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Revenue Potential of Real Estate Tax: A Case Study in Selected Municipalities of the Czech Republic

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Abstract: The use of coefficients in real estate tax in the Czech Republic is a topical and increasingly discussed issue. The aim of this paper is to evaluate the use of coefficients in real estate tax in selected municipalities in the Central Bohemian Region as a potential source of higher real estate tax revenues. Municipalities make very limited use of this option. This is mainly because they do not want to increase the tax burden on their residents and try to obtain revenue for municipal budgets from other sources. In connection with the possible use of coefficients, model calculations are performed with the maximum setting of coefficients for individual types of real estate, and the maximum revenue potential in individual municipalities is determined. The results show that there is considerable untapped potential for real estate tax revenue (50% - 75%) in all the municipalities analysed. Further results show a low share of tax revenue in the total and tax revenues of the municipalities concerned. This indicates a considerable dependence of municipalities on shared taxes.

Keywords: real estate tax; municipality; coefficient; revenue

JEL Classification: H71; H21; H24

1. Introduction

Municipal governments at various levels provide their residents with various types of local public goods and services. Municipalities participate in nationally collected taxes for part of their tax revenues, but they can also collect local taxes and fees. As stated by Moravec et al. (2022), local fees are one of the sources of the municipal budget and are regulated by decrees issued by the municipal council. The importance of local fees as a source of financing for municipal activities in Slovakia is also confirmed by Vartašová & Červená (2023). As Moravec et al. (2022), the collection of fees is also associated with the costs of their collection, and these costs are influenced by a number of factors. According to Papčunová & Nováková (2019), democratic countries use a model of fiscal federalism, which examines the optimal distribution of responsibility for financing public goods and the optimal allocation of revenues and expenditures within the budgetary system. Interregional fiscal redistribution from richer to poorer areas is a contentious issue in any federation (Jacques et al., 2021). When measuring and comparing the degree of fiscal decentralisation, basic indicators such as the share of tax revenues of local government budgets in the total revenues of local government

or the share of specific tax revenues in the total tax revenues of local government can be used (Papčunová & Nováková, 2019).

Property taxes are part of public revenues and play an important role in the decentralisation and autonomy of local governments, but its significance may be limited. According to Románová et al. (2019), taxation can be considered one of the instruments of state revenue, but precise limits must be set for property taxes because this instrument concerns property rights. Románová et al. (2019) compare in detail the various aspects of local tax regulation using the Czech Republic and Slovakia as examples. The advantage of collecting this tax is that it is easy to identify the property (central register) and the taxpayer. In some countries, a separate land value tax may also be collected as an economically efficient and beneficial form of taxation that promotes land development. As Hughes et al. (2020), there is a strong theoretical justification for land value taxation, yet this tax is not used by most states.

The issue of optimal selection and correct setting of all factors influencing this tax is the subject of a number of professional studies. Fu (2022) analyses in detail the process of determining the tax base for real estate and its valuation in the context of the Chinese digital economy. Economic factors such as interest rates, inflation, unemployment rates and exchange rates can also influence the estimation of property values for the correct setting of taxes (Unel & Yalpir, 2023). Italy currently uses a cadastral valuation system to determine tax liabilities on real estate. This tax is unpopular because it places a disproportionate tax burden on the socially disadvantaged (Cammeraat & Crivelli, 2020). According to a survey by Levinson (2020), young people with lower incomes and less wealth pay higher property taxes in the US. Cammeraat & Crivelli (2020) state that there is great potential for better use of property tax by replacing the current cadastral property valuation system with a market-based property valuation system.

Property tax is not a major source of revenue for public budgets in most countries and taxpayers do not always perceive it as a tool for improving local infrastructure (Sobotovičová & Janoušková, 2020; Pfeiferová et al., 2020; Cammeraat & Crivelli, 2020; Levinson, 2020). As Sobotovičová & Janoušková (2020) point out, it is in the interest of local government representatives to explain to their taxpayers what specific consideration they have received. Malkowska et al. (2020) point to a direct link between the property tax rate and the political cycle in Poland. Local taxes are also a useful tool for politicians seeking re-election, as they bring direct and visible benefits to the largest possible number of voters. In addition to political factors, local tax policy can also be influenced by economic factors, in particular unemployment in individual regions (Malkovska et al., 2020). An analysis of the development of real estate tax in the Czech Republic in the period 1993–2024 (Krajňák, 2024) shows that, despite repeated tax reforms, there has been a real decrease in the tax burden on most properties due to the long-term absence of inflationary indexation of rates, which has had a negative impact on municipal tax revenues.

