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Property Valuation and Taxation in Denmark

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Introduction

Valuation of real property is carried out by various institutions and for various private and public purposes. E.g., private mortgage companies make their own valuation of the properties prior to determining a mortgage application, and the private real estate agents assess the property value prior to sales or on demand from individuals. However, this paper deals with the public valuation in Denmark and its interaction with the cadastre, the land registry and other relevant land information.

Valuation for property taxes is a public task and is carried out by laymen appointed as valuers by the municipal councils. Licensed surveyors do not play any official role in the valuation process or in the real estate management business.

The purpose of the public valuation is to provide a clear and widely accepted background for calculation of property tax. Property taxes comprise 3,5 percent of total taxes and duties in 2000 corresponding to 22,000 million DKK (approx. 2,600 million USD). Property taxes are divided into property value tax (8,500 million DKK) levied by the state and land taxes (13,500 million DKK) levied by the county and municipal councils. The land tax rates are each year decided by the local authorities within the range determined in the law.

The county and municipal authorities are responsible for utilising more than half of the total public expenditure. Furthermore, the tax income of the counties and municipalities accounts for more than half of the local finances. Annual negotiations take place between the state and the national county and municipal association in order to determine the guidelines for spending and taxation.

The valuation is carried out for each property based on information from the cadastre (the cadastral number, the area of the property and obligations concerning farming) and from the land registry (name of the landowner). Further information is needed from the municipality administration such as information about sales prices, information about buildings (age, floor space, materials, etc), and information about planning regulations (zoning) and preservation of land and buildings.

The land and property value is assessed as the cash payment a sensible buyer would offer for the land and property at the time of valuation.

Land and property valuation is controlled by the Ministry of Taxation and managed by the municipal authorities. Although values are automatically assessed on the basis of recorded sales prices and property information, there is a "human factor" present in the valuation process represented by local valuation committees that are typical laymen. The valuation is based on information from the Cadastre and the Land Book. However, the key element is the mandatory recording of property sales prices.

The Cadastre

The Danish cadastre, which derives from the results of the enclosure movement, was established in the year 1844. From the beginning the cadastre consisted of two parts: The cadastral register and the cadastral maps. Both of these components have been updated continually ever since.

Even if the primary purpose of the cadastre was to levy land taxes based on the yielding capacity of the soil, the cadastral identification was also used to secure land ownership and to support the land transfer system. Over time the Danish cadastre has changed from being primarily a basis for land valuation to a legal cadastre supporting an efficient land market.

The cadastre is maintained by a state agency, the National Survey and Cadastre, while the cadastral surveys are carried out by the private licensed surveyors. The main provision in the Act of Subdivision and Land Registration is the obligation of the landowner to apply to a licensed surveyor for starting the process of updating the cadastre when a part of a real property is sold, mortgaged or leased for a longer period (30 years). This main provision is fulfilled due to the benefit of the landowner getting the legal rights of ownership and mortgage secured through registration in the Land Book.

Therefore subdivision must be carried through prior to registration of the title deeds for land parcels being a part of a property. Such land parcels are then identified as individual properties in the cadastral register. This interaction between the cadastral system and the Land Book has proved to be basically secure and effective.

The cadastre consists of four elements:

- The parcel register – 2,5 million parcels representing 1,5 million properties. The cadastral register was computerized in the mid 1980's.
- Cadastral maps - computerised in the end of the 1990's (originally 15.000 sheets mostly in scale of 1:4000)
- Cadastral surveys related to parcel boundaries (about one mill. sheets) - not computerised.
- Register of control points (about 360.000 points) - computerised.

Strata titles (flats in freehold) are not registered in the cadastre but only in land book. When subdividing into strata titles the total property must be included. The property as registered in the cadastre is then owned in common by the strata title owners.

The Land Registry

The land registry system was established in 1845 on the basis of the new cadastre adopted in 1844. The system is maintained by the local district courts for the purpose of recording and protecting legal rights of ownership, mortgage, easements and leasehold. Notaries are not a part of the Danish system.

