

THE OPERATION OF THE PROPERTY TAX BRANCH[⊗]

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Abstract: *The Property Tax Branch of Department of Taxation of Debrecen City with County Rights is responsible for the assessment and supervision of motor vehicle tax and property tax on buildings, and issuing value certificates. This publication reviews these processes and their changes between 2009 and 2012.*

Keywords: *tax, supervision, property tax on buildings*

Kivonat: *A Debrecen Megyei Jogú Város Önkormányzat Adóügyi Osztályának Vagyon csoportja foglalkozik a gépjárműadó és az építményadó kivetésével és ellenőrzésével illetve az értékbizonyítványok kiállításával. Ismertetem ezek folyamatát és bemutatom alakulását 2009. től 2012. évig.*

Kulcsszavak: *adó, ellenőrzés, építményadó*

1. INTRODUCTION

Establishing and maintaining political, economic and cultural independence of local governments assume that local governments have own properties and incomes for fulfilling such tasks. Most of local government incomes are obtained from local taxes, especially from incomes of property tax on buildings and motor vehicle tax. This publication presents the operation and tasks (i.e. supervision of property tax on buildings and motor vehicle tax) of the Property Tax Branch of Debrecen City with County Rights along with statistics. Online articles, publications, and reports and statements of the Department of Taxation of Debrecen City with County Rights were also considered in these statistics. Further, the significance and importance of supervision processes are presented from the viewpoint of local taxes.

2. THE OPERATION OF THE PROPERTY TAX BRANCH

The tasks of the Property Tax Branch consist of 3 main areas:

- issuing tax- and value certificates;
- assessment and supervision of property tax on buildings;
- assessment and supervision of motor vehicle tax.

	2007	2008	2009	2010	2011	2012
Staff of the Property Tax Branch	18	19	20	19	23	16

Table 1. Changes in the number of people of the Property Tax Branch
(Source: based on the 2007-2012 statistics of the Department of Taxation)

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The operation of the Branch includes further tasks such as annual information of residents, providing guidance for residents and businesses in order to help them meeting with their tax liabilities, handling complaints and reports of general interest, registration, accounting and collecting taxes, and fulfilling the tasks of supervision. The aims of supervision are enforcing laws, investigating breaches of laws, and restoring the lawful state. [4]

By examining the staff of the Property Tax Branch it can be found that there were increases in the number of people between 2007 and 2009, and between 2010 and 2011. Between 2009 and 2010, and between 2011 and 2012 there were decreases in this number.