The purpose of real estate tax is to tax land, buildings and flats located in the Czech Republic (Kukalová et al., 2021b; Pfeiferová et al., 2020; Sobotovičová & Janoušková,

2020). The coefficients that can be adjusted by municipalities in the Czech Republic are an effective way of securing additional tax revenue. They can be set by municipalities to consider the positive and negative externalities associated with the use of real estate. According to Kukalová et al. (2021), the share of real estate tax in total municipal revenues is low, and the coefficients for increasing it are not widely used. Zelenská (2024) states that the local coefficient was introduced into Czech legislation in 2009, but only 389 municipalities opted to apply it in practice in 2010; the main motive for its introduction was the fiscal interest of municipalities, and her research also suggests the existence of a spatial effect, whereby municipalities often imitate the approach of neighbouring local governments when deciding on the application of the coefficient. Bečica (2014) also addressed the issue of the introduction of the local coefficient and its subsequent impact on real estate tax revenue for municipalities in the Czech Republic in his paper, pointing out its insufficient use. According to an analysis by Zdražil & Pernica (2018), the introduction of the local coefficient in selected municipalities affects the quality of life in the areas of education, healthcare, public transport and safety.

The aim of this paper is to evaluate the use of coefficients in real estate tax in selected municipalities in the Central Bohemian Region as a potential source of higher real estate tax revenues.

2. Methodology

The evaluation of the potential of real estate tax coefficients is carried out in selected municipalities in the Central Bohemian Region. These municipalities were selected to represent different size categories and different economic areas of the region. This diversified sample composition allows for analyses across diverse locations in the Central Bohemian Region. The selected municipalities correspond to the division of municipalities into individual categories according to population size (Table 1).

Table 1. Municipalities analysed by population (Czech Statistical Office, 2024)

Municipality	Population (2024)	Category
Senice (SE)	202	up to 499
Kostelní Lhota (KL)	853	500–999
Sadská (SA)	3,271	1,000–4,999
Český Brod (CB)	7,261	5,000–9,999
Nymburk (NB)	14,797	10,000–24,999
Kolín (KO)	31,950	over 25,000

Data from the database of the Financial Administration of the Czech Republic (Tax Office for the Central Bohemian Region) for 2024 and data from the Ministry of Finance of the Czech Republic (Monitor) were used to analyse the use of coefficients and yields from real estate tax in individual municipalities. The data for 2024 was fully available and relevant at the time of the analysis. The data obtained had to be separated and organised according to individual municipalities. Data on real estate tax revenues and the use of coefficients were further sorted for the municipalities in terms of the share of individual types of real estate in the total real estate tax revenue, according to the codes of specific

types of real estate (Table 2). The table shows the tax rates for individual types of real estate and the options for using the municipal coefficient based on population size (CP) and local coefficient (LC).

Table 2. Types and codes of real estate with assigned rates and possible coefficients (Financial Administration, 2024)

Code	Type of real estate	Tax rate CZK/m²	CP	LC
A	Farmland	1.35	-	0.5 – 1.5
B	Permanent grassland	0.45	-	0.5 – 1.5
C	Commercial forest	0.45	-	0.5 – 1.5
E	Built-up area and courtyard	0.35	-	0.5 – 5.0
F	Building land	3.50	1.0 – 5.0	0.5 – 5.0
G	Other land	0.35	-	0.5 – 5.0
Q	Other land with specified use: miscellaneous land	0.35	-	0.5 – 5.0
W	Other land – non-productive: unproductive land, field margin, hillside, waterlogged area, and vegetation cover	0.08	-	0.5 – 5.0
X	Paved area (business in agriculture, etc.)	1.80	-	0.5 – 5.0
Y	Paved area (other types of business)	9.00	-	0.5 – 5.0
H	Residential building	3.50	1.0 – 5.0	0.5 – 5.0
I	Building – outbuildings to H	3.50	1.0 – 5.0	0.5 – 5.0
J	Cottage	1.00	-	0.5 – 5.0
K	Outbuildings to J	3.50	-	0.5 – 5.0
L	Garage	14.50	-	0.5 – 5.0
M	Building used for business (agriculture, etc.)	3.50	-	0.5 – 5.0
N	Building used for business (industry, construction, transport, energy, or other agricultural production)	18.00	-	0.5 – 5.0
O	Building used for business (other types of business)	18.00	-	0.5 – 5.0
P	Other taxable construction	11.00	-	0.5 – 5.0
R	Apartment (for living)	3.50	1.0 – 5.0	0.5 – 5.0
S	Apartment (for business – in agriculture, etc.)	3.50	-	0.5 – 5.0
T	Apartment (for business – industry, construction, transport, energy, or other agricultural production)	18.00	-	0.5 – 5.0
U	Apartment (for other types of business)	18.00	-	0.5 – 5.0
V	Unit used as a garage	14.50	-	0.5 – 5.0
Z	Another unit	3.50	1.0 – 5.0	0.5 – 5.0