The Land Registry Act states that legal rights of ownership and mortgage must be registered in the Land Book to be secured against any third party rights. It is also stated that the legal rights of ownership and mortgage must include the total property in order to ensure order of priorities, e.g. in the case of a forced sale.

The Land Book is based on the cadastral identification. Each property has a separate sheet showing the cadastral information (land parcel numbers and areas), name of the landowner and information on mortgage and easements. Information is listed in the order of priority representing the date of entrance into the Land Book. The Land Registry consists of the following information:

- Titles to properties
- Mortgage
- Easements
- Limitations or obligations (according to private agreements or public regulation)
- Other areas of legislation such as condominium titles (strata titles).

The Land Registry is continually updated with information regarding subdivisions, amalgamations of parcels etc. from the cadastre. The Land Registry was fully computerised by the end of 2000.

Property valuation principles

A general valuation of all properties in Denmark was previously carried out every four years. In the years in between the general valuations the valuations were updated using factors reflecting the price index development. By 1st January 1996 the 20th general valuation in Denmark took place. Since 1998 annual valuations have been introduced to replace the 4-year valuation system.

The basic valuation principles are that values for each property are assessed for *the total property* (land and building) as well as *the land*.

The total property value is assessed as the full market value of the property including land and buildings but excluding machinery, furniture and animals. The value is assessed to reflect the average cash payment that a sensible buyer would pay for the property at the time of valuation. The value should also reflect the best possible economic use of the property. All public regulations such as planning regulations, preservation of buildings or nature, and rent control - must be taken into consideration. General easements such as regulations for a major dwelling area are also included. Specific private regulations and easements are, however, not taken into consideration. This means that any unusual rent agreements or mortgage conditions should not influence the valuation.

The land value is assessed as the full market value (assumed cash payment) of the land without the buildings or other constructions facilities. Again, the value is assessed to reflect the best possible economic use of the land - disregarding any existing buildings and the present land use. All public regulations concerning the land-use – but not the buildings - are taken into consideration. The land value includes all kind of site improvements such as drainage, sewerage or roads.

The valuation process

Before 1960 the first step of the valuation process was to send out forms to the landowners, asking them to fill in all the basic information about the land and buildings and then return the forms to the valuation authorities.

After computerization of the Valuation Register in 1960 and the establishment of the Building and Dwelling Register in 1980 the landowners of the private dwellings and summer cottages no longer have to fill in any forms. All necessary information about land and buildings are already recorded and continually updated in the computer registers.

Information needed for the valuation process derives from three sources:

- The Register of Properties
- The Building and Dwelling Register
- The Sales Information

The purpose of the *Property Register* is to record the valuation of each property and thereby

assist the authorities in calculating and collecting property taxes. The register contains information concerning identification of the property (cadastral number and property number), area of each land parcel, and the resulting land and property valuation. The register is maintained by the local authorities - the 275 municipal councils. The guidelines for running the register are determined by the Central Customs and Tax Administration of the Ministry of Taxation.

The Building and Dwelling Register was established 1977-79 and is based on the valuation forms from the 1977-valuation. The register contains detailed information about the buildings such as number of floors, floor area, and building materials. By establishing the register the owners were informed about the recorded contents, and they are informed when any changes occur. The register is controlled and continuously updated by the municipal housing authorities as a part of their daily routines of issuing building permits.

The sales information derives from sales declarations that the buyer of a property must submit to the municipal authorities during the process of conveyance. The declaration states the sales price, details about payment and the nature of the transfer (open market sale, heritage, family transfer, auction). The deed cannot be registered in the Land Book unless it is proved that the sales declarations have been submitted to the municipal authority.

Statistical information from the three sources is used in calculating the proposed values for as well the total value as the land value.

The landowner may appeal the result of the valuation and classifications. Until 1996 the notifications to the owners contained only information about the assessed values. This caused a large number of appeals without any specified reason. At the 1996 general valuation the notifications were expanded. They now include all information and calculations used in the valuation process.