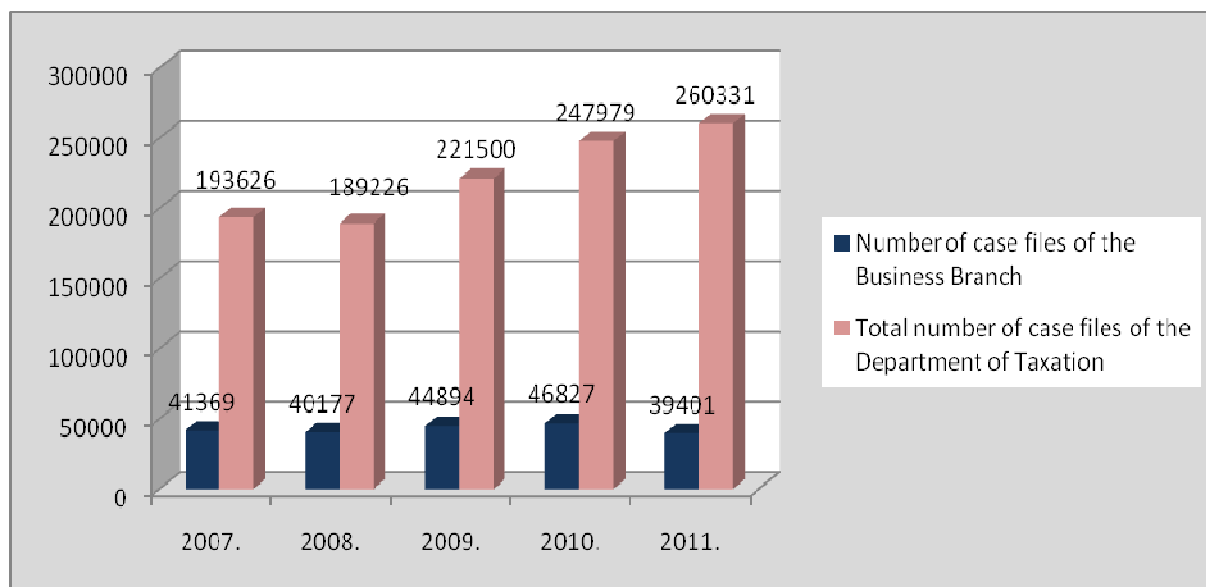


Figure 1. Number of case files of the Business Branch and the Department of Taxation
(Source: based on the 2007-2012 statistics of the Department of Taxation)

By examining the changes in the number of case files of the Property Tax Branch shown on Figure 1 it can be observed that there was an increase between 2008 and 2010. Between 2007 and 2008, and between 2010 and 2011 there were decreases in this number. The number of case files of the Department of Taxation decreased from 2007 to 2008, however it is continuously increasing from 2008.

3. THE PROPERTY TAX ON BUILDINGS

The scope of taxable buildings in the area of competence of Debrecen city is determined by the local government order No. 35/1999. (XII.10.) of the General Assembly of Debrecen City with County Rights based on Act C of 1990 on local taxes. Taxpayers and the tax base are determined by Act C of 1990 on local taxes, and the tax rate is specified by the local government order.

In the area of competence of Debrecen city taxable buildings are those buildings and building parts that serve residential and non-residential purposes. The taxpayer is the person who owns the building on the first calendar day of the given year (in case there are multiple owners they have tax liabilities proportionally with their ownership rates).

The tax base is the useful area of the building in square meters based on the decision of the local government. [3]

The tax rate is 750 HUF/m², or 500 HUF/m² in case of vehicle storage buildings, and the area part above 50,000 m² of buildings and building parts of the same type under the same lot number.

Excluding buildings of enterprises that serve commercial purposes, and buildings and building parts serving non-residential purposes under the same lot number with a residential building the following are exemptions from taxes:

- 12 m² from the area of buildings serving temporary residential purposes in the outer area of the city;
- buildings in the outer area of the city, if the owner of the property specified by Paragraph 12 of Act C of 1990 uses it for residential purposes as registered permanent residence, and has neither home ownership, nor right of use or rental right for any residential home.

By examining the number of taxable properties and taxpayers of the years between 2008 and 2012 it can be determined that they have been continually increasing. (Figure 2)

