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What Tax Professionals and General Public Think about Immovable Property Tax: The Case of Croatia

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What Tax Professionals and General Public Think about Immovable Property Tax: The Case of Croatia [*+]

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Abstract

The results of two questionnaires about the proposal for the new tax in Croatia—the immovable property tax, are analysed in this paper: the long one for tax professionals and the shorter one for general public. The Partial Least Squares Structural Equation Model and the correlation matrix indicate attitudes and values relevant/related for/to the immovable property tax. Tax professionals are more in favour of the immovable property tax than the general public. Supporters from both groups support equity as one of the main principles of taxation. The support of the tax professionals is also negatively influenced by their support of lower taxation costs and positively influenced by support of property as an ability to pay indicator and by the need to capital income taxation. There is also a correlation for general public concerning their fear maintaining existing immovable property taxes/fees.

Keywords: immovable property tax, tax professionals, general public, Croatia
JEL classification: H20

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1. Introduction

This research measures the demand of the introduction of the immovable property tax (and the factors influencing it) in Croatia. It has been measured by two questionnaires—for tax professionals and for the general public. The methodology encompassed descriptive statistics, correlation matrix and the Partial Least Squares Structural Equation Model.

The expected main research results (according to the set of numerous hypotheses based on literature and Croatian situation) should indicate less support of general public in comparison to professionals for the immovable property tax introduction. Decisions are expected to be influenced by different professional 8as well as general public) attitudes, values and expectations.

The Croatian Ministry of finance proposed the introduction of immovable property tax in 2012 as a completely new tax (Ministarstvo financija 2012), which will be levied at the local level. However, the critics were strong and came even from the some parties of the political coalition proposing this tax. The fact that this new tax will replace older immovable property user fee (as well as some other smaller property taxes/fees) was not precisely underlined, so the general public feared about additional tax burden. In the end, the Government has gave up for the time being.

The objects of taxation by the immovable property tax were to be all immovable properties (constructed and unconstructed properties that are entered in the fiscal cadaster). Taxpayers were to be actual users of the property, or the owner/tenant.

Taxable value was enacted as 70% of the fiscal value (resulting from a market value and different elements of immovable property listed in fiscal cadaster).

The tax rate was supposed to be 1.5%. It should be noted that the ultimate tax burden was planned to be lover for properties for permanent housing, temporary residence and for business.

The new tax should replace the existing user charges related to immovable property (area-based simple duties, depending also on location and immovable property purpose, whose level varies significantly among autonomous municipalities) and vacation housing tax (also area-based tax with upper limit set by central authority). Different simulations were done, pointing out that there would be no increase in the immovable property tax burden when the old and the new system were compared. However, it was not clear enough whether this would be only for the short run, since it the long run the withdrawal of personal income tax surtax, which is also an (additional) local tax, was planned as a part of process of shifting tax burden away from (labour) income (to property).

Following the introduction, numerous hypotheses are summarized in the second chapter. The third chapter encompasses a description of samples (especially in Appendix), two questionnaires and the quantitative research methods. In the end the results of both questionnaires with discussion are presented: descriptive statistics, the Partial Least Squares Structural Equation Model and the correlation matrix.

2. Research hypotheses

Based on the literature overview and taking in account the proposed Croatian model, following hypotheses/assumptions could be set:

1) Tax professionals are more inclined to the local immovable property tax introduction than the general public;
2) Tax professionals perceive the introduction of immovable property tax in light of general requirements of shifting the tax burden from income to property;
3) Tax professionals and taxpayers from general public that are more inclined to tax equity / redistribution are also more inclined to the immovable property taxation;
4) The former hypothesis for the tax professionals could be achieved through the relationship with the taxation of capital incomes, since they are primarily related to classical tax equity principle, so those supporting taxation of capital income, support also capital (property) taxation;
5) Furthermore (in relation to hypothesis 4) the only capital income taxation that is its "missing" part is imputed rent (interest) on housing (capital gains on owner-occupied housing could be added also), so immovable property tax is the "second best" solution of taxing such income(s), which has its efficiency (distortion diminishing) effects, so the positive influence of capital income taxation attitude of immovable property tax introduction is expected even in Croatia;
6) Tax professionals supporting the theoretical requirements about property being necessary additional ability to pay indicator support, of course, immovable property tax introduction, but they should be aware of the fact that net wealth tax is theoretically better additional indicator of ability to pay (although practically hard to implement, especially in transition country), so both of these questions/statements are expected to influence together the immovable property taxation introduction;
7) The main disadvantage of value based local immovable property tax in comparison with the existing area based user fee is, besides equity, its higher administrative costs (especially during introduction), so the professionals' attitude that these cost should be lowered has a negative influence on immovable property taxation introduction;
8) Immovable property tax has (in comparison with area-based user fee) more revenue raising potential. Although Croatia announced no short run increase in revenues, the announced tax shifting implies rising revenue and burden on housing sector and fiscal consolidation problems at local and general government level result in fear that this will bring to the rise of the tax burden in general. So the professionals' attitude about necessity of lowering tax burden in general (tax ration relative to GDP) is expected to have a negative influence on immovable property introduction;
9) General public could be not aware of that fact that general utility fee (communal fee) and tax on holiday houses are to be abolished (or simply do not trust the government to do the promised), so their expectations of their burden to remain are one of the causes of their negative attitude towards the proposed immovable property tax.
10) Demographic characteristics of professionals and general public, especially concerning employment, could play a significant role in their attitude towards immovable property tax introduction.

