



Duke Mbështetur Qeverisjen e Mirëdhe Qytetarinë Aktive
Supporting Good Governance and Active Citizenry

PROPERTY TAXES IN KOSOVO MUNICIPALITIES

Analytical report on the importance and success of property taxes collection in Kosovo municipalities

February 2014



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1. Introduction

The analytical report on the importance and success of property taxes collection in Kosovo municipalities analyzes the situation of property taxes in Kosovo and challenges that Kosovo municipalities face. This report is based on the data of property taxes in 2012, which were obtained from the respective municipalities and published by FOL Movement.

Municipality's own income are regulated by the Law on Local Self-Government (LLSG) decreed in June 2008 as a part of the package of laws of Ahtisaari's comprehensive proposal, and which defines municipality's funding. As it is specified in Article 8 of the Law on Local Self-Government, municipalities should be provided with financial resources which would be used for providing services to citizens. Among these financial resources are what we call own income (OI). Municipality's own income are generated from municipal fees, taxes, , charges and fines that constitute 10-20% of the annual funding of municipalities across Kosovo. The most important of all these income sources is property tax.

According to the Kosovo Statistics Agency, about 30% of existing properties are not registered. On the other hand, according to the information from municipalities, during 2011-2012, there were better efforts to include all the unregistered properties on the property tax system, but it is thought that a significant number of the properties remain still unregistered and untaxed. This is a serious problem, considering the fact that only a part of the citizens are paying property taxes. And also due to the fact that less than half of the annual amount bill is paid, it means that the number of people who carry the burden of paying property taxes is even smaller.

The very low rate of property tax collection for the current year represents a very serious problem of the growth of unpaid property taxes, which will be very difficult for municipalities to address this concern unless they change the ways of tax collection. Also, when considering that only about 40% of tax payers ought to pay property taxes, since other properties are not registered, makes the property tax system in Kosovo as unfair.

This report intends to analyze the situation of property taxes in Kosovo municipalities based on property tax records provided by Kosovo municipalities and obtained from the central system of property taxes. First, the report presents the municipalities which cooperated with FOL Movement and provided their data. Then, the report analyzes in detail and aggregated the level of property tax billing in 2012, collection rate and overview of the collected funds. Further, the report analyzes the collection rate and success in managing and collecting property taxes by property categories. Finally the report provides the main conclusions and recommendations for improving the management of property taxes.

The success overview of Kosovo municipalities in the management and collection of property taxes shown below in this report shows an unfavorable situation, which requires attention and greater commitment of Kosovo municipalities and regular taxpayers as well.

Data Collection Methodology

Based on the Law on Access to Public Documents, articles 4, 5 and 6 and the Law on Real Estate Property Tax, FOL Movement sent a request for access to property tax records to 34 municipalities of the Republic of Kosovo.

FOL Movement thanks all Kosovo municipalities which have cooperated in providing data for this report. This report is based on reports generated from the property tax system, respectively Reports on Charge and collection of Property Taxes, generated by all the cooperating municipalities. The report is compiled based on the data provided by the municipalities shown in the table below:

Municipalities which provided data on property taxes
DRAGASH
FUSHË KOSOVA
GJAKOVA
GJILAN
GLLOGOC
GRACANICË
HANI I ELEZIT
ISTOG
JUNIK
KAÇANIK
KAMENICA
MALISHEVA
MITROVICA
NOVOBËRDA
OBILIQ

PËJA
PRISHTINA
RANILLUG
SHTIME
SUHAREKA
VITIA
VUSHTRRI

Municipalities such as Rahovec, Skenderaj, Ferizaj and Podujeva have also provided data on property taxes, but these data were not in the required format for deeper analysis and as such were not included in this report. Thus so, the report is based on the data provided by 22 out of 34 municipalities of Kosovo that were sent a request regarding the data of 2012.