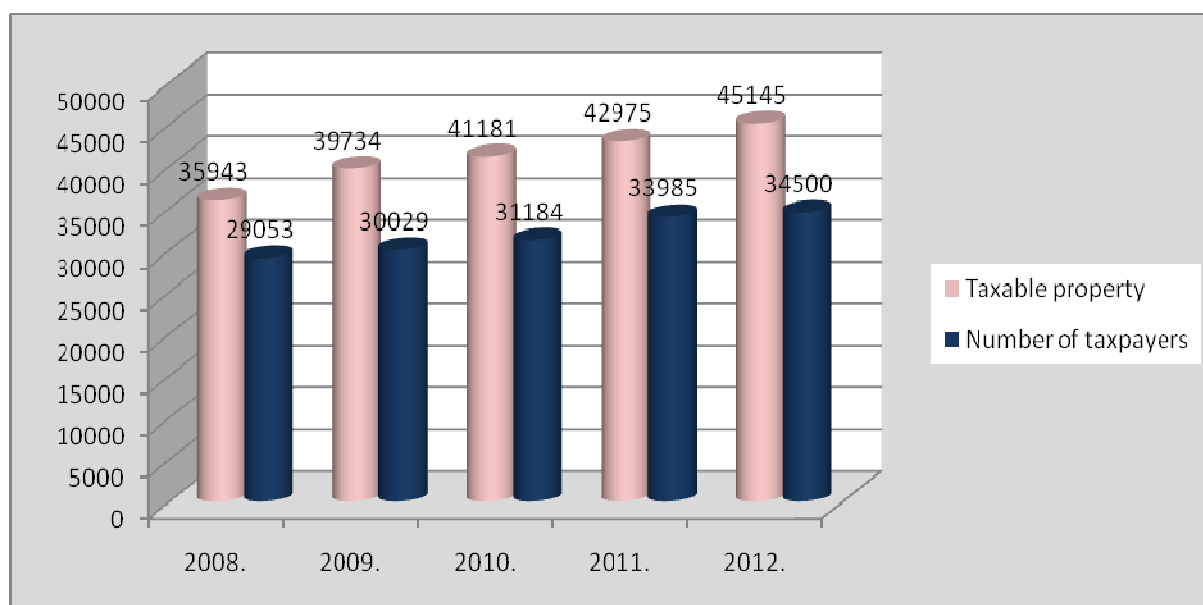


Figure 2. Changes in the number of taxable properties and taxpayers
(Source: based on the 2008-2012 statistics of the Department of Taxation)

The two types of the assessment of a property tax on buildings are the following:

- the taxpayer files a tax return;
- the taxpayer does not file a tax return.

3.1. The taxpayer files a tax return

Tax returns received by the local government are filled correctly, incorrectly or incompletely.

3.1.1. There are correct information provided in the tax return that has been filed

The following have to be considered regarding the tax returns that have been filed:

- did the taxpayer file the tax return in time;
- did the taxpayer fill in everything in the tax return, i.e. is the tax return filled in completely;
- is the tax return received from the entitled person;
- is the tax return signed?

Based on Paragraph 32 of the Act on Taxation the occurrence, cease or amendment of a tax liability has to be registered until January 15 of the year following any of the above.

A default penalty can be charged in case the taxpayer filed the tax return late. The taxpayer is informed in a decision that a tax liability has arose; this decision is considered to be an executive document.

If the taxpayer filled in the tax return completely, the staff of the Property Tax Branch examines whether the information of the filed tax return correspond with available data in the Department of Taxation. They check the following:

- data of previously taxed buildings that can be found in the system of the Department of Taxation;
- data of statements received from other departments of the local government of Debrecen City with County Rights (ground plans, certificates of occupancy, etc.);
- property register that is available for the staff and that provides a proof of property ownership during the supervision procedure;
- documents from inheritance proceedings.

3.1.2. The tax return is filled in with different or incomplete information

If the information included in the tax return is different from data available for the Property Tax Branch, a supervisory procedure shall be ordered to check the tax return additionally.

In those cases when tax returns received by the Department of Taxation are filled in incompletely, and the Department of Taxation has no relevant data, the official of the Property Tax Branch requests the taxpayer to complete the documents in 8 days from receiving the tax return based on the act on taxation. The taxpayer has 8 days to complete the missing information.

Besides completing the documents the taxpayer can be summoned to the Department of Taxation (only local residents, and managing directors in case of businesses); in these cases the taxpayer is asked to make a statement in the presence of the official providing the information necessary for processing the tax return.

The warrant to appear shall contain which information have to be provided for the Department of Taxation, furthermore it shall warn the taxpayer that the Property Tax Branch could impose a default penalty in case the taxpayer fails to clarify the state of affairs. When the taxpayer appears at the Department of Taxation the official prepares a record and the taxpayer makes a statement or completes missing information that will serve as a basis for processing the tax return, and then the tax assessment will be made.

When the taxpayer appears in the office, a letter of commission will be handled over. Then a record with numerical amounts and calculation of the default interest will be immediately prepared from information brought and said by the taxpayer, and a copy of this record will be received by the taxpayer.