2. 3. Questionnaires, samples and their analysis

Our questionnaires were based on different ones including immovable property taxation (Slemrod 1995; Brannon 1995; McCabe and Stream 2006; Ashworth and Heyndels 1997; Hammar et al. 2008; National Public Radio/Kaiser Family Foundation/Kennedy School of Government 2003; Campbell 2009; Lim et al. 2013).

The first questionnaire was sent to different tax professionals (from public, private and academic sector)[4] and it included questions about all major existing tax forms, questions about principles of taxation as well as questions about future proposed immovable property tax. The response rate was around 30%, so 304 responses were gathered. The questionnaire was placed on the Survey monkey web site and the potential respondents were informed by e-mail, telephone calls, direct contact or in the written form. First 10% of respondents were the members and participants at the regular annual meeting of chairs of finance from Croatia. They were also use to disseminate this information further. The pilot project included a couple public finance professors and practitioners from the accounting offices. Questions were answered using simple Likert scale (ranging from 1 to 5). The demographic characteristics of the sample are presented in the Appendix.

The second questionnaire was much shorter and simpler, concentrated on the new immovable property tax and sent to the general public. The number of respondents was a little bit higher (405) and it was enough in relation to the total Croatian adult population. The structure of the sample reflected the Croatian population in terms of different demographic characteristics. Its structure is presented in the Appendix.

The students that worked as a student help at the faculties of economics from Zagreb and Rijeka were used for a telephone calls. The general public was selected randomly. Questions were answered either using the same Likert scale as previously or using simple Yes/No answers.

Besides descriptive statistics, the Partial Least Squares Structural Equation Model was used for the questionnaire sent to professionals. The manifest variables (jointly) form latent variables. The direction of their relationships (usually showed by arrows, including coefficients and their statistical significance) depends on whether the manifest variables are formative or reflective. There are three synthetic elements of the model: the inner model, the outer model and the weighting schemes. The inner model is made by latent variables and their relations (including coefficients and their statistical significance). The outer model comprises the relationships between latent and observed/manifest variables. The weighting scheme determines the inner weights. A lot of survey questions (and their answers where the distributions are not normal) enable using that model.

The public opinion questionnaire on immovable property tax introduction was analysed first by using descriptive statistics and second by using the correlation matrix to establish the relationships between the relevant variables (demographic variables and immovable property tax questions).