The valuation organisation

Denmark is organised into 224 valuation districts. In each district there is a valuation committee with three members. It is a typical laymen-organisation. It is the responsibility of the committee to ensure that all assessments are made according to the regulations and that the necessary basis material is present. Each committee is served by a secretariat in the municipal administration. The municipalities are responsible for collecting and updating the property data necessary for the valuation.

Appeals concerning the values can be made to the Supervisory Valuation Board. There are 27 Supervisory Valuation Boards each consisting of a number of chairmen from the valuation committees.

If decisions of the Supervisory Board are not accepted, further appeals can be made to the National Tax Tribunal. The Minister for Taxation appoints the members normally coming from the political parties and major organizations.

The Central Customs and Tax Administration acts as a secretariat for the Tribunal. In practice the regional offices under the Central Customs and Tax Administration will act as supervisors of the local valuation committees and may recommend changes of valuations made by the local valuation committees.

It is currently considered to deregulate the valuation organisation by abolishing the valuation committees as well as the supervision valuation boards. Instead, responsibility for the valuation process will be placed at the 29 regional Custom and Tax authorities. Furthermore, 15 regional Tax Appeal Boards, each with five members, will be established to deal with complaints from the landowners. Also the valuation process will be simplified. The new valuation bill will be considered by the parliament during spring 2002 and the new organisation should be in place before the end of 2002.

Property taxation

In Denmark the personal income tax is by far the most important tax covering 53 percent of all taxes and duties. In general the income tax accounts for about half of the gross personal income. Also the "value added tax" (VAT) or general sales tax and the taxes on specific goods (such as spirits, cars, fuel, etc) are important and accounts for 31 percent of the total tax and duty revenue. The VAT, being 25 percent, covers almost all transactions of goods and services including construction of buildings. The profit from sales of immovable property is not subject to VAT. However, immovable property is subject to a number of other taxes as listed below.

Land taxes

Land tax is levied by the county and municipal authorities based on the assessed market value of the land for all kind of private properties. The tax to be paid to the county councils is fixed by law to be 1 percent of the assessed market value of the land. The tax to be paid to the municipal councils is fixed as a part of the yearly total budgeting for each municipality. The tax must be fixed within a range of 0,6 to 2,4 percent of the land value. The average rate in 2001 was 1,5 percent. The determination of the municipal land tax rate within the prescribed limits is considered an important factor for the local political and fiscal discretion.

Public properties and other properties such as preserved properties and embassies are not subject to land tax. Publicly owned properties are, however, subject to a service tax meant to cover the costs of public facilities such as roads, parking, fire brigades etc. For state owned properties the tax is equivalent to the land tax. For other publicly owned properties the service tax is normally fixed as half of the land tax. A service tax may also be levied on certain business properties.

Land taxes account for 13,500 mill DKK (1,600 mill USD) in 2000 equivalent to about two percent of the total tax and duty revenue.

Property value tax

Persons who own their home must pay tax of the value of the home, known as property value tax. The tax is determined and levied by the state government and is included in the total tax payable during the year. The revenue of the property values tax is, however, transferred to county councils (one third) and municipal councils (two thirds).

The tax is currently fixed to be one percent of the total property value and it is increasing to three percent for values beyond 3 million DKK (around 350,000 USD). On the other hand, mortgage interest rates are deductible for income tax.

Property value tax accounts for 8,500 million DKK (1,000 million USD) in 2000 equivalent to about one percent of the total tax and duty revenue.

Property transfer tax

A conveyance tax must be paid to the Land Registry whenever a property is sold or transferred to another owner. The tax is fixed by law as 1,400 DKK plus 0,6 percent of the sales price (at least 0,6 percent of the public valuation for the total property value). The tax is due when entering the deed into the land book.

Mortgage document are also taxed when entered into the land book. The tax is fixed by law as 1,400 DKK plus 1,5 percent of the mortgage amount. Document of concerning easements etc are subject only to the land book duty of 1,400 DKK.