In case not all necessary information are available for the Department of Taxation a going over shall be ordered to enable clarifying the state of affairs and obtain necessary information. After clarifying the state of affairs the supervision procedure can be launched (letter of commission-record-decision).

The supervision starts on the day of receiving the letter of commission.

In case the taxpayer does not agree with the observations of the record, a notice could be sent to the Department of Taxation in 15 days.

The Property Tax Branch shall make a decision in 60 days after the taxpayer received the letter of commission.

3.2. The taxpayer did not file a tax return to the Department of Taxation

In these cases it shall be examined whether all information are available for performing a supervision procedure. If they are, a simplified supervision procedure shall be executed against the taxpayer in the office of the Property Tax Branch.

The simplified supervision procedure starts on the day of receiving the letter of commission sent by mail. The letter of commission shall include the following:

- information of the taxpayer and date of issuing the letter of commission;
- rights and obligations of the taxpayer;
- for which years the observations refer to;
- detailed information of the property or building;
- it shall be mentioned that the taxpayer failed to meet the obligation of filing a tax return;
- tax difference and default interest shall be specified in detail for each year;
- legal references.

After receiving the letter of commission a record shall be prepared including the following:

- information of the taxpayer and date of preparing the record;
- rights and obligations of the taxpayer;
- for which years the observations refer to;
- detailed information of the property or building;
- legal references;
- the amount of the fine that can be assessed;
- and the taxpayer is informed in the record that a decision will be sent about the observations of the supervision procedure after receiving the record.

The supervision procedure ends when the taxpayer receives the record. If the taxpayer does not agree with the observations of the record, a notice can be submitted to the Department of Taxation in 15 days. This notice shall be examined thoroughly, and observations shall be presented in detail in the decision whether the notice is acceptable or it does not meet with legal requirements.

After receiving the letter of commission the Property Tax Branch shall make a tax assessment decision in 60 days.

The additional tax assessment decision includes the following:

- information of the taxpayer and date of making the decision;
- rights and obligations of the taxpayer;
- for which years the observations refer to;
- detailed information of the property or building;
- legal references;
- the amount of the tax difference, default interest and tax penalty (50%).

4. THE MOTOR VEHICLE TAX

The taxpayer is the person who is registered as the holder or owner (if there is no holder) on the first day of a given year in the vehicle register maintained according to Act LXXXIV. of 1999 on vehicle registration. If there are multiple holders or owners of the vehicle according to the vehicle register, the taxpayer will be the person whose name is presented on the vehicle registration card.

The occurrence of tax liability is dated on the first day of the month following the registration of the vehicle. [2]

The following are exempt from motor vehicle tax:

- budgetary authorities;
- buses (as 75% of them serve regional public transport);
- vehicles owned by churches;
- fire engines owned by business entities maintaining special fire service of facilities participating in rescue services;
- vehicles owned by associations and foundations that had no tax liabilities in the previous year;
- in case a vehicle serving as a mean for regular transport of a person with serious physical disabilities, minor with serious physical disabilities, incapable adult under partial guardianship with serious physical disabilities, if this vehicle is owned by the parent of the person living in the same household, the engine power of the vehicle is up to 100 kW, and the vehicle is not operated in a passenger transport (taxi), the tax is reduced by 13,000 HUF.

The tax base is the vehicle's engine power in kilowatts recorded in the passenger vehicle register. The tax rate multiplying the tax base is the following:

- in the year of manufacturing and 3 years after it: 345 HUF/kilowatt
- between the 4th and a 7th year after the year of manufacturing: 300 HUF/kilowatt
- between the 8th and a 11th year after the year of manufacturing: 230 HUF/kilowatt
- between the 12th and a 15th year after the year of manufacturing: 185 HUF/kilowatt
- in the 16th year after the year of manufacturing and later on: 140 HUF/kilowatt.