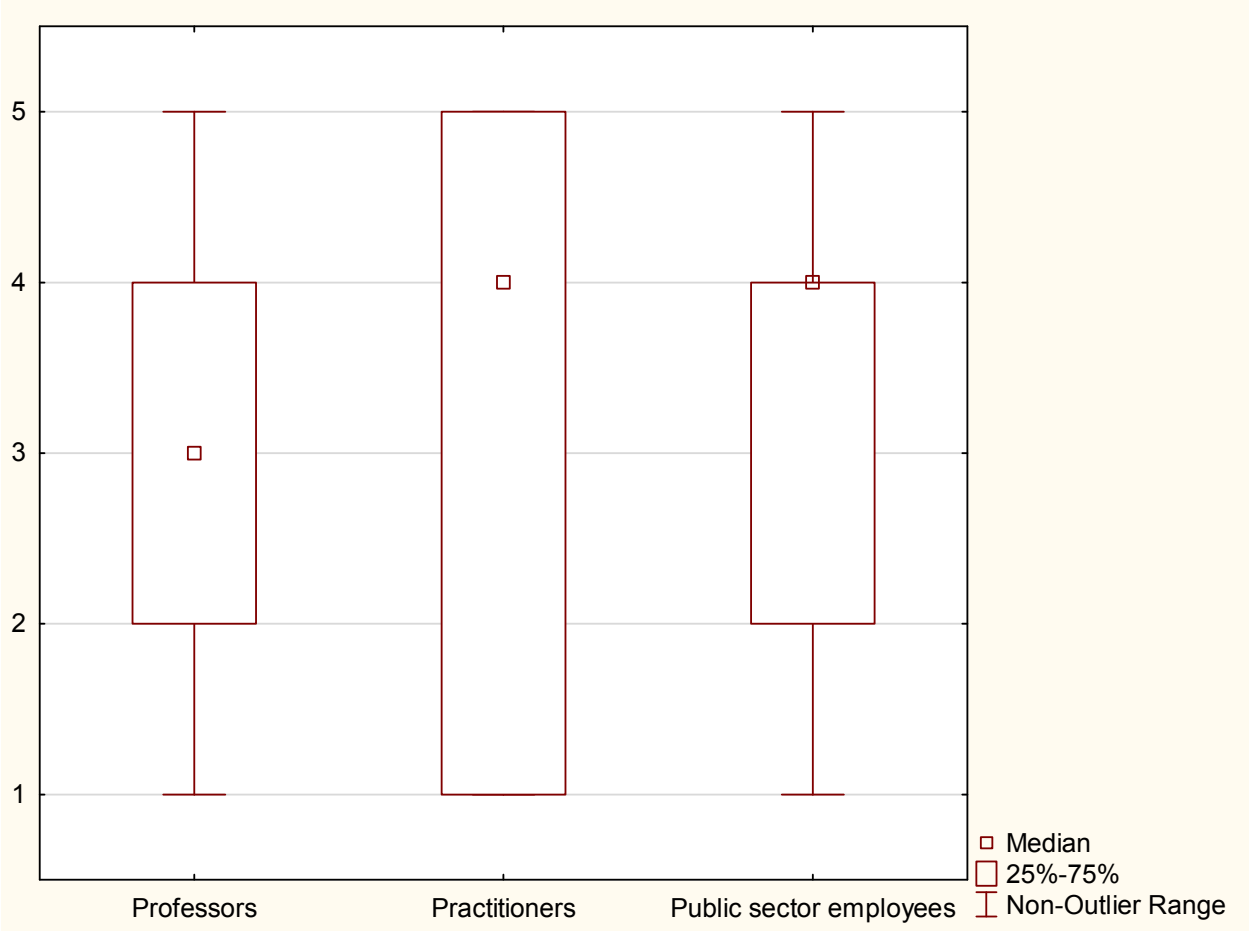
3. 4. Results of the opinion questionnaire of tax professionals

Figures 1 and 2 presents the answers of professionals about whether Croatia should introduce the proposed immovable property tax, divided by their main groups (professors, public sector employees from tax administration and local government, private sector practitioners). After basic average values (median and mode) the middle answer (3 – neither

[4] It was based mostly on NTA questionnaire, whose results were presented in Lim et al. (2013).

agree, nor disagree) is dropped out and the remaining answers are grouped as Yes (5 and 4) and No (1 and 2).

Figure 1: Box and whiskers plot of answers of tax professionals to the question whether Croatia should introduce immovable property tax per main groups of respondents



Source: Authors, based on questionnaire responses

Figure 2: Distribution of yes and no answers of tax professionals to the question whether Croatia should introduce immovable property tax per main groups of respondents

