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PROPERTY TAXATION IN UKRAINE: CURRENT CHALLENGES AND FUTURE PERSPECTIVES

Abstract. *Introduction.* Property tax plays an important role in the tax system of Ukraine, performing both a fiscal function - by filling local budgets, and a regulatory function - influencing the economic behavior of property owners. At the same time, the current model of its collection is characterized by a number of systemic problems, which increases the need for critical rethinking of the mechanisms of its functioning, taking into account best European practices.

Problem Statement. The results of the research revealed the imperfection of the current mechanism for accounting and taxation of unfinished construction, since the current legislative norms allow owners to avoid paying taxes by formally delaying the commissioning of facilities. As a result, there is an incentive for shadow schemes for the use of real estate, which lead to a decrease in local budget revenues.

Purpose. To analyze the current practice of collecting property tax in Ukraine, identify its shortcomings and risks associated with the shadowing of tax objects, as well as formulate proposals for improving this mechanism, taking into account the European experience of property taxation.

Methods. The methods of analysis, synthesis, induction, deduction, comparison, theoretical generalization, as well as the abstract-logical method were used.

Results. A comparative analysis of the provisions of domestic and foreign legislation in the field of property taxation (with an emphasis on the real estate tax other than land plot, given its fiscal potential) made it possible to identify the problem of the lack of taxation of unfinished construction in the Ukrainian practice. This, in turn, creates the prerequisites for shadowing the real estate market and reducing budget revenues. The article also proposes directions for reforming the real estate taxation system in Ukraine.

Conclusions. The feasibility of using by Ukraine the experience of leading EU member states as a reference point for developing an effective model of taxation of unfinished construction sites, adapted to the domestic legal field is substantiated. It will allow strengthening fiscal efficiency and ensuring fairness of taxation.

Keywords: taxation, property tax, tax policy, local taxes, tax burden, shadow economy, tax evasion.

JEL classification: H21, H25, H26.

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ОПОДАТКУВАННЯ МАЙНА В УКРАЇНІ: СУЧАСНІ ВИКЛИКИ ТА ПЕРСПЕКТИВИ РОЗВИТКУ

Анотація. *Вступ.* Податок на майно посідає вагоме місце в податковій системі України, виконуючи як фіскальну функцію – шляхом наповнення місцевих бюджетів, так і регуляторну – впливаючи на економічну поведінку власників майна. Водночас чинна модель його справляння характеризується низкою системних проблем, у зв'язку з чим зростає потреба в критичному переосмисленні механізмів його функціонування з урахуванням найкращих європейських практик.

Проблематика. За результатами проведеного дослідження виявлено недосконалість чинного механізму обліку та оподаткування незавершеного будівництва, оскільки законодавчі норми дозволяють власникам уникати сплати податку шляхом формального затягування з введенням об'єктів у експлуатацію. Як наслідок, стимулюються тіньові схеми використання нерухомості, що призводять до зниження доходів місцевих бюджетів.

Мета – аналіз чинної практики справляння податку на майно в Україні, виявлення його недоліків та ризиків, пов'язаних із тінізацією об'єктів оподаткування, а також формування пропозицій щодо вдосконалення цього механізму з урахуванням європейського досвіду.

Методи. Використано методи аналізу, синтезу, індукції, дедукції, порівняння, теоретичного узагальнення, а також абстрактно-логічний.

Результати. Компаративний аналіз положень вітчизняного та зарубіжного законодавства у сфері оподаткування майна (з акцентом на податку на нерухоме майно, відмінне від земельної ділянки, з огляду на його фіскальний потенціал) дав змогу виявити проблему відсутності оподаткування об'єктів незавершеного будівництва в українській практиці. Це, своєю чергою, створює передумови для тінізації ринку нерухомості та зниження бюджетних надходжень. Також запропоновано напрями реформування системи оподаткування нерухомості в Україні.

Висновки. Обґрунтовано доцільність використання Україною досвіду провідних країн – членів ЄС як орієнтира для розроблення ефективної моделі оподаткування об'єктів незавершеного будівництва, адаптованої до вітчизняного правового поля, що допоможе посилити фіскальну ефективність і забезпечити справедливості оподаткування.

Ключові слова: оподаткування, податок на майно, податкова політика, місцеві податки, податкове навантаження, тіньова економіка, ухилення від сплати податків.