For all municipalities analysed, the coefficients set in the municipalities for individual types of real estate for 2024 were determined from the Financial Administration data (2024) (Tables 3 to 8). The determination of the potential revenue from real estate tax in the municipalities was based on tax revenue in 2024. The revenue potential was determined for 2025, considering changes in the determination of coefficients in 2025. Therefore, it was necessary to adjust the revenue without changes in coefficients for revenue arising from the determination of a coefficient of 1.5 for certain types of real estate (garages, commercial buildings, etc.). In some municipalities, there would be a decline in real estate tax revenue in 2025 if the coefficients were not adjusted. The

potential revenue in 2025 is based on comprehensive data from 2024 and includes changes in the possibilities for determining and adjusting the coefficients applicable in 2025. Calculations of potential revenues for 2025 were made using the maximum possible coefficients. This phase included a detailed analysis of the status of local coefficient utilisation in 2024 and the adjustment of revenues to eliminate the impact of coefficients. Revenues for 2025 were calculated based on 2024, but with new rules for the use of coefficients. These changes mainly include a new method of adjusting CP. Subsequently, the unused potential was determined, both in absolute values and as a percentage, and the share of actual and potential real estate tax revenues in the total and tax revenues of the analysed municipalities was determined.

3. Results

The analysis of the potential for setting and adjusting real estate tax coefficients in selected municipalities shows that local governments have significant opportunities to increase their tax revenues. However, as the data indicates, most of the municipalities analysed do not fully exploit these options, leaving a substantial portion of potential revenue untapped.

3.1. Real Estate Tax Revenue with Maximum Use of Coefficients

The detailed analysis of individual real estate types across all municipalities reveals several key trends:

- Residential Buildings and Units (H, I, R, Z): Across all size categories, the highest untapped revenue potential is consistently found in residential property. For example, in Kolín, the potential increase from residential buildings alone exceeds CZK 38 million. However, increasing this burden is often politically sensitive.
- Business Properties (M, S, N, T, O, U): These properties represent the second most significant source of potential growth. Setting maximum coefficients for buildings used for industry, energy, or other business activities offers a more politically acceptable path for municipalities to increase revenue.
- Farmland (A): In smaller municipalities like Senice and Kostelní Lhota, a large share of current revenue comes from farmland, where the potential for further increase is limited by a maximum local coefficient of 1.5.

Full utilization of these coefficients would fundamentally change the structure of municipal budgets, significantly increasing the share of real estate tax in total tax revenues and reducing dependence on shared taxes. For instance, in Senice, the share of real estate tax in tax revenues could rise from 12.13% to over 30%.

Table 3. Potential revenue from real estate tax with maximum use of coefficients – municipality of Senice

Code	Coefficients 2024			Revenue 2024 (CZK)	Revenue 2025 (no coefficient change) (CZK)	Maximum coeff. 2025		Potential tax revenue 2025 (CZK)	Change in revenue 2025 (CZK)
	CP	1.5	LC			CP	LC		
A	-	-	1.0	757,139	757,139	-	1.5	1,135,709	378,570
B	-	-	1.0	72	72	-	1.5	108	36
W	-	-	1.0	501	501	-	1.5	752	251
C	-	-	1.0	0	0	-	5.0	0	0
E	-	-	1.0	18,960	18,960	-	5.0	94,800	75,840
F	1.0	-	1.0	6,182	6,182	1.4	5.0	43,274	37,092
G	-	-	1.0	18,812	18,812	-	5.0	94,060	75,248
Q	-	-	1.0	14,753	14,753	-	5.0	73,765	59,012
X	-	-	1.0	0	0	-	5.0	0	0
Y	-	-	1.0	801	801	-	5.0	4,005	3,204
H, I	1.0	-	1.0	72,501	72,501	1.4	5.0	507,507	435,006
R, Z	1.0	-	1.0	1,306	1,306	1.4	5.0	9,142	7,836
J, K	-	1.0	1.0	10,921	10,921	-	5.0	54,605	43,684
L, V	-	1.0	1.0	6,252	6,252	-	5.0	31,260	25,008
M, S	-	1.0	1.0	43,124	43,124	-	5.0	215,620	172,496
N, T	-	1.0	1.0	0	0	-	5.0	0	0
O, U	-	1.0	1.0	44,658	44,658	-	5.0	223,290	178,632
P	-	-	1.0	330	330	-	5.0	1,650	1,320
Total				996,312	996,312			2,489,546	1,493,250

Table 4. Potential real estate tax revenue with maximum use of coefficients – municipality of Kostelní Lhota

Code	Coefficients 2024			Revenue 2024 (CZK)	Revenue 2025 (no coefficient change) (CZK)	Maximum coeff. 2025		Potential tax revenue 2025 (CZK)	Change in revenue 2025 (CZK)
	CP	1.5	LC			CP	LC		
A	-	-	1.0	351,257	351,257	-	1.5	526,886	175,629
B	-	-	1.0	3,336	3,336	-	1.5	5,004	1,668
W	-	-	1.0	95	95	-	1.5	143	48
C	-	-	1.0	10,494	10,494	-	5.0	52,470	41,976
E	-	-	1.0	36,553	36,553	-	5.0	182,765	146,212
F	1.0	-	1.0	6,203	6,203	1.4	5.0	43,421	37,218
G	-	-	1.0	25,054	25,054	-	5.0	125,270	100,216
Q	-	-	1.0	11,841	11,841	-	5.0	59,205	47,364
X	-	-	1.0	0	0	-	5.0	0	0
Y	-	-	1.0	17,316	17,316	-	5.0	86,580	69,264
H, I	1.0	-	1.0	226,076	226,076	1.4	5.0	1,582,532	1,356,456
R, Z	1.0	-	1.0	6,975	6,975	1.4	5.0	48,825	41,850
J, K	-	1.0	1.0	10,815	10,815	-	5.0	54,075	43,260
L, V	-	1.0	1.0	27,010	27,010	-	5.0	135,050	108,040
M, S	-	1.0	1.0	13,675	13,675	-	5.0	68,375	54,700
N, T	-	1.0	1.0	23,328	23,328	-	5.0	116,640	93,312
O, U	-	1.0	1.0	67,946	67,946	-	5.0	339,730	271,784
P	-	-	1.0	14,743	14,743	-	5.0	73,715	58,972
Total				852,717	852,717			3,500,685	2,647,968

Table 5. Potential real estate tax revenue with maximum use of coefficients – municipality of Sadská

Code	Coefficients 2024			Revenue 2024 (CZK)	Revenue 2025 (no coefficient change) (CZK)	Maximum coeff. 2025		Potential tax revenue 2025 (CZK)	Change in revenue 2025 (CZK)
	CP	1.5	LC			CP	LC		
A	-	-	1.0	1,638,302	1,638,302	-	1.5	2,457,453	819,151
B	-	-	1.0	24,856	24,856	-	1.5	37,284	12,428
W	-	-	1.0	3,826	3,826	-	1.5	5,739	1,913
C	-	-	2.0	16,440	16,440	-	5.0	41,100	24,660
E	-	-	2.0	139.412	139,412	-	5.0	348,530	209,118
F	1.4	-	2.0	24,936	24,936	1.6	5.0	71,246	46,310
G	-	-	2.0	132,896	132,896	-	5.0	332,240	199,344
Q	-	-	2.0	87,736	87,736	-	5.0	219,340	131,604
X	-	-	2.0	698	698	-	5.0	1,745	1,047
Y	-	-	2.0	726,860	726,860	-	5.0	1,817,150	1,090,290
H, I	1.4	-	2.0	1,813,510	1,813,510	1.6	5.0	5,181,457	3,367,947
R, Z	1.4	-	2.0	130,626	130,626	1.6	5.0	373,217	242,591
J, K	-	1.5	2.0	412,682	275,122	-	5.0	687,803	412,681
L, V	-	1.5	2.0	297,262	198,175	-	5.0	495,437	297,262
M, S	-	1.5	2.0	6,228	4,152	-	5.0	10,380	6,228
N, T	-	1.5	2.0	2,343,090	1,562,060	-	5.0	3,905,150	2,343,090
O, U	-	1.5	2.0	1,589,978	1,059,986	-	5.0	2,649,963	1,589,977
P	-	-	2.0	332,718	332,718	-	5.0	831,795	499,077
Total				9,722,056	8,172,311			19,467,029	11,294,718