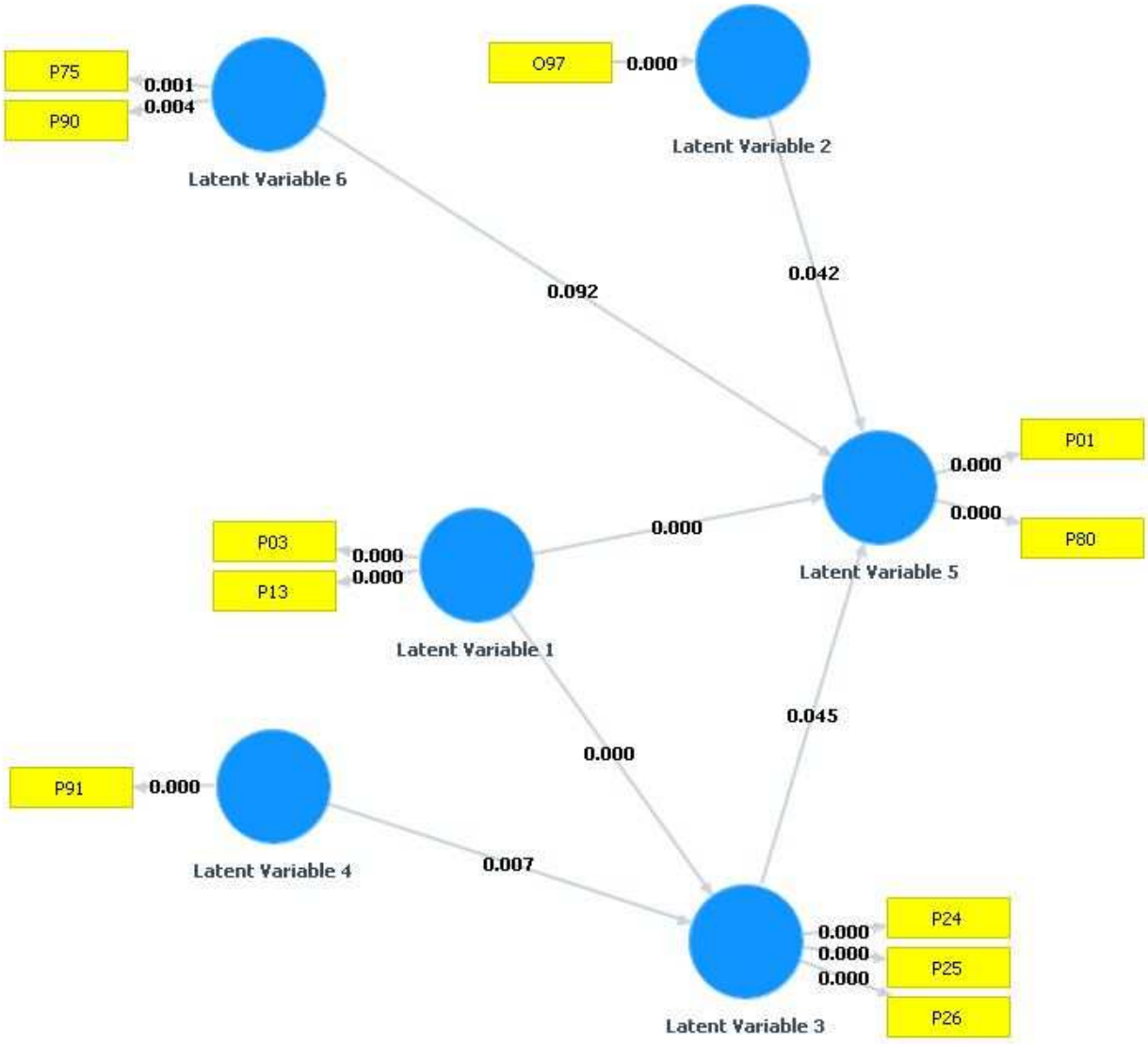
Source: Authors, based on questionnaire responses

Although median and mode are the same (4), pointing out the representativeness of the former in its support of the introduction of the immovable property tax, other data reveal the dispersion of the results. It is interesting that the radical answers (1 and 5) gain the same support among the professionals indicating the strong battle and the uncertainty of its destiny.

However, we wanted to see the influence of other variables inside the property taxation and the entire tax system on the opinion about the immovable property tax introduction.
The different causal relationships of the introduction of a real estate tax with the survey questions have been further investigated using the *Partial Least Squares Structural Equation Model* (Figure 3). The manifest variables that form the final endogenous variable are the introduction of the proposed immovable property tax (Q1) together with the statement that the tax burden should be shifted from income (personal and corporate) to property. These manifest variables form the final endogenous latent variable, namely the planned shift from income to property in local taxation: the shift from user charges to property taxes is already encompassed in the legislative proposal for the immovable property tax. This final endogenous variable is influenced by a couple of latent variables (inner model), which are measured indirectly by observed/manifest variables (outer model). Starting with the general positive attitude towards property taxation, it is completely logical that supporting property as a necessary additional indicator of ability to pay as well as supporting the net wealth tax as the "real" synthetic property tax also positively influences immovable property taxation. The same support for property taxation influences support for capital taxation alongside personal income tax. Within personal income tax the reliance on indirect taxation of property/capital through taxation of capital/property income (dividends, interests and capital gains), which naturally is positively influenced by the importance of equity (over efficiency), has a positive causal relationship with the final endogenous latent variable. Since the introduction of the immovable property tax is accompanied by higher administrative costs of taxation and could result in a higher tax burden in the end, it is logical that it is negatively influenced by the latent variable reflecting attitude

towards lower taxations costs (tax burden and especially administrative and compliance costs of taxation). In the end, the sectors where professionals are employed (private, public, university) matters also. While professors are strongly opposed to that proposal (median of 2), other professionals are much supportive (median of 4).

Figure 3: Factors influencing the introduction of the immovable property tax and theshift from income to property taxation in Croatia: *Partial Least Squares Structural Equation Model*



Notes:
Positive attitudes towards immovable property tax (P01), shift from income to property taxation (P80), net wealth tax (P03), property as additional ability to pay indicator (P13); equity over efficiency (P91), capital income taxation: interest (P24), dividends (P25) and capital gains (P26); reduction of total tax/GDP ratio (P75) and administrative and compliance costs of taxation (P90)
091: Employment sector (see the text above)
** p < 0,1; ** p < 0,05; *** p < 0,01*