Літ. 23.

Introduction. Property tax takes an important role in the tax system of Ukraine, performing both a fiscal function – by filling local budgets, and a regula-

tory function – influencing the economic behavior of property owners. At the same time, the current model of its collection is characterized by a number of problems, including the lack of fair distribution of the tax burden, limited efficiency of filling local budgets and insufficient level of justification of approaches to assessing tax objects. In this context, there is a growing need for a critical rethinking of the mechanisms of functioning of the property tax, taking into account the best European practices. This becomes especially relevant in the context of Ukraine's strategic course for integration into the European community, which involves harmonizing tax policy with the approaches of EU countries, where property tax is an important tool for ensuring the financial self-sufficiency of local governments and achieving social justice.

Research analysis and problem statement. The issue of property taxation in Ukraine is a subject of active scientific discussion among researchers. In particular, theoretical and methodological principles of functioning of property taxation mechanism are disclosed in the paper by Sokolovska A. [1]. The issue of property taxes as a source of financial support for local budgets is highlighted in the research by Blonska V. [2], Vyshnevskaya N. [3], Karlin M., Tsybaliuk I., Prots N. [4], Martyniuk I. [5], Matviichuk N. [6]. Research by some economists [7; 8] is devoted to the accounting aspects of property tax. However, despite the existing scientific developments, property tax in Ukraine remains an instrument with unrealized fiscal potential, which requires further investigation. This problem becomes especially relevant considering Ukraine's acquisition of the status of a candidate for accession to the European Union, which requires bringing the national tax system into line with European standards.

The **purpose** of the research is a comprehensive analysis of the current state of the property tax collection mechanism in Ukraine, identification of its systemic shortcomings and risks, in particular those related to the shadowing of tax objects, as well as substantiation of directions for improving this institution based on the adaptation of the experience of European Union member states.

Research methods. In order to achieve the purpose, the methods of analysis, synthesis, induction, deduction, comparison, theoretical generalization, as well as the abstract-logical method were used.

Research outcomes. According to the Section XII of the Tax Code of Ukraine, the property of individuals and legal entities in Ukraine is a subject to property tax, which is a comprehensive tax and includes: tax on real estate other than land; land fee, transport tax. However, the most interesting from the perspective of this research is the tax on real estate other than land, given its significant potential for reforming.

Thus, in accordance with paragraph 266.1 of the Tax Code of Ukraine, payers of real estate tax other than land are individuals and legal entities, including non-residents, who are owners of residential and/or non-residential real estate.

The object of taxation is a residential and non-residential real estate, including its share. The definition of residential and non-residential real estate is given in paragraphs 14.1.129 and 14.1.1291 of the Tax Code of Ukraine [9].

Objects that are not subject to taxation by this tax are listed in paragraph 266.2.2 of the Tax Code. [9]

According to paragraph 266.3.1 of the Tax Code, the tax base is the total area of the residential and non-residential real estate object, including its shares.

For individuals, it is calculated by the controlling body based on data from the State Register of Real Property Rights to Real Estate, which is provided free of charge by the state registration bodies of rights to real estate and/or based on the originals of the relevant documents of the taxpayer, in particular documents on the right of ownership (paragraph 266.3.2 of the Tax Code) [9].

In particular, the calculation of real estate tax for individuals is carried out by the controlling body based on the data of the State Register, which is provided free of charge by the state registrars of rights to real estate; originals of the relevant documents of the taxpayer, in particular documents of ownership. In turn, the calculation of real estate tax for legal entities is carried out by them independently based on the total area of each individual tax object on the basis of documents confirming the ownership of such an object [9; 10].

The tax base for residential and non-residential real estate, including their shares owned by legal entities, is calculated by such entities independently based on the total area of each individual tax object on the basis of documents confirming ownership of such an object (paragraph 266.3.3 of the Tax Code of Ukraine) [9].

In accordance with paragraph 266.4.1 of the Tax Code of Ukraine, the tax base of a residential real estate object/objects, including their shares, owned by an individual taxpayer, is reduced:

- for an apartment/apartments, regardless of their number – by 60 sq. meters;
- for a residential building/houses, regardless of their number – by 120 sq. meters;
- for various types of residential real estate objects, including their shares (in the case of simultaneous ownership by the taxpayer of an apartment/apartments and a residential building/houses, including their shares), – by 180 sq. meters.