Motor vehicle tax assessment is made based on information presented in the database of the Office of Government-Issued Documents.

The Office of Government-Issued Documents sends data from the register each month which will be processed and the tax difference will be determined based on it. The taxpayer has no obligation for reporting or filing a tax return in case of motor vehicle tax unless the changes can affect the tax liability.

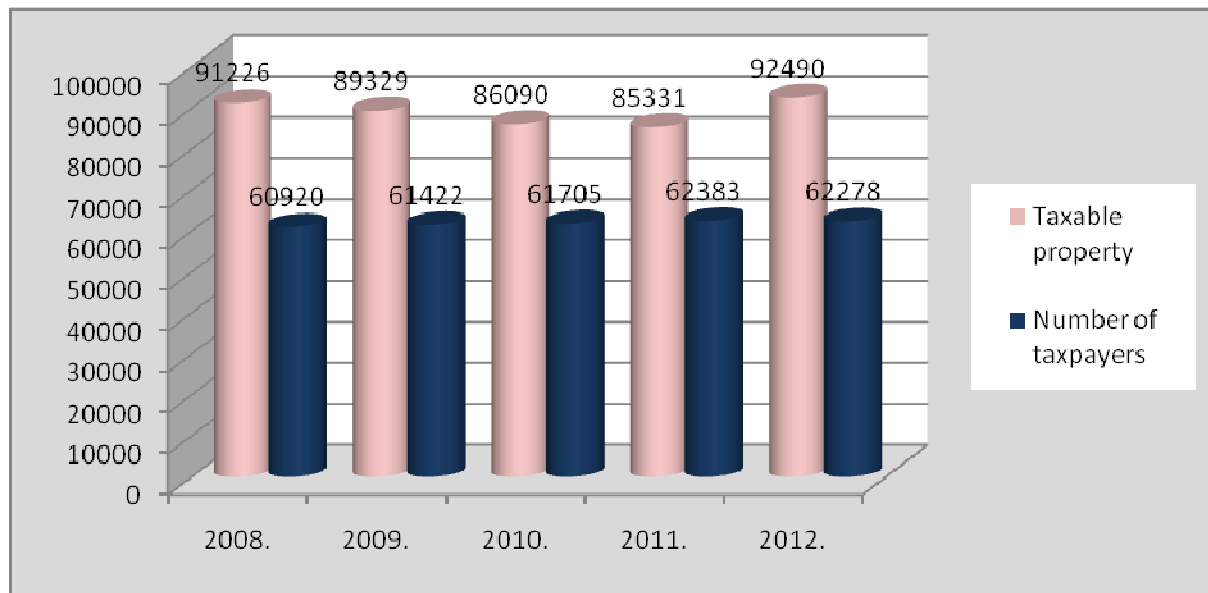


Figure 3. Changes in the number of taxable properties and taxpayers regarding motor vehicle tax
(Source: based on the 2008-2012 statistics of the Department of Taxation)

If a vehicle's ownership is transferred and neither party fulfilled the obligation for reporting, the local government having competence at the owner's registered residence will perform taxation of the vehicle until the last day of the year in which the transfer of ownership was reported.

By examining the number of taxpayers it can be determined that there is a slight increase year by year. (Figure 3)

The analysis of the incomes from motor vehicle tax shows that the local government has a successful taxation policy as it succeeded in achieving the increase of this type of source of income that ensures more possibilities for the city's management independence.

4. ISSUING TAX- AND VALUE CERTIFICATES

Tax- and value certificates can be issued only in the following cases:

- in case of an inheritance proceedings based on the request of a notary;
- for an executive proceedings based on the request of an independent court executive;
- upon the request of the custodian office based on the data sheet filled in during the going over.

In the past years the trend shows that the number of tax- and value certificates issued by the office is increasing:

According to Figure 4 it can be established that there were continuous increase in the number of properties and cases between 2009 and 2012.

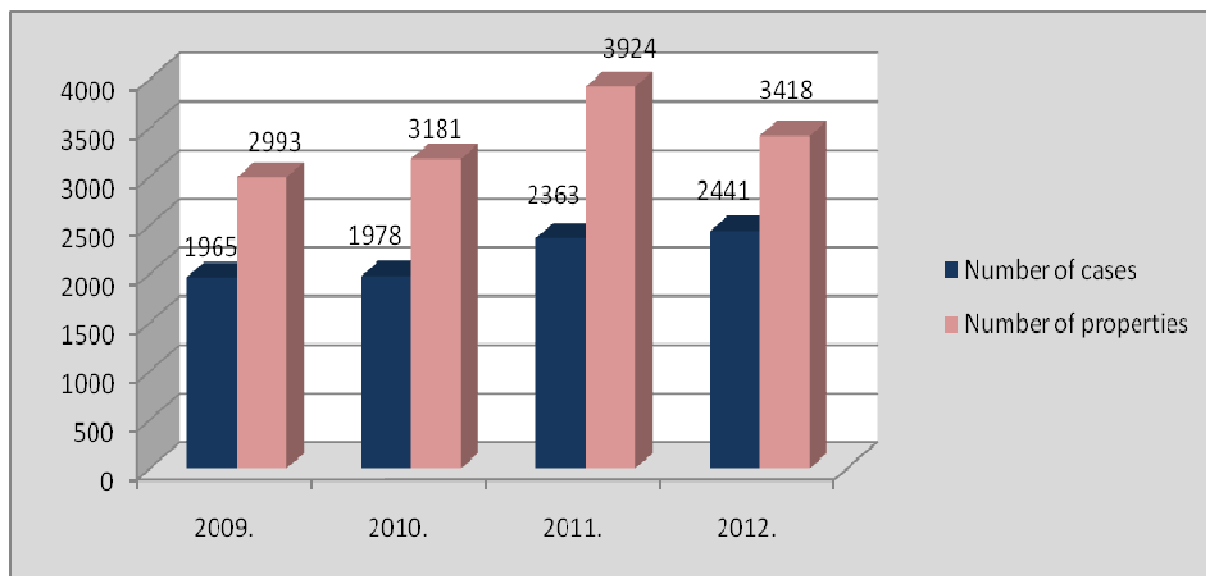


Figure 4. Changes in the number of cases and properties
(Source: based on the 2009-2012 statistics of the Department of Taxation)

5. OBSERVATIONS OF SUPERVISION PROCEDURES

During the supervision procedures the authority imposes tax difference, default interest or default penalty. Default interest and default penalty can be reduced. [1]

The rate of default penalty increased by 10% from 2009 to 2010, and 60% in 2011, and decreased by 12% in 2012.

Default interest increased by 82% from 2009 to 2010, decreased by 14% in 2011, and increased again by 39% in 2012.

Tax penalty increased by 6% from 2009 to 2010, decreased by 42% in 2011, and decreased again by 7% in 2012.

The rate of tax default increased by 12% from 2009 to 2010, decreased by 31% in 2011, and decreased again by 7% in 2012, which is similar to tax difference.

By examining the number of supervision procedures it can be established that it decreased by 16% from 2009 to 2010, increased by 47% in 2011, and increased again by 60% in 2012.

During tax supervision procedures the taxpayer is entitled for tax exemptions. Tax exemptions can be established only upon a request; they cannot be granted automatically by the office. The taxpayer is always responsible for verifying the fact that entitles to tax exemption and serves as the basis of the request. During the examination of such requests it often occurs that going over is necessary. Applications can be submitted only on the official form used by the Property Tax Branch; in case the application is made in other form, the taxpayer will be asked to complete the documents.

During supervision procedures the taxpayer is entitled to submit an application for reasonableness or an appeal.

For appeals submitted by the taxpayer it shall be checked whether the request can be considered an appeal or application regardless the title of the document.