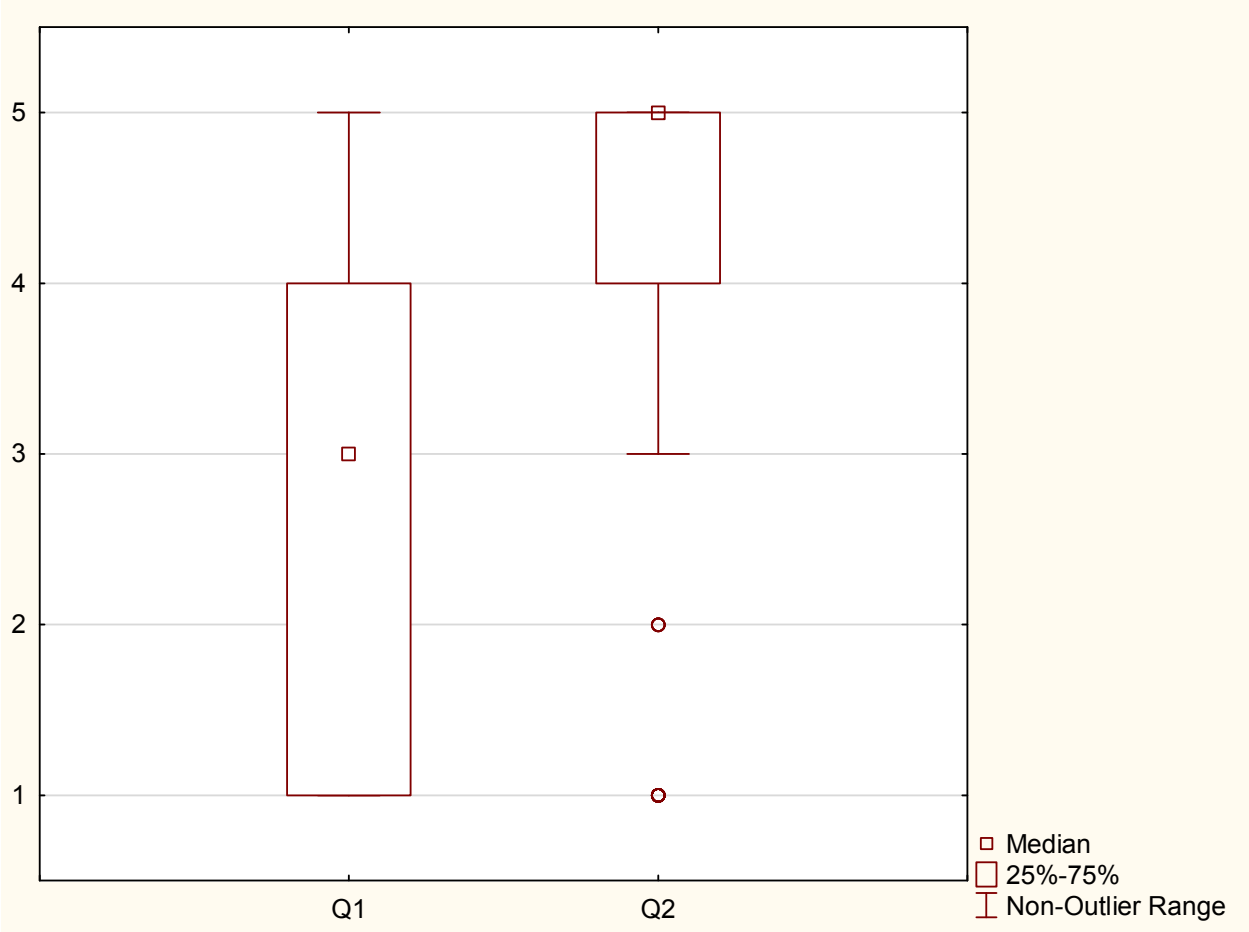
Source: Authors, based on questionnaire responses

The presented model confirms our hypotheses. The tax professionals perceive the introduction of immovable property tax in light of contemporary requirements of shifting the tax burden from income to property. H6 points out that tax professionals supporting the theoretical requirements about property being necessary additional ability to pay indicator support immovable property tax introduction, but that they should be aware that the net wealth tax is better additional indicator of ability to pay, so both of these questions/statements are expected to influence together the immovable property taxation introduction. This hypothesis yielded stronger support. Similarly, the H5 pointing out not only imputed rent on owner occupied housing (missing in our research due to its practical implementation), but also related capital income taxation support inside the personal income tax, is also confirmed. It is related to capital (property) taxation, but it is influenced by the equity argument also (H4 and H3). Logically, the introduction (and further development) of immovable property taxation is accompanied by higher administrative costs of taxation, which is denoted by tax professionals (H7). There is a great fear or tax professionals (as well as general public) that the new tax could result in a higher tax burden in the end, especially due to the rising deficit and fiscal consolidation problems (H8). Finally, place of employment of tax practitioners (H10) is also important. While professors are strongly against immovable property tax other professionals are much in favour of it.