Such a reduction is granted once for each basic tax (reporting) period (year).

In addition, in accordance with paragraph 266.4.2 of the Tax Code of Ukraine, village, town, and city councils establish tax benefits paid in the relevant territory on residential and/or non-residential real estate owned by individuals or legal entities, public associations, charitable organizations, and religious organizations of Ukraine, whose statutes (regulations) are registered in accordance with the procedure established by law, and are used to ensure the activities stipulated by such statutes (regulations).

Tax benefits paid in the relevant territory on residential and non-residential real estate for individuals are determined based on their property status and income level.

Tax benefits paid in the relevant territory on non-residential real estate are established depending on the property that is the object of taxation.

Village, town, city councils have the right to establish tax benefits paid in the relevant territory from non-residential real estate objects located on the territory of an industrial park and owned by participants of an industrial park included in the Register of Industrial Parks.

The above-mentioned benefits for individuals do not apply to:

- taxable object/objects, if the area of such object/objects exceeds five times the size of the non-taxable area established by paragraph 266.4.1 of the Tax Code;
- taxable object/objects used by their owners for the purpose of generating income (rented out, leased, loaned, used in entrepreneurial activity).

Real estate tax rates are set by the decision of village, settlement, city council or council of united territorial communities, depending on the location (zoning) and types of such real estate in an amount not exceeding 1.5 % of the minimum wage established by law as of January 1 of the reporting (tax) year, per 1 m² of the tax base. In 2025 – 120 UAH (8000 UAH × 0.015) [10].

If an individual or legal entity — the taxpayer — owns a residential real estate object (objects), including its share, the total area of which exceeds 300 m² (for an apartment) and/or 500 m² (for a house), the tax amount increases by UAH 25 000 per year for each such residential real estate object (its share) (paragraph 266.7.1-1 of the Tax Code of Ukraine).

It should be noted that objects of unfinished construction are not subject to real estate tax in accordance with domestic practice [11]. This is due to the fact that tax officials calculate the tax based on the State Register database. However, according to Article 331 of the Civil Code of Ukraine, the right of ownership to newly created property arises from the moment of completion of its construction (creation) [12]. Until this moment, a person is considered the owner not of real estate, but of materials, equipment, etc. that were used or are still used in the process of such construction (creation of property).

This leads to a situation where owners can keep the object in the status of “unfinished” for years, avoiding taxation and using it in fact – as a warehouse, office, and sometimes housing. Thus, budgets lose potential revenues, the incentive to delay the commissioning of construction objects remains, and therefore conditions for shadow schemes arise. In order to solve this problem, it is necessary to turn to foreign experience. In particular, of those countries that have already effectively implemented similar approaches. An analysis of the EU regulatory framework revealed the absence of EU directives regulating property taxation. Considering this, each member state is guided by its own legislation in this regard. Among the various models, the experience of such EU countries as Germany and France deserves special attention, since they are not only economic leaders of the EU, but also form the main trends in the field of financial policy, including tax regulation. Their experience is considered exemplary in the EU and has a high level of implementation of the principles of fairness, efficiency, and transparency in taxation.

Thus, in Germany, property tax (Grundsteuer) is a local tax, the payers of which are:

- individuals or legal entities who are officially registered as owners of property (land or building);
- tenants of real estate (in many cases, owners pass on the costs of property tax (Grundsteuer) to tenants as part of additional (side) costs (Nebenkosten).

The objects of taxation are:

- land plots (both developed and undeveloped),
- buildings (residential, commercial, other structures),
- agricultural land and forest areas.

The tax base for real estate tax (Grundsteuer) is the assessed value of real estate (Grundsteuerwert). From January 1, 2022, after the reform aimed at ensuring a fairer distribution of the tax burden across regions, this indicator is determined according to an updated methodology taking into account:

- location of the object,
- size of the land plot,
- type of real estate (residential, commercial, agricultural, etc.),
- potential rent (if any).

Buildings used exclusively for public or charitable purposes are exempt from taxation.

The real estate tax (Grundsteuer) rate is calculated by means of multiplication of assessed value of the property (Grundsteuerwert), tax rate (Steuermesszahl) and multiplication factor (Hebesatz).