Development gain tax/betterment tax

This tax is imposed on land being transferred from rural to urban zoning. The change of zoning is the result of an adopted local plan transferring a rural zone area into an urban development zone. As a result of the new development possibilities the land value will increase, and a part of this increased value is subject to taxation. The tax is based on the difference between the land value for agricultural use and urban development use. The tax to be paid is 40 percent of a difference lower than 200,000 DKK (about 25,000 USD) plus 60 percent of amounts beyond this.

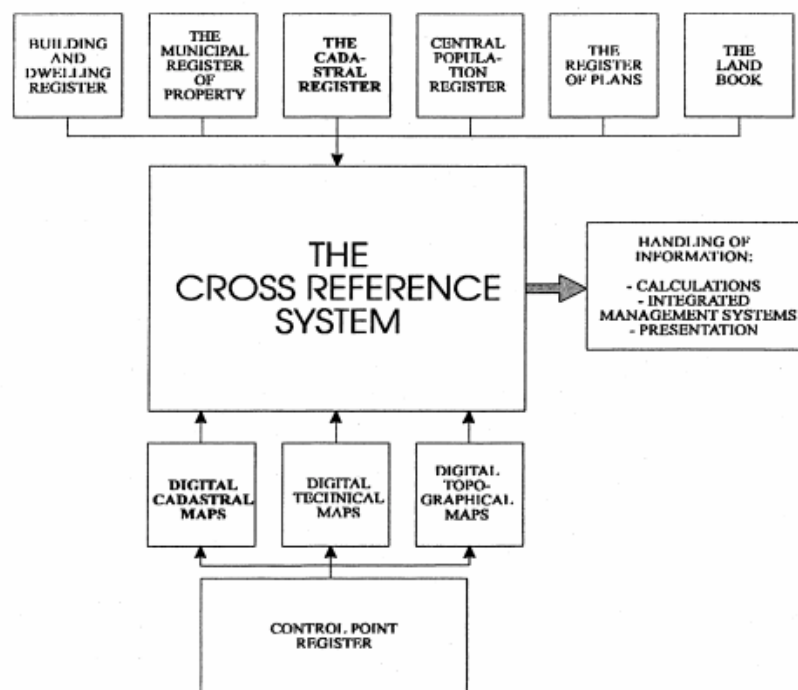
Capital gain tax

This tax relates to the profit calculated as the difference between the prices of buying and selling. The profit is included in the basis for income tax. The tax, however, does not relate to properties such as dwellings, summerhouses and freehold flats being used as the home base of the owners. Capital gain tax, this way, only relates to business properties.