5. Results of the opinion questionnaire of general public

As already pointed out, the second questionnaire was much shorter, as it is the case for the general public questionnaires. The main question about immovable property tax introduction was slightly modified using only term “property”, since this term (although not completely appropriate and precise) was used in the mass media when talking about the new tax. We were interested in the equity preferences of the general public as well as their expectations concerning existing fees and taxes related to property. The basic descriptive statistics of the most important answers is presented in Figures 4 - 6.

Figure 4: Box and whiskers plot of answers of general public to the questions about introduction to new property tax and tax system contribution to the redistribution of income

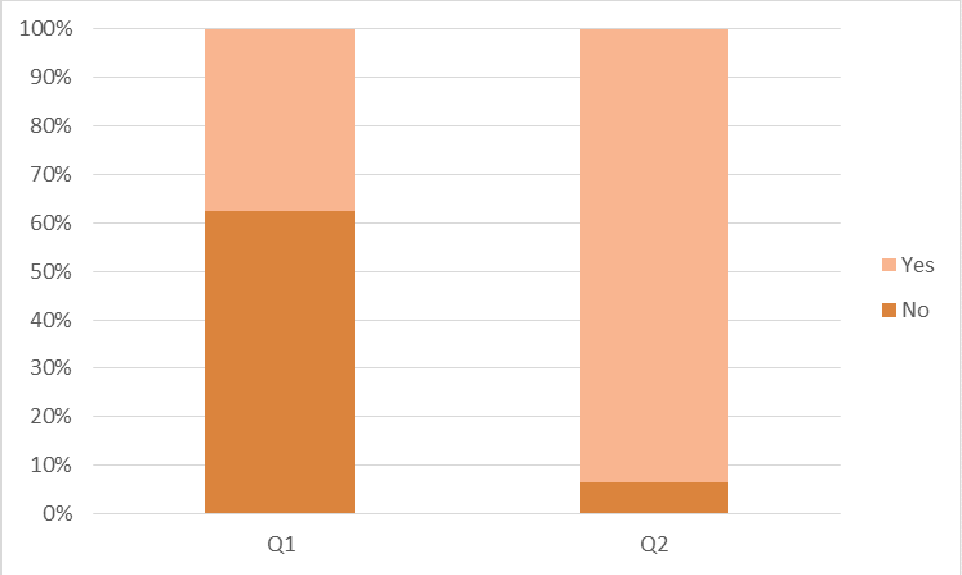


Notes:

a) *Q1: Do you think that Croatia should introduce new property tax e.g. immovable property tax?*
b) *Q2: Do you consider that tax system should contribute to the redistribution of income (from the richer to the poorer)?*
c) *Answers: 1 – completely/strongly disagree, 2 – mostly disagree, 3 – neither agree nor disagree, 4 – mostly agree, 5 – completely/strongly agree*
d) *Mode (Q1)=1, Mode (Q2) = 5*