It should be noted that the tax rate (Steuermesszahl) is set separately by the state. In particular, the lowest rate applies to agricultural and forest land; the average rate applies to residential property (houses, apartments); the highest rate is used for commercial property.

For housing used for social purposes, the tax rate (Steuermesszahl) can be reduced.

In turn, the multiplication factor (Hebesatz) is set by the municipality in the amount of 100 % to over 900 %, depending on the region (high in large cities such as Munich, Berlin and lower in small ones).

It should be noted that the taxation of unfinished construction in Germany falls under the rules of real estate tax (Grundsteuer), but has certain features depending on the degree of completion of the object and its use.

The object of taxation is unfinished construction, which is considered a plot of land with certain building elements. If construction work is underway on the plot, it is classified as a built-up plot of land, even if the construction is not completed.

The tax base in this case is calculated taking into account:

- the valuation of the land plot;
- the valuation of the building elements (if any);
- the potential use of the property after construction is completed.

If the property has not yet been put into operation, the valuation is based on the actual condition of the property.

If construction is delayed due to objective reasons (force majeure, permit procedures), the owner may apply for a temporary reduction in the tax burden.

In cases where construction is carried out for public purposes or housing, tax exemption or rate reduction is possible [13–20].

A study of France's experience in this area has shown that, unlike Germany, property taxation is carried out in this country at both the national and local levels. In particular, the national level levies a tax on real estate wealth (IFI, Impôt sur la Fortune Immobilière), which replaced the wealth tax (ISF) on 1 January 2018 (also known as the luxury tax). This tax is limited to real estate and applies to individuals whose net real estate wealth exceeds a certain threshold.

Payers of the real estate wealth tax in France (IFI, Impôt sur la Fortune Immobilière) are individuals who:

- reside in France and have real estate wealth both in France and abroad;
- reside outside France but have real estate in France.

Family income is taken into account together: spouses, partners in civil unions (who are subject to the PACS (Pacte Civil de Solidarité)), as well as minor children.

The object of taxation is exclusively real estate:

- residential real estate (houses, apartments),
- land,
- shares in companies or foundations, if their assets consist mainly of real estate.

However, real estate used in entrepreneurial activities, as well as real estate rented out for long-term social or affordable housing programs, is not subject to this tax.

The tax base is the market value of the property on January 1 of each year, excluding permitted deductions (namely, mortgages related to the purchase of the property; other expenses related to the maintenance of the property, if they are justified). This tax in France has a progressive tax rate scale.

Regarding property taxation at the local level, it should be noted that there is a property tax on second homes (Taxe d'habitation sur les résidences secondaires). This tax applies to housing that is not the taxpayer's main residence. It is aimed at ensuring the financing of local communities, in particular in tourist areas where such housing is common.

Taxpayers are owners or tenants of real estate (natural or legal persons, both residents and non-residents of France), which is not the taxpayer's main residence as of January 1 of the tax year.

The object of taxation is housing that is not registered as a main residence. In particular, private houses and apartments, as well as real estate used for short-term rental or personal recreation. Exceptions are properties that are not suitable for habitation (e.g., due to renovation, emergency, etc.), as well as housing that is vacant due to special circumstances (e.g., temporary absence of primary residence due to professional reasons). In this case, owners must notify the tax office in advance about the status of the housing to avoid erroneous assessment.

The tax base is the cadastral rental value of the property, which is determined by local authorities.

The tax rates are variable, as they are set at the level of each commune and depend on certain local factors. In particular, the basic (base) rate depends on the

cadastral rental value of the property (*valeur locative cadastrale*), which is determined by local authorities. On average, the rate is around 8-30% of the theoretical annual rent. In turn, in “zones tendues”, which include areas with a significant housing shortage (Côte d’Azur, Paris, etc.), an additional rate (*surtaxe d’habitation*) is also applied, which can range from 5% to 60% of the base rate. The specific percentage is determined by the municipal council.

Next is the tax on built-up properties (*Taxe foncière sur les propriétés bâties*, TFPB), which is also aimed at financing the activities of local authorities (*communes*, departments and regions).

The payers of this tax are the owners of the property (individual or legal entity) as of January 1 of the tax year. In this case, the tax is paid by the owner, even if the property is rented out. However, the landlord may include the costs of this tax in the rental price according to the contract.