Table 6. Potential real estate tax revenue with maximum use of coefficients – municipality of Český Brod

Code	Coefficients 2024			Revenue 2024 (CZK)	Revenue 2025 (no coefficient change) (CZK)	Maximum coeff. 2025		Potential tax revenue 2025 (CZK)	Change in revenue 2025 (CZK)
	CP	1.5	LC			CP	LC		
A	-	-	1.0	726,392	726,392	-	1.5	1,089,588	819,196
B	-	-	1.0	4,400	4,400	-	1.5	6,600	2,200
W	-	-	1.0	6,633	6,633	-	1.5	9,950	3,317
C	-	-	2.5	1,232	1,232	-	5.0	2,464	1,232
E	-	-	2.5	172,134	172,134	-	5.0	344,268	172,134
F	2.0	-	2.5	69,567	69,567	2.0	5.0	139,134	69,567
G	-	-	2.5	229,551	229,551	-	5.0	459,102	229,551
Q	-	-	2.5	67,829	67,829	-	5.0	135,658	67,829
X	-	-	2.5	0	0	-	5.0	0	0
Y	-	-	2.5	1,259,533	1,259,533	-	5.0	2,519,066	1,259,533
H, I	1.4	-	2.5	3,746,796	4,282,053	2.0	5.0	10,705,131	6,423,078
R, Z	1.6	-	2.5	1,159,797	1,159,797	2.0	5.0	2,899,493	1,739,696
J, K	-	1.5	2.5	28,806	19,204	-	5.0	38,408	19,204
L, V	-	1.5	2.5	982,635	655,090	-	5.0	1,310,180	655,09
M, S	-	1.5	2.5	24,194	16,129	-	5.0	32,259	16,129
N, T	-	1.5	2.5	1,887,819	1,258,546	-	5.0	2,517,087	1,258,546
O, U	-	1.5	2.5	4,951,608	3,301,072	-	5.0	6,651,374	3,350,302
P	-	-	2.5	332,531	332,531	-	5.0	665,062	332,531
Total				15,651,453	13,561,693			29,524,823	15,827,376

Table 7. Potential real estate tax revenue with maximum use of coefficients – municipality of Nymburk

Code	Coefficients 2024			Revenue 2024 (CZK)	Revenue 2025 (no coefficient change) (CZK)	Maximum coeff. 2025		Potential tax revenue 2025 (CZK)	Change in revenue 2025 (CZK)
	CP	1.5	LC			CP	LC		
A	-	-	1.0	1,215,149	1,215,149	-	1.5	1,822,724	607,575
B	-	-	1.0	13,207	13,207	-	1.5	19,811	6,604
W	-	-	1.0	12,956	12,956	-	1.5	19,434	6,478
C	-	-	2.0	12,102	12,102	-	5.0	30,255	18,153
E	-	-	2.0	190,346	190,346	-	5.0	475,865	285,519
F	2.5	-	2.0	175,550	175,550	2.5	5.0	438,875	263,325
G	-	-	2.0	440,542	440,542	-	5.0	1,101,355	660,813
Q	-	-	2.0	341,170	341,170	-	5.0	852,925	511,755
X	-	-	2.0	22,312	22,312	-	5.0	55,780	33,468
Y	-	-	2.0	4,938,906	4,938,906	-	5.0	12,347,265	7,408,359
H, I	2.5	-	2.0	5,727,084	5,727,084	2.5	5.0	14,317,710	8,590,626
R, Z	2.5	-	2.0	5,621,182	5,621,182	2.5	5.0	14,052,955	8,431,773
J, K	-	1.0	2.0	71,324	71,324	-	5.0	178,310	106,986
L, V	-	1.0	2.0	1,323,278	1,323,278	-	5.0	3,308,195	1,984,917
M, S	-	1.0	2.0	81,476	81,476	-	5.0	203,690	122,214
N, T	-	1.0	2.0	9,294,632	9,294,632	-	5.0	23,236,580	13,941,948
O, U	-	1.0	2.0	6,971,350	6,971,350	-	5.0	17,428,375	10,457,025
P	-	-	2.0	308,522	308,522	-	5.0	771,305	462,783
Total				36,761,088	36,761,088			90,661,408	53,900,320

Table 8. Potential real estate tax revenue with maximum use of coefficients – municipality of Kolín

Code	Coefficients 2024			Revenue 2024 (CZK)	Revenue 2025 (no coefficient change) (CZK)	Maximum coeff. 2025		Potential tax revenue 2025 (CZK)	Change in revenue (CZK)
	CP	1.5	LC			CP	LC		
A	-	-	1.0	1,345,305	1,345,305	-	1.5	2,017,958	672,653
B	-	-	1.0	68,005	68,005	-	1.5	102,008	34,003
W	-	-	1.0	44,279	44,279	-	1.5	66,419	22,140
C	-	-	2.0	50,494	50,494	-	5.0	126,235	75,741
E	-	-	2.0	348,642	348,642	-	5.0	871,605	522,963
F	2.5	-	2.0	519,252	519,252	3.5	5.0	1,817,382	1,298,130
G	-	-	2.0	640,446	640,446	-	5.0	1,601,115	960,669
Q	-	-	2.0	733,178	733,178	-	5.0	1,832,945	1,099,767
X	-	-	2.0	17,180	17,180	-	5.0	42,950	25,770
Y	-	-	2.0	13,138,988	13,138,988	-	5.0	32,847,470	19,708,482
H, I	1.6	-	2.0	9,112,338	11,390,423	3.5	5.0	49,833,098	38,422,675
R, Z	2.5	-	2.0	11,309,122	11,309,122	3.5	5.0	39,581,927	28,272,805
J, K	-	1.0	2.0	49,448	49,448	-	5.0	123,620	74,172
L, V	-	1.0	2.0	2,415,340	2,415,340	-	5.0	6,038,350	3,623,010
M, S	-	1.0	2.0	20,424	20,424	-	5.0	51,060	30,636
N, T	-	1.0	2.0	16,755,072	16,755,072	-	5.0	41,937,680	25,162,608
O, U	-	1.0	2.0	13,016,648	13,016,648	-	5.0	32,541,620	19,524,972
P	-	-	2.0	639,302	639,302	-	5.0	1,598,255	958,953
Total				70,243,463	72,052,083			213,031,696	140,510,149

3.2. Evaluation of the Potential of Real Estate Tax in the Municipalities Concerned

All the municipalities analysed show significant untapped potential (Table 9). The highest untapped potential is in the municipality of Kutná Hora (KH, 75.6%), while the lowest untapped potential is in the municipalities of Sadská (SA, 50%) and Český Brod (CB, 53.6%). The municipality of SA makes the most effective use of the potential of real estate tax coefficients among the municipalities surveyed.

Table 9. Evaluation of the potential revenue from real estate tax in the municipalities

Municipality	Number of inhabitants	Total real estate tax revenue without changes in coefficients (CZK)	nd 2025 potential yield (CZK) with maximum utilisation of coefficients	Unused potential (CZK)	Unused potential
SE	202	996,312	2,489,546	1,493,234	60.0%
KL	853	852,717	3,500,685	2,647,968	75.6%
SA	3,271	9,722,056	19,467,029	9,744,973	50.0%
CB	7,261	15,651,453	29,524,823	15,827,376	53.6%
NB	14,797	36,761,088	90,661,408	53,900,320	59.4%
KO	31,950	70,243,463	213,031,696	140,510,149	66.0%

If the analysed municipalities took advantage of the possibility to adjust and set coefficients, the increased real estate tax revenues would be reflected in higher municipal budget revenues, and the structure of budget revenues would change (Table 10). An increase in real estate tax revenues increases the share of real estate tax in tax revenues and reduces municipalities' dependence on shared taxes.