If the taxpayer's intention cannot be determined clearly from the document, the taxpayer will be asked to make a statement whether the original document is an appeal that is subject to a fee, or an application that is not subject to a fee for private individuals. If the taxpayer fails to make a statement until the deadline for completing the documents, the case will be introduced to the second instance authority, and the authority imposes the fee for the taxpayer. If the taxpayer fails to pay the fee, the amount will be duplicated. If the taxpayer makes a statement that the document is considered to be an appeal, the original document will be introduced to the second instance authority, and a fee is imposed for the taxpayer respectively. The original copies of the documents shall be introduced to the Hajdú-Bihar County Government Office. Until the deadline for appealing the supervision procedure is

suspended. From January 1, 2013 appeals made after the deadline shall be refused immediately without introducing the case to the second instance authority.

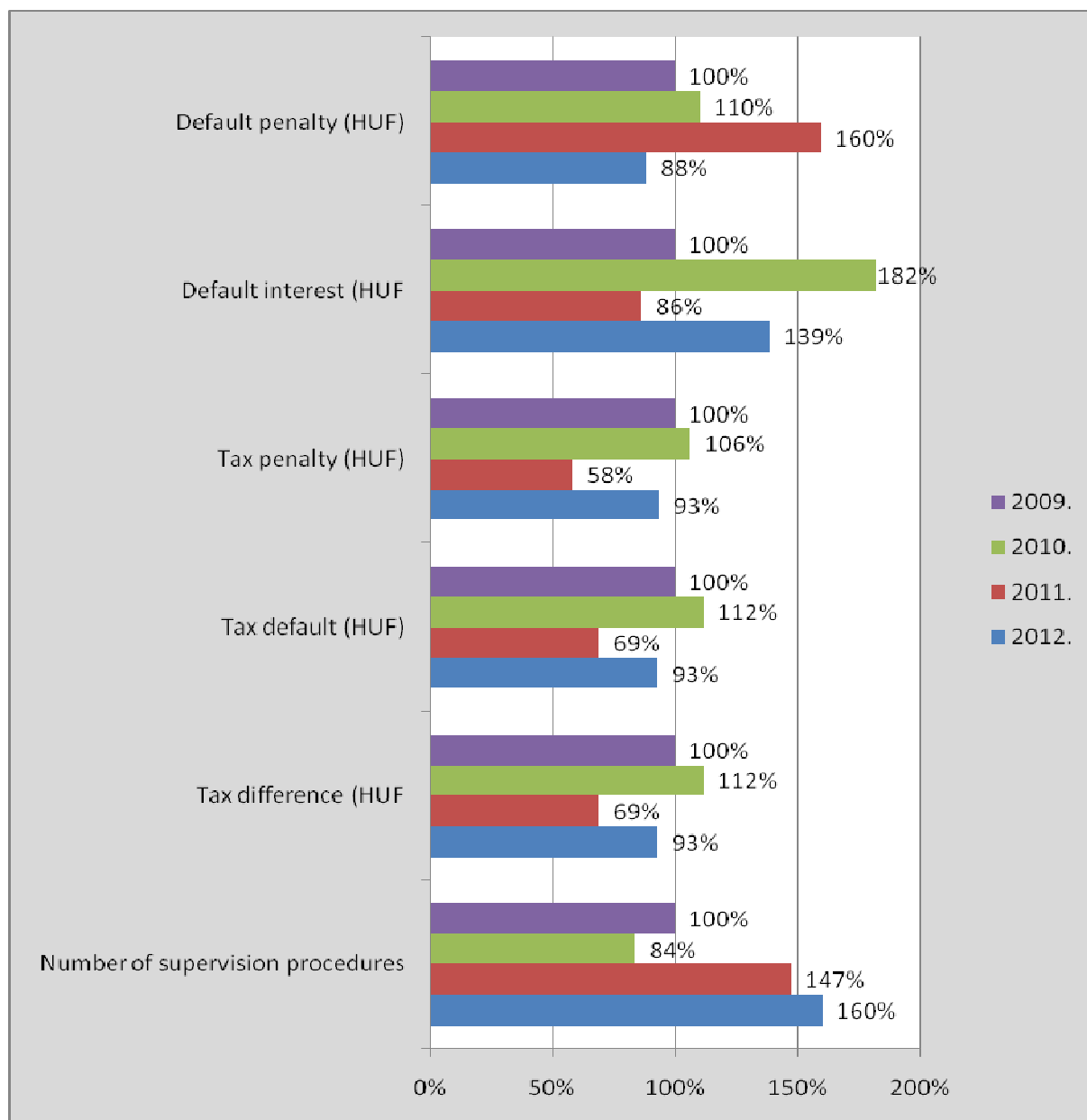


Figure 5. Changes of tax difference, tax default, tax penalty, default interest and default penalty imposed by supervision procedures compared to the year 2009
(Source: based on the 2009-2012 statistics of the Department of Taxation)

During the supervision procedure the taxpayer presents new facts that affect the decision of the taxpayer or were ignored by the checks of the Property Tax Branch.

Before introducing the case to the second instance authority both the appeal and the supervision measure can be amended or withdrawn. If the taxpayer makes a statement that the original document is considered to be an application, it will be processed as an application.

Decisions of supervisory authorities and courts regarding the cases of the Department of Taxation from 2009 to 2012:

	2009	2010	2011	2012
Introductions	44	66	52	39
Appeal refused	40	53	40	18
Obligation for a new proceedings	2	1	2	2
Amendment	0	2	10	2
Supervisory proceedings was not established	0	0	0	6
The taxpayer withdrew the appeal	0	0	0	0

Table 2. Decisions of supervisory and other authorities
(Source: based on the 2009-2012 statistics of the Department of Taxation)