2. Billing and collection of property taxes in 2012, in 22 municipalities of the Republic of Kosovo

2.1 The income of property taxes in municipal budget

Municipalities based on the Law on Local Government Finances (LLGF) might increase their own income mainly through charging fees for utilities, an income which is preserved in municipal budget. Property taxes are the only taxes that municipalities can legally collect and increase the general income, which can be spent for projects designed by the municipality. In the sense of amount, own income historically consisted about 17% of the total income every year. Within municipal own income, property taxes are the most important and consists about 30% of own incomes in 2012, whereas property tax bill represents about 4% of the total budget of the municipalities where the analysis were carried out.

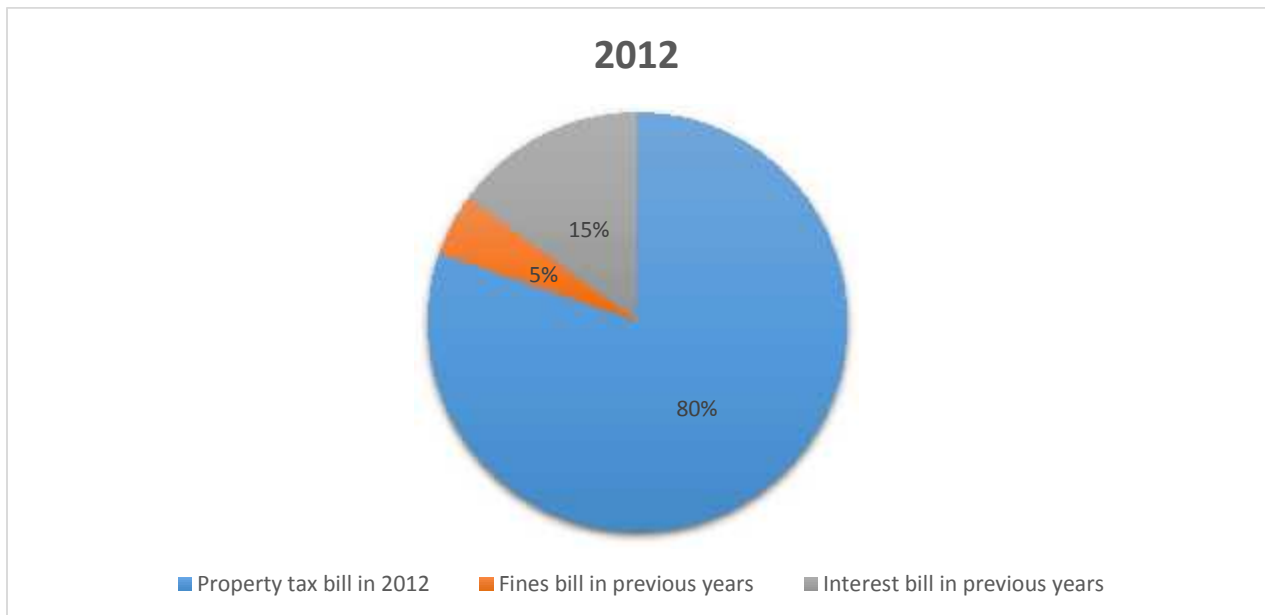
Based on the data received from municipalities and municipal budgets in 2012, the table below shows the importance of property taxes for Kosovo municipalities.

Municipalities which provided data on property taxes	Revised budget in 2012	Property taxes bill in 2012	PT as a percentage of municipal budget in 2012
DRAGASH	€ 5,547,372.00	€ 182,524.72	3.29%
FUSHË KOSOVA	€ 6,091,949.00	€ 387,427.75	6.36%
GJAKOVA	€ 18,342,716.00	€ 971,203.09	5.29%
GJILAN	€ 18,162,902.00	€ 1,046,454.51	5.76%
GLLOGOC	€ 9,820,501.00	€ 227,118.36	2.31%
GRACANICA	€ 5,578,470.00	€ 349,994.70	6.27%
HANI I ELEZIT	€ 1,686,726.00	€ 71,917.70	4.26%
ISTOG	€ 7,561,792.00	€ 270,764.56	3.58%
JUNIK	€ 1,398,572.00	€ 32,272.96	2.31%
KAÇANIK	€ 5,457,755.00	€ 227,354.16	4.17%
KAMENICA	€ 7,148,704.00	€ 204,789.76	2.86%
MALISHEVA	€ 9,964,410.00	€ 242,209.85	2.43%
MITROVICA	€ 17,153,984.00	€ 465,236.08	2.71%
NOVOBËRDA	€ 2,279,090.00	€ 45,612.34	2.00%
OBILIQ	€ 4,388,983.00	€ 244,361.15	5.57%
PEJA	€ 18,254,846.00	€ 1,148,488.95	6.29%
PRISHTINA	€ 61,741,684.00	€ 4,471,595.82	7.24%
RANILLUG	€ 1,090,365.00	€ 21,277.88	1.95%
SHTIME	€ 4,713,956.00	€ 100,535.98	2.13%
SUHAREKA	€ 12,306,484.00	€ 574,501.94	4.67%
VITIA	€ 8,065,064.00	€ 186,102.50	2.31%
VUSHTRRI	€ 12,612,512.00	€ 363,323.47	2.88%