The objects of taxation are buildings and structures that are suitable for use (residential buildings, offices, shops, warehouses, industrial facilities, etc.). There is preferential taxation for real estate that requires significant repairs or cannot generate income. At the same time, new buildings are not subject to taxation (within 2 years after completion of construction); buildings used in agricultural activities; social or public housing.

The tax base is the cadastral rental value (*valeur locative cadastrale*) minus fixed costs (usually 50%) to account for depreciation or maintenance costs. The cadastral rental value is regularly reviewed by local authorities, so the tax base may change.

The tax rate consists of several components, each of which is formed by different levels of local government. These components determine the final amount of tax paid by the property owner. On average, tax rates range from 0.2% to 3% of the adjusted cadastral value (*valeur locative cadastrale*).

In particular, the tax on built-up real estate (TFPB) consists of several parts, which are determined by different levels of government:

- the communal rate (*part communale*), which is determined by the municipal council; depends on the needs of the local budget (e.g. funding for schools, roads, utilities);
- the departmental rate (*part départementale*), used to finance regional infrastructure, social programs, etc.;
- the regional rate (*part d’intercommunalité*), which includes fees for the needs of intermunicipal associations, such as joint infrastructure projects;
- additional fees, which occur in tourist regions or places with high demand for real estate; special taxes may be imposed (for example, for environmental protection or the development of public spaces).

The specified tax (namely, TFPB) is calculated by means of multiplying adjusted cadastral value and tax rate.

The next tax to consider is the tax on undeveloped real estate (*Taxe foncière sur les propriétés non bâties*, TFPNB), which is aimed at taxing undeveloped land in France and helps raise funds for local authorities, in particular to finance public

services and infrastructure. This tax is an important tool for regulating land use in France.

The tax is paid by owners of undeveloped land owned by them on 1 January of the tax year (both individuals and legal entities). The tax is not passed on to tenants if the land is rented out.

The objects of taxation are land plots that are not built-up (agricultural land, forests, pastures, land under water bodies, other immovable assets without buildings).

At the same time, plots used for public or social needs (e.g. roads, nature conservation areas), lands that have the status of “professional activity” (e.g. used in winemaking or horticulture) are exempt from taxation. It should be noted that some types of agricultural land may be fully or partially exempt from tax depending on local policy.

The tax base is the cadastral rental value (*valeur locative cadastrale*), which is defined as the theoretical income that can be obtained from the use of a land plot. For agricultural land, its productivity and soil quality are taken into account. In this case, a special reduction of the tax base is applied for agricultural land (from 20% to 50% depending on the type of land).

As with the TFPB, the TFPNB rates are set by local authorities (*communes*, departments, etc.). The rates depend on local budgetary needs and the type of land.

For agricultural land, the rates are usually much lower (0.2% to 1%). For other land not used for agriculture, the rates can be higher (1% to 3%).

Within the framework of this tax, additional fees may also be applied to finance specific local needs (e.g. infrastructure projects).

The following issues are fully exempt from the tax:

- lands owned by the state or used for public purposes;
- nature conservation areas or lands under environmental protection.

Partial exemptions are granted to land used for agriculture, forestry or viticulture.

Temporary exemptions are granted to new agricultural land or land in transition.

Another tax in the French property tax system that needs to be considered is the tax on empty dwellings, which is intended to encourage the efficient use of housing and combat housing shortages. It applies to dwellings that have been unoccupied for a long time.

The payers of this tax are the owners of residential premises (natural persons and legal entities) that remain empty for more than 1 year, if these premises are located in areas with a housing shortage (*zones tendues*).

The objects of taxation are residential premises that are suitable for habitation, but have not been occupied by either the owners or tenants for at least 1 year. At the same time, the tax applies only to residential premises located in the so-called “areas with a tight housing market” (*zones tendues*). In particular, these are cities and regions where the demand for housing exceeds the supply (for example, Paris, Lyon, Marseille).

The tax base is the cadastral rental value of the property (valeur locative cadastrale), which is calculated as the theoretical annual rental income from renting out the property.

The TLV rates are progressive and depend on the time the property remains empty:

- 17% of the cadastral rental value for the first tax year.
- 34% of the cadastral rental value for subsequent years.