The professional, precise and lawful work of the Property Tax Branch is evidenced by the fact that its decisions were mainly accepted during the examination of appeals. Taxpayers submit an appeal against the decision from time to time, but the tables obviously show that only a few cases ended with an obligation for a new proceedings or amendment.

By examining the years between 2009 and 2012 it can be established regarding court decisions that the decisions of the Property Tax Branch were almost every time relevant; there were only two exemptions (one in 2009 and another in 2011) when the court requested the authority to begin new proceedings. (Table 3)

	2009	2010	2011	2012
Number of statements of claim	2	3	9	2
Overruling	0	0	0	0
Statement of claim refused	1	0	8	2
Amendment	0	0	0	0
Obligation for new proceedings	1	0	1	0

Table 3. Court decisions regarding the decisions of the Property Tax Branch
(Source: based on the 2009-2012 statistics of the Department of Taxation)

SUMMARY

One source of incomes of Debrecen City with County Rights is the income obtained by the activities of the Property Tax Branch.

Based on the supervision procedures performed by the Property Tax Branch it can be established that taxpayers fail less frequently and observe more strictly legal provisions in recent years. The observations of supervision procedures show that differences rather result from misinterpretation of laws, then from deliberate tax concealment.

After receiving detailed observations in the reports made at the end of supervision procedures tax morale gets continuously better, and taxpayers don't misinterpret the same laws again.

The taxpayers often amend their tax return on self-revision forms before the supervision procedures.

If notifications about tax defaults were sent by electronic means, there would be less administrative task and workflows could be rearranged to enable performing more tax supervision procedures, which would result that taxpayers observe the provisions of law more strictly and the local government has more tax incomes.

By examining the activities of the Property Tax Branch it can be established that the observations of the staff are almost every time relevant, and a continuous improvement can be experienced in observing laws.

REFERENCES

- [1] 2008-2012 statistics of the Department of Taxation
- [2] Act LXXXII of 1999 on motor vehicle tax
- [3] Local government order No. 35/1999. (XII.10.) of the General Assembly of Debrecen City with County Rights
- [4] Act C of 1990 on local taxes
- [5] Act XCII of 2003 on taxation