Table 10. Share of real estate tax revenues in total and tax revenues of budgets in given municipalities

Municipality	Total budget revenue (CZK)	Share of real estate tax revenue without changes in coefficients in total revenue	Share of potential real estate tax revenue with max. use of coefficients in total revenue	Budget tax revenue (CZK)	Share of real estate tax revenue without changes to coefficients in tax revenue	Share of potential real estate tax revenue with max. use of coefficients in tax revenue
SE	15,184,257	6.56%	16.40%	8,212,404	12.13%	30.31%
KL	34,370,261	2.48%	10.19%	19,692,008	4.33%	17.78%
SA	89,346,941	10.88%	21.79%	80,293,432	12.11%	24.24%
CB	419,749,379	3.73%	7.03%	203,407,959	7.69%	14.52%
NB	930,006,630	3.95%	9.75%	415,857,920	8.84%	21.80%
KO	1,787,368,991	3.93%	11.92%	871,291,901	8.06%	24.45%

4. Discussion

The results of the model calculations clearly demonstrate that the revenue potential of real estate tax in the Czech Republic remains largely untapped. Increasing the coefficient according to the number of inhabitants and setting a local coefficient is an interesting and relatively simple option for municipalities to obtain missing funds for their budgets. According to Zelenská (2024), tax changes have also led to the local coefficient beginning to

play the role of a key corrective tool through which municipalities can adjust the resulting real estate tax, both upwards and downwards, including the taxation of agricultural land. Nevertheless, most municipalities in the Czech Republic do not use this option (Kukalová et al., 2021a; Kukalová et al., 2021b; Bečica, 2014). While the theoretical potential for revenue increase ranges between 50% and 75% in the studied municipalities, the practical application of higher coefficients remains an exception rather than the rule. Kukalová et al. (2021a) state that in 2019, the untapped potential of the local coefficient in the Czech Republic was 93%. Compared to 2019, the use of the local coefficient has increased. For example, in the Central Bohemian Region, 198 municipalities (17% of the total) had a local coefficient set in 2019, but in 2024, 359 municipalities, or 31% of the total number of municipalities in the Central Bohemian Region, were already using the local coefficient (Financial Administration of the Czech Republic, 2024).

The significant gap between potential and actual revenue can be attributed to several factors. Firstly, real estate tax is one of the most visible taxes. Unlike income tax, which is often withheld at the source, real estate tax must be paid actively by the taxpayer, making it politically sensitive for local representatives. Our findings align with the "political budget cycle" theory—mayors are reluctant to increase tax burdens on their residents, fearing negative electoral consequences (as previously noted by Sedmihradská, 2021).

From a policy perspective, our study suggests that municipalities should focus on a more selective application of coefficients. Instead of a blanket increase for all residents (which causes the most resistance), municipalities could strategically increase the Local Coefficient (LC) for specific categories, such as business properties (codes M, S, N, T) or second homes/recreational properties. This approach would allow for revenue growth while mitigating the social impact on permanent residents.

In comparison with other EU countries, the Czech Republic's reliance on shared taxes (sdílené daně) remains exceptionally high. The untapped potential of 50–75% identified in our study suggests that if the central government continues to reduce municipal shares of VAT or income tax, local governments have a viable, albeit politically challenging, internal reserve to maintain fiscal stability.

A limitation of this study is its focus on a specific region (Central Bohemia). Future research should expand the analysis to structurally disadvantaged regions, where the revenue potential might be significantly lower due to different property values. Furthermore, an investigation into the correlation between the level of tax coefficients and the quality of local public services would provide deeper insights into the "tax-benefit" link at the local level.

5. Conclusions

Real estate tax in municipalities in the Czech Republic has been gaining importance in recent years. The growing significance of this tax is also reflected in municipal strategic planning, where it is becoming an important tool for ensuring long-term financial stability and municipal development. There has been a significant shift in the perception and use of this tax as an important tool for municipal budgets. Real estate tax represents a stable and

predictable source of income that is directly linked to the municipality's territory. However, tax increases are a very sensitive issue, and therefore the maximum use of coefficients is only theoretical, as most municipalities have not had the courage to take this step in the past. Where coefficients have been increased, this has mainly affected owners of commercial properties or buildings used for recreational purposes. Over the years, this potential, with the possibility of optimal adjustment by the municipality, has been increasingly exploited. This development indicates an effort by municipalities to use the local coefficient as an effective tax policy tool, probably in response to the growing need to increase municipal budget revenues. Although real estate tax collection is growing year on year, its share of total revenues is declining. This is due to the greater growth dynamics of shared taxes, in particular value added tax, which significantly affect the total revenue of municipalities.

A comparison of the results of the analysis for individual municipalities suggests that municipalities have significant scope to increase their revenues by adjusting real estate tax coefficients, but for various reasons (social, political, economic) they are not yet fully exploiting this potential. The results can serve as a basis for strategic decisions by municipalities in tax policy and contribute to a better understanding of the role of real estate tax in municipal budgets.

Conflict of interest: none

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