Integrated land administration in Denmark

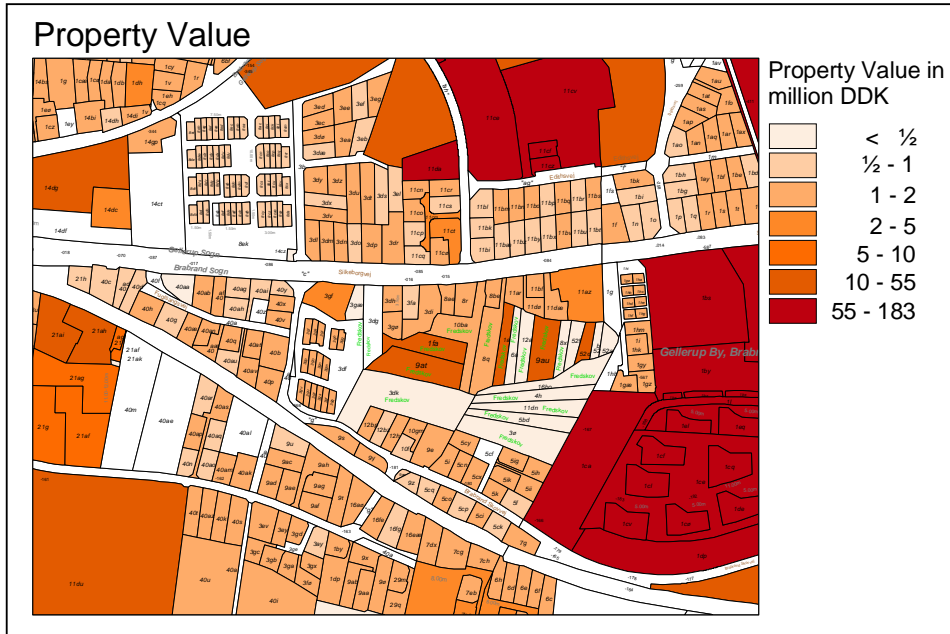
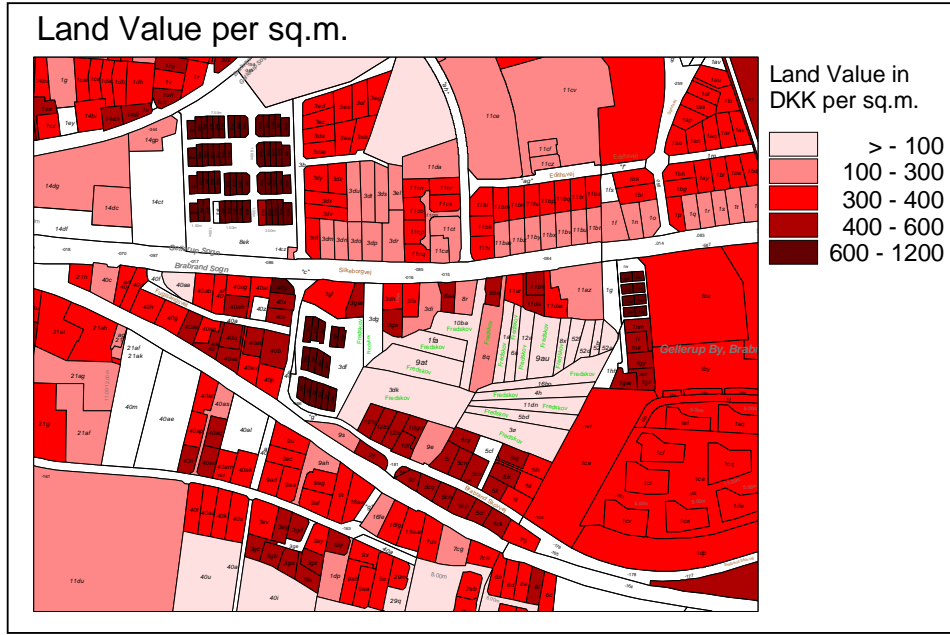
The background to the automated valuation system is the structure of the concept for integrated land management. The concept is organized as a network of interactive subsystems containing the information that are very often used. The automatic linkage

between the subsystems is achieved by establishing the "Cross Reference Register" which contains all the key identifications within each subsystem (e.g. the cadastral parcel number, the building number, the postal address) and the cross reference between these identifications. This means that it is possible to obtain all available information on a specific property or building by knowing only one of the keys. Furthermore, the identification-keys are linked into the relevant physical element represented in the maps, e.g. the building, the parcel or the property. As a basic principle, the subsystems are maintained and updated by the local authorities (custodians) who need the data and therefore care for the updating procedures and the applications as a part of their daily administrative routines.



The Danish GIS concept for land and property data. The system includes a number of interactive subsystems linked together through the Cross Reference Register

There are unique links between the Parcel Register, the Digital Cadastral Map, the Land Registry, and the Building and Dwelling Register caused by the cadastral parcel number. Furthermore there are links between the Building and Dwelling Register and the Central Population Register due the unique postal addresses of the buildings. By linking a set of X,Y co-ordinates and thereby establishing a list of geo-coded addresses, it is possible to link any address related information to a map database. This creates a multipurpose information tool for analytical and administration purposes, including valuation and taxation purposes.



Land and property values presented in combination with the cadastral information.

Source: The National Survey and Cadastre.

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