from 2025, municipalities can introduce these coefficients not only through local ordinances (*obecně závazná vyhláška*) but also through measures of general nature (*opatření obecné povahy*).

In the authors' view, changes that enhance municipalities' flexibility in influencing immovable property tax revenue should be supported. Nevertheless, the introduction of a local coefficient through a measure of a general nature for individually defined properties is not the ideal solution for several reasons. Primarily, the measure of general nature is a specific administrative law instrument, that is otherwise not used in the field of taxation at all. The process for discussing and approving such measures is inappropriate for the field of taxation. Identifying properties subject to different local coefficients could also be very problematic and may easily lead to cases that potentially distort equality in taxation, even if only subjectively. If taxpayers believe the conditions set by the measure are unfair, seeking redress will be very difficult. The tax administrator will apply the legislation, including the measure of a general nature, even in appeal proceedings. Only the courts can address any perceived inequalities resulting from such measures, and it is likely that many cases may eventually be reviewed by the Constitutional Court.

11. Other changes

The new rules also streamline other administrative aspects of property taxation. From 2024, taxpayers can request to receive tax payment details via email by sending a signed and scanned request to the tax administrator, simplifying the process compared to previous methods. A definition for the floor area of property units has been introduced, and the calculation and rounding of property tax amounts are now explicitly detailed in the law, integrating inflation coefficients into the computation process. Additionally, a unified system for identifying properties in municipal regulations is established, replacing previous practices that allowed more flexible or less standardized approaches. New statutory categories for land and buildings have been created based on their primary use to determine local tax coefficients and rates more straightforwardly. These amendments are primarily legislative-technical changes designed to simplify tax administration for both taxpayers and tax administrators. As a result, they are welcomed and supported by the authors.

IV. CONCLUSION

To sum up, the 2024 Czech Property Tax amendments are generally useful and well-constructed. In addition to legislative-technical changes, such as those concerning building plots and paved areas, they clarify the taxpayer's position in many respects and streamline the tax administration process for both taxpayers and tax administrators (e.g., filing rules delegating more responsibilities to the tax authority). Ideally, in the near future, taxpayers will not need to file a tax return in most common cases at all, with the tax office simply notifying them of their tax duty. The amendments also enhance fairness and equality by typically imposing higher taxes on rooms in residential buildings used for accommodation services or by newly defining paved areas.

Nevertheless, several issues warrant a less positive evaluation. While exemptions from taxation aiming to support sustainability are generally welcomed, private businesses that generate profits and create economic value should not be exempted. The list of exemptions should be reconsidered, and their scope reduced. The newly implemented principle of formal truth should be replaced by the principle of material truth. Being aware that it may be more challenging to control, taxing property based on its actual situation and real usage is fairer and less prone to fraud. Efforts to increase the flexibility of municipalities to influence immovable property tax revenue must be strengthened. However, using measures of general nature to define immovable property with a higher local coefficient is inappropriate, as it may create inequality in taxation.

The increase in immovable property tax rates is highly appreciated. However, tax increases should be gradual and aligned with the needs of municipalities and the inflation rate. Even an 80% increase does not fully account for inflation since the last adjustment. Compared to property taxation levels in other EU Member States, there is still considerable room for growth in the Czech Republic. On the positive side, the introduction of an inflation coefficient helps address the previous reluctance of politicians to periodically raise tax rates.

Proposals de lege ferenda for the system of property taxation in the Czech Republic have been published several times by Radvan.[50] Despite the recent amendments for 2024, these proposals remain largely relevant, as the changes do not address the broader system improvements outlined in these proposals. The issue of low revenue could potentially be resolved by adopting an ad valorem tax base. However, this system is expensive to implement, administratively complex, and time-consuming. Additionally, there is a lack of political will to increase the overall tax burden. A less complex and more structurally straightforward approach would be to retain the unit-based (area-based) system. Regarding tax rates, there should be a single maximum rate specified in legislation for each type of property, with municipalities given the flexibility to set their own specific rates below this maximum. Given the Czech Republic's unique situation—with over 6,250 municipalities, many of which have very small populations—it is necessary to establish a standard rate for those municipalities that do not set their own specific rates.

KEYWORDS
property tax, local self-government, municipalities, Czech Republic, amendment, 2024

KĽÚČOVÉ SLOVÁ
daň z nehnuteľností, miestna samospráva, obce, Česká republika, novela, 2024

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