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Finance Ministry Wants to Raise Property Tax on Homeowners Tenfold

By Diana Kulchitskaya

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The Finance Ministry is finalizing plans to levy a property tax on individual homeowners and ratchet up the cost by pegging the tax rate to cadastral property values.

According to proposed amendments to the Tax Code published on the ministry's website, from Jan. 1, 2015, the new tax will replace an existing property tax and a land tax currently paid by homeowners. The proposal's main innovation is to jettison inventory book property values as a basis for calculating tax rates. Set by a state agency, these are often ten times lower then market prices. From 2015, tax will be levied on the basis of cadastral values that better reflect real prices. As a result, homeowners will likely see a big increase in tax bills.

"The new legislation will have a huge effect on the owners of residential real estate — they will have to pay a significant amount of money in comparison to past years," said Mark Rovinsky, deputy head of the taxation department at law firm Egorov, Puginsky, Afanasiyev and partners.

Owners of big properties will be hit hardest, said Sergei Zharkov, editor-in-chief of the real estate portal IRN.ru. The proposal grants a tax deduction of 20 square meters to every property owner, which will be of greater benefit to owners of average-sized apartments — which in Moscow means a two-room apartment of about 50 square meters — than for people living in larger properties. Zharkov also pointed out that many people on low incomes that have inherited big properties could find themselves unable to pay the tax, which will be set at 0.1 percent of the value of the residential property and 0.5 of nonresidential real estate such as garages and storage facilities.

The amendments have been brewing in the Finance Ministry for five to six years, and are likely to be accepted, according to Rovinsky.

However, the law's introduction may not be smooth. Rovinsky warned that problems may arise because of frequent errors in the calculation of the cadastral value. Last year, it emerged that the government had no records for the 40 percent of all owners real estate in the country. The state agency that tracks realty ownership has no information from before 1998, while its Soviet-era predecessor did not keep serviceable records.

Under the proposed amendments, the revenue collected by upgraded property tax will go straight to local budgets and will be used to finance underfunded local municipalities. Zharkov welcomed that aspect of the proposal. "This law should have come into force long ago. It is world practice and it is the main way to finance local municipalities," he said.

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