Source: Authors, based on questionnaire responses

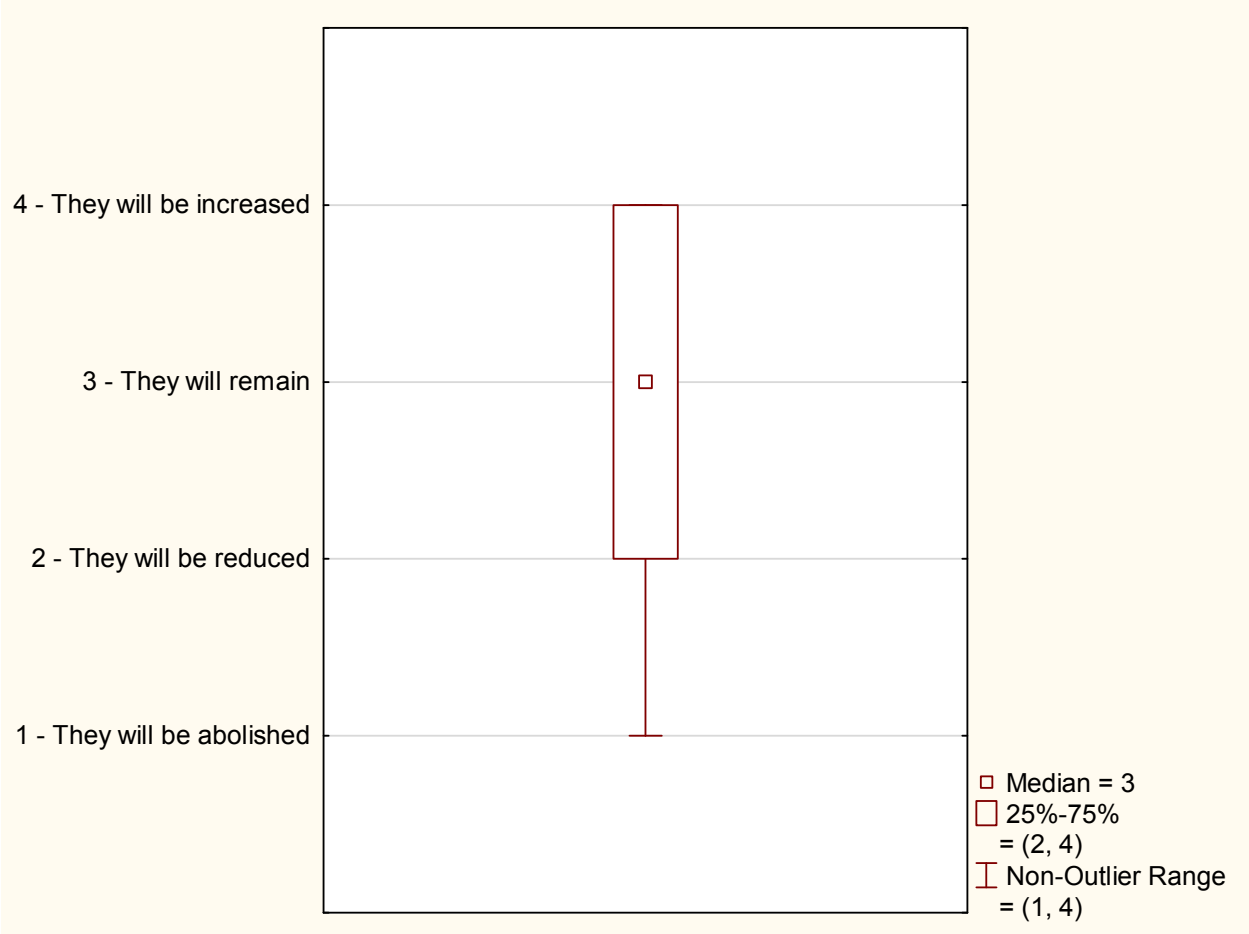
Figure 5: Distribution of yes and no answers of general public to the questions about introduction to new property tax and tax system contribution to the redistribution of income



a) *Q1: Do you think that Croatia should introduce new property tax e.g. immovable property tax?*
b) *Q2: Do you consider that tax system should contribute to the redistribution of income (from the richer to the poorer)?*

Source: Authors, based on questionnaire responses

Figure 6: Box and whiskers plot of answers of general public to the question "After the introduction of new property tax, what will, according to your opinion, happen to the communal fee and tax on holiday houses?"



Note:

a) Mode = 3

Source: Authors, based on questionnaire responses

The H1 is confirmed, since the general public is less supporting immovable property tax than tax professionals. Not surprisingly, taxpayers are very concerned about tax equity, but still not in favour of the immovable property tax. They are afraid that the communal fee/charge and the holiday houses tax could remain.

It is interesting to gain insights into the correlations among the questions, which are presented in Figures 4 and 6, together with two additional questions concerning real estate planning (Q4 — Do you plan to sell the real estate within the next 5 years?; Q5 — Do you plan to buy real estate within the next 5 years?).[7]

Table 1. Correlation matrix (**Spearman's** rank **correlation** coefficients [a])

Question	Q1	Q2	Q3	Q4
Q2	0.178***			
Q3	-0.356***			
Q4		0.115**	Sd=0.507*	
Q5			-0.194***	0.323***

*Notes: *** p < 0,01; ** p < 0,05; * p < 0,1*
[a] *Somers' d for Q3/Q4*
Source: Authors, based on survey responses

The very weak but still statistically significant positive correlation between Q1 and Q2 suggests that, as expected, some of those supporting the equity principle still believe it can be achieved through the introduction of the immovable property tax (H3). The slightly stronger negative correlation between Q1 and Q3 is very important, and indicates that the strongest opponents of the introduction of the immovable property tax are those who remain sceptical about the government's promise to abolish existing immovable property taxes or those who are not even aware of that promise (H9). The median of Q1 (3, Figure 4) together with this negative correlation offer potential for (mild) acceptance of the introduction of the immovable property tax given sharing of appropriate information among the general public, followed by a strong and reliable assurance that the existing taxes/charges are to be abolished. Furthermore, even if both were accomplished, scepticism remains that a new tax might (somehow) bring an additional burden.

The remaining correlations are logical. Those planning to sell real estate (Q4) do so, among other reasons, because of financial problems and it is logical that they are more inclined to income redistribution (Q2). Naturally, since other factors influence this relationship the correlation is very weak. The positive correlation between Q4 and Q5 is easy to explain, while those highly engaged in selling real estate (Q4) are also highly engaged in buying it (Q5) owing to resale. More interesting for our analysis are the correlations of Q3 with Q4 and Q5, respectively, with the first being positive and the second being negative, as expected. Those who do not believe the existing real estate charge (and tax) will be abolished and even fear they will increase, combining with the new real estate tax to increase the combined tax burden, much more strongly favour divesting from real estate.

4. 7. Conclusion

The research results for demand of immovable property tax in Croatia mostly confirmed our hypotheses, based on current literature. General public does not support this tax as tax professionals do. However, they are not opposing it neither (median of 3).

The tax professionals perceive the introduction of immovable property tax in light of contemporary requirements of shifting the tax burden from income to property. Those of them supporting the theoretical requirements about property being necessary additional ability to pay indicator support immovable property tax introduction. They are also aware that the net wealth tax is better additional indicator of ability to pay, so both of these questions/statements influence together the immovable property taxation introduction. Similarly, (related) capital income taxation inside the personal income is also relevant reliance on equity (instead on efficiency). Other relevant elements include administrative costs of taxation as well as tax ratio (negative

influence). Finally, place of employment of tax practitioners is also important. While professors are strongly against immovable property tax other professionals are much in favour of it.

There is a very weak, but still statistically significant positive correlation between support of immovable property tax and equity among general public suggesting that some of those supporting the equity principle still believe it can be achieved through the introduction of the immovable property tax. The slightly stronger negative correlation between immovable property tax introduction and fear that the existing local immovable property fees/charges and taxes will remain indicates that the strongest opponents of the introduction of the immovable property tax are those who remain sceptical about the government's promise to abolish existing immovable property taxes or those who are not even aware of that promise. It could be concluded that there is a potential for (mild) acceptance of the introduction of the immovable property tax given sharing of appropriate information among the general public, followed by a strong and reliable assurance that the existing taxes/charges are to be abolished.

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Appendix: Samples' structure and characteristics
Professionals:

Table A1. Sample distribution: education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No university degree	41	13,5	15,8	15,8
	University degree	117	38,5	45,2	61,0
	M.Sc./ PhD	101	33,2	39,0	100,0
	Total	259	85,2	100,0	
Missing	System	45	14,8		
Total		304	100,0		

Table A2. Sample distribution: employment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Private sector	25	8,2	9,6	9,6
	Public sector	113	37,2	43,5	53,1
	University/institute	122	40,1	46,9	100,0
	Total	260	85,5	100,0	
Missing	System	44	14,5		
Total		304	100,0		

Table A3. Sample distribution: age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	- 29	39	12,8	17,2	17,2
	30 - 44	106	34,9	46,7	63,9
	45 - 54	44	14,5	19,4	83,3
	55+	38	12,5	16,7	100,0
	Total	227	74,7	100,0	
Missing	System	77	25,3		
Total		304	100,0		

General public:

Table A4. Sample distribution: region

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Zagreb	111	24,3	24,3	24,3
	2 Northern Croatia	73	16,0	16,0	40,3
	3 Slavonia	85	18,6	18,6	58,9
	4 Lika and Banovina	38	8,3	8,3	67,2
	5 Kvarner	57	12,5	12,5	79,6
	6 Dalmacia	93	20,4	20,4	100,0
	Total	457	100,0	100,0	

Table A5. Sample distribution: sex

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 Mail	220	48,1	48,4	48,4
	1 Female	235	51,4	51,6	100,0
	Total	455	99,6	100,0	
Missing	System	2	,4		
Total		457	100,0		

Table A6. Sample distribution: age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 18-30	98	21,4	21,5	21,5
	2 31-44	96	21,0	21,1	42,5
	3 45-59	109	23,9	23,9	66,4
	4 60+	153	33,5	33,6	100,0
	Total	456	99,8	100,0	
Missing	System	1	,2		
Total		457	100,0		

Table A7. Sample distribution: education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Primary education	61	13,3	13,3	13,3
	2 Secondary education	260	56,9	56,9	70,2
	3 Univ. of applied sc.	83	18,2	18,2	88,4
	4 University degree /M.Sc.	51	11,2	11,2	99,6
	5 PhD	2	,4	,4	100,0
	Total	457	100,0	100,0	

Table A8. Sample distribution: average income per family member

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1- 2.000 kn	121	26,5	26,8	26,8
	2 2.000 - 4.000 kn	236	51,6	52,3	79,2
	3 > 4.000 kn	50	10,9	11,1	90,2
	4 Do not know	44	9,6	9,8	100,0
	Total	451	98,7	100,0	
Missing	System	6	1,3		
Total		457	100,0		

Table A9. Sample distribution: settlement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 Urban	255	55,8	55,8	55,8
	1 Rural	202	44,2	44,2	100,0
	Total	457	100,0	100,0	

Table A10. Sample distribution: immovable property ownership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	413	90,4	90,4	90,4
	No	42	9,2	9,2	99,6
	Do not know	2	,4	,4	100,0
	Total	457	100,0	100,0	