In some communes, additional local fees may be added, which increase the total amount of the tax.

The Taxe d'Habitation sur les Logements Vacants (THLV) is also a tax on empty housing, which is applied in certain communes in France to combat the housing shortage. Its aim is to encourage owners to rent out or use their property. However, unlike the Taxe sur les Logements Vacants (TLV), this tax is imposed directly by the commune, even if the property is not located in a "zone tendue".

Taxpayers are owners (natural or legal persons) of residential premises that remain empty for more than 2 consecutive years.

The tax may be applied to if they own real estate.

The objects of taxation are residential premises that are suitable for habitation, but which are not used by either the owners or the tenants for at least 2 years.

The premises must be registered as residential and correspond to this status in the cadastre.

The tax base is the cadastral rental value of the premises (valeur locative cadastrale).

Exempt from taxation are dwellings that are not suitable for habitation (e.g. in a state of disrepair); premises that are undergoing renovation or reconstruction; dwellings that are temporarily not used due to professional or personal circumstances (e.g. illness).

The THLV rate varies depending on the municipality.

As for the taxation of unfinished construction, an analysis of the French legal framework has determined that it is not subject to the TFPB tax, but the land under it may be taxed as TFPNB. That is, the land on which construction is underway may be subject to the Taxe foncière sur les propriétés non bâties (TFPNB) until the construction is completed. Once completed, the object moves into the category of "built-up real estate" and begins to be taxed as TFPB.

In addition, unfinished construction is subject to the development tax (Taxe d'aménagement). This is a tax that is paid in France when obtaining a building permit (permis de construire) or a declaration of commencement of construction work (déclaration préalable de travaux). It was introduced in 2012 to finance infrastructure related to development, such as roads, schools, green spaces or utilities.

Taxpayers are developers or property owners who receive a permit for new construction or reconstruction, expansion or change of purpose of a building, if the area is more than 5 m² and the ceiling height is more than or equal to 1.80 m, including attics and basements.

The objects of taxation are residential, commercial or industrial construction and auxiliary structures (garages, swimming pools, solar panels on the ground, etc.) if a permit is required for their creation, expansion or reconstruction. For objects whose creation does not require such permits (for example, very small structures), the tax is not levied. The process of construction or creation itself is not the moment when the tax is levied. Taxation is based on the permit documentation, and the tax payment can be extended in time. Usually, the payment is divided into two parts: the first part is paid 1 year after obtaining the permit, and the second part – 2 years after obtaining the permit.

The tax base is calculated by multiplying the taxable area (m^2) by a fixed cost per m^2 set by the government.

The fixed amount for open-air parking spaces is set at €3,000 per space and can be increased to €6,000 per space by decision of the local authority. The fixed amount for stationary swimming pools is €258 per m^2 .

The rates of the development tax (Taxe d'aménagement) are determined at three levels.

Thus, at the commune level, it is usually 1–5%, but can be up to 20% for special zones (e.g. tourist or historical).

At the departmental level, the fixed rate is 1–2.5% (depending on the region).

At the regional level, there is an additional rate of 1% for projects in the Paris region.

The total development tax rate (Taxe d'aménagement) is the sum of the rates at these levels.

The tax benefit is a 50% discount on the first 100 m^2 for primary residence, as well as full or partial exemption for social housing or agricultural buildings [21–23].

Conclusions. Thus, property taxation in Ukraine requires significant reform in order to increase fiscal efficiency and ensure fairness in the distribution of the tax burden on business entities. In particular, the issue of including unfinished construction sites in the taxation system requires special attention. The absence of a mechanism for taxing such sites creates risks for shadowing assets, lost revenues to local budgets, and violation of the principle of tax fairness. Given the positive experience of some European countries, it is advisable to legislate the grounds for calculating tax liabilities for unfinished construction sites based on their actual use and level of readiness.

In the future, property tax reform in Ukraine should be carried out taking into account the best European practices, which include expanding the tax base, ensuring fair property valuation, implementing transparent administration mechanisms and clearly delimiting the competences of state authorities and local governments. Particular attention should be paid to harmonizing approaches to the tax burden on business entities in accordance with the financial capabilities of payers, in order to strengthen trust in the taxation system and strengthen the financial independence of territorial communities.

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