2.2 Overview of the property tax bill

Regarding the overview of the property tax bill, based on the data provided in 2012 by 22 municipalities which were obtained for analysis of this report, 80% of the bill property tax value in 2012 has to do with the property tax amount for the respective year. The rest includes interest bill because of the delays for the previous years (15% bill amount) and fines for failing to pay in time for previous years (5% of bill amount in 2012).

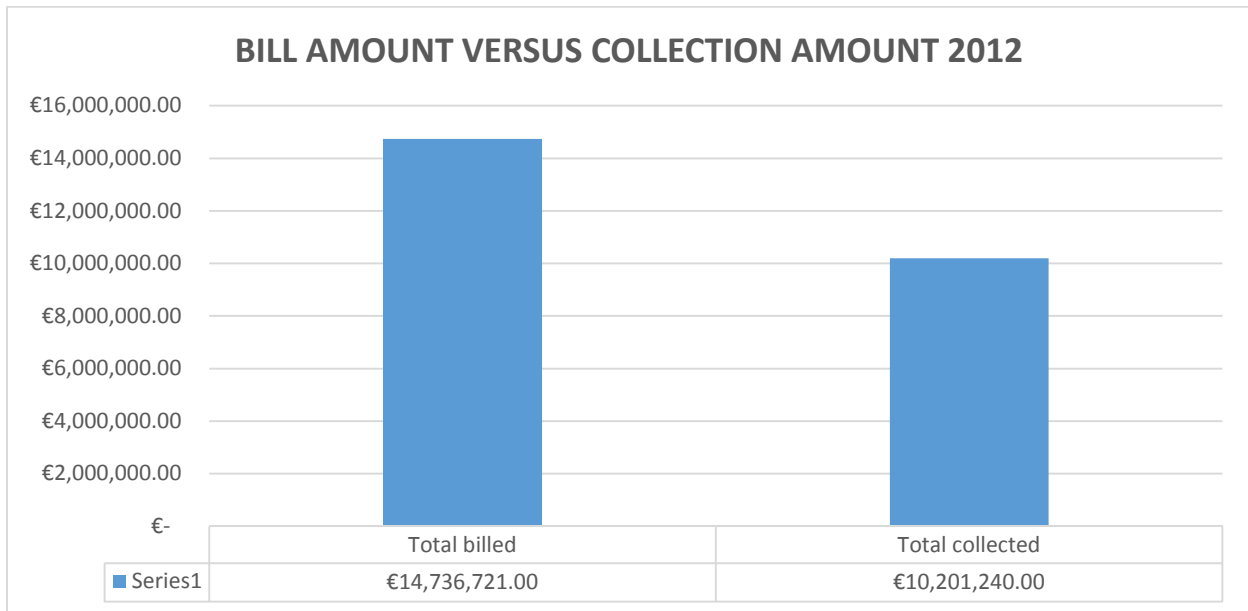
Property tax bill in 2012	€11,835,059.31
Fines bill in previous years	€ 702,827.93
Interest bill in previous years	€ 2,198,833.86



2.3 Collection amount of property taxes

In order to have a more precise analysis of the rate of property taxes payment, it is necessary to estimate only the payment of the property taxes in the current year. This is an indicator of the level of regular property taxes payment.

If the bill amounts is analyzed for 2012 (including property taxes and interest for previous years) and the amount collected of property taxes during 2012 in the municipalities analyzed in this report, shows that the amount collection consists the 69.22% of the bill amount. Thus, the bill amount of these 22 municipalities which is 14,736,721 Euro, the collected amount is 10,201,240 Euros. However, this overview is somewhat incorrect, since in this collection are included all collections of the debt from previous years, fines and interest as well.



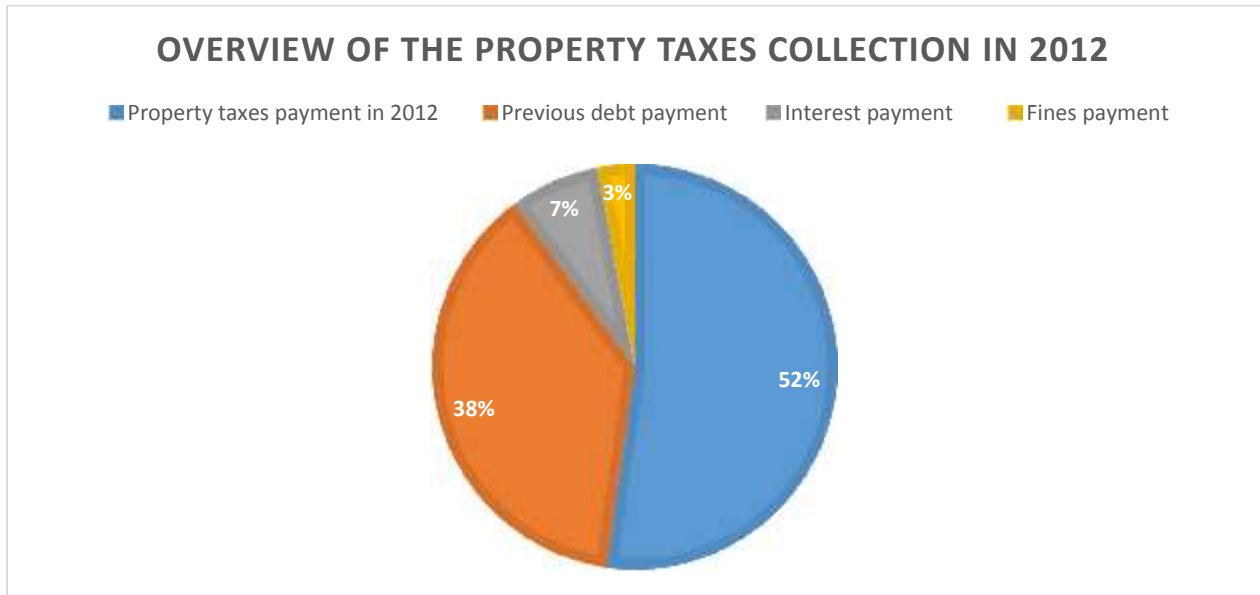
In order to have a clearer overview of the collection, the value of collection amount is shown into its components as follows:

Property taxes payment in 2012	€ 5,330,840.10
Previous debt payment	€ 3,834,357.79
Interest payment	€ 734,409.19
Fines payment	€ 301,633.15

As we can see here, only 52% of the collected amount has to do with property taxes payment for the current year (2012), while 48% of property taxes payments collected by municipalities

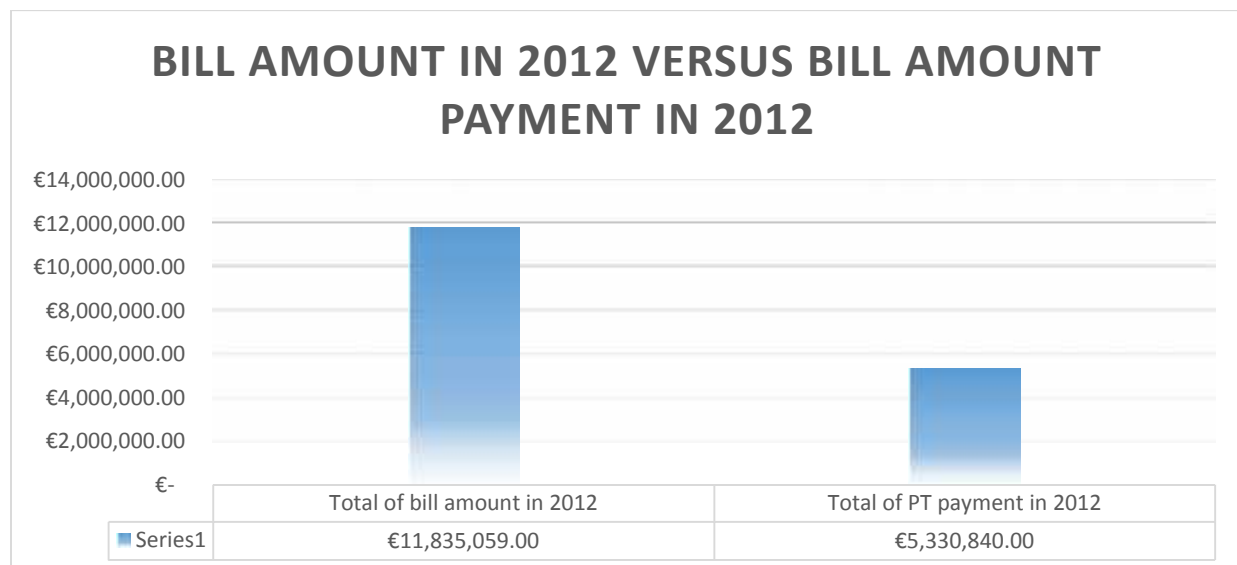
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is related to previous debt (38%), interest for delays (7%) and fines for ignoring legal deadlines for payment (3%).



2.4 The real property tax collection rate for the current year

If we analyze the property taxes collection for the current year, which should also be considered as the true rate of property taxes collection (since it represents the rate of payment of billed property taxes for the relevant year), based on the data provided by 22 municipalities, we see that only 45 % of the property tax bill for 2012 is collected by municipalities where the analysis is carried out. This represents a very important issue, since a collection rate below 50 % of the billed property taxes for a relevant year means that the total debts is increasing every over 50 % of the bill amount. Furthermore, such a rate of non-payment means that the interest and fines for non-payment burden on taxpayers, while at the same time cause a serious problem for municipalities and their opportunities for collection in the future.



Out of 11,835,059 Euro property taxes billed from these 22 municipalities for the current year, only 5,330,840 Euro have been collected.

2.5 Collection by property category

In order to analyze the sources of the problems about the payment of property taxes, the following table shows the total billing and collection by categories of properties (grouped in two super categories), residential and commercial. In residential properties are include all residential properties, those discharged from taxes, unclassified property, unfinished properties, excluded, abandoned, garages and ongoing ones. While commercial properties are considered all properties classified for commercial use, including industrial properties and producing industry, agricultural properties, for recreational properties, services, transportation and social properties, institutional and cultural buildings.

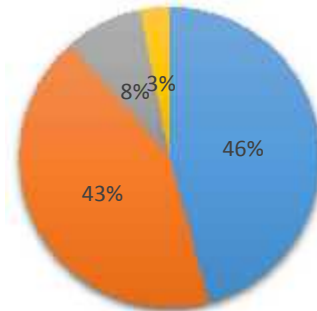
On the data presented below regarding 22 communities, it appears that the nominal rate of residential properties collection is better (74.13 %) than the commercial one (63.29 %). This shows that municipalities should do more to increase the collection of commercial properties, which by sheer numbers are smaller in number and it is easier to be targeted for taxes collection.

	Bill amount by categories	Total Property taxes payment	Nominal rate of collection
Residential property	€ 8,062,112.91	€ 5,978,695.46	74.13%
Commercial property	€ 6,671,608.20	€ 422,544.86	63.29%

To see more exactly the components of the total collected amount in 2012 by categories of properties in 22 municipalities, the table below shows interesting data. Collection of residential properties shows that the total collection, about 46% of the bill amount payment is of the current year, while the rest (about 54%) is the collection of old debts, interest and fines. The overview for commercial properties differs slightly, where 61% of the total property taxes collection payments is for the current year, while 39% is payments for old debts, interest and fines. However, the value of tax collection for the current year (true income) to both categories of properties is under 50% of the billed value, as shown in the next section of this report.

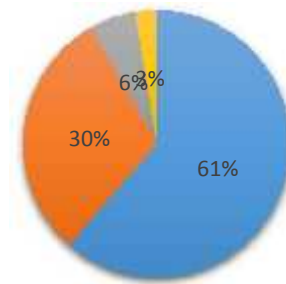
	Amount of the tax payment for the current year	Old debts payment	Interest payment	Fines payment
Residential property	€ 2,739,073.65	€ 2,549,383.65	€ 499,443.59	€ 190,794.57
	45.81%	42.64%	8.35%	3.19%
Commercial property	€ 2,591,766.54	€ 1,284,974.14	€ 234,965.60	€ 110,838.58
	62%	30%	6%	3%

Overview of Collection amount on Residential property



■ Amount of the tax payment for the current year ■ Old debts payment ■ Interest payment ■ Fines payment

Overview of Collection amount on Commercial property



■ Amount of the tax payment for the current year ■ Old debts payment ■ Interest payment ■ Fines payment

2.6 The real property tax collection rate for the current year by property category

In order to analyze the real property tax collection rate, by property category, the table below analyzes the collection of property taxes for the current year. The data of 22 municipalities indicate that the real property tax collection rate for the current year on residential properties is 42.87%, while the real property tax collection rate on commercial properties in 2012 is 47.60%.

	Property tax bill in 2012	Property tax collection in 2012	%
Residential property	€ 6,389,935.74	€ 2,739,073.65	42.87%
Commercial property	€ 5,445,123.57	€ 2,591,766.54	47.60%

2.7 Analysis of the absolute number of the properties which pay property taxes

Analyzing the success rate of property taxes in Kosovo municipalities and analyzing the equality of property tax application, this report also analyzes the success rate by comparing the number of properties that have received a property tax bill and have paid at least one euro property tax. This overview serves to see how much is in fact the number of properties that are billed to property tax, but which have not paid anything - this shows the distribution of the property tax burden in 22 municipalities.

No. of the properties billed for property tax in 2012	288,709	
No. of the properties which pay at least partly the property tax bill	115,777	31.65%

The table also shows that the total of 288.709 billed properties for property taxes (in the municipalities analyzed for this report), it can be seen that the proportion of properties that have paid at least partially property taxes (above zero euro) is only 115.777 properties, or under 32% of the properties which are billed. This shows that as a result of inadequate management of the property taxes by municipalities of Kosovo, about 68% of registered and billed properties do not pay any property taxes. This again stresses drastically unequal distribution of income and property tax burden.

To see another clearer overview of this distribution, the table below shows the number of the properties that pay property taxes by classification categories (residential and commercial).

No. of the residential properties billed for property tax in 2012	242,436	
No. of the residential properties which pay at least partly the property tax bill	17,568	40.51%

No. of the commercial properties billed for property tax in 2012	46,273	
No. of the commercial properties which pay at least partly the property tax bill	17,568	37.97%

The above data indicates that only about 40% of residential properties contribute to the value of the property tax collection. Regarding commercial properties, the situation is even worse, only 38% of commercial properties paid the rent fee in 2012 in 22 municipalities.

3. Conclusions and recommendations

The success overview of Kosovo municipalities in the management and collection of property taxes presented earlier in this report shows an unfavorable situation, which requires attention and greater engagement of Kosovo municipalities.

The very low rate of property tax collection for the current year represents a very serious problem of the growth of unpaid property taxes, which will be very difficult for municipalities to address this concern unless they change the ways of tax collection. Also, when considering that only about 40% of tax payers ought to pay property taxes, since other properties are not registered, makes the property tax system in Kosovo as unfair.

Considering the importance of property taxes for Kosovo municipalities, as well as expectations that this tax we be even more important, and in order to improve the current situation, Kosovo municipalities should be encouraged for a greater engagement in proper management of property taxes. Based on the legal framework in Kosovo and based on the experiences in some municipalities, it is recommended that municipalities undertake a series of measures to improve the situation. Some of these recommended measures are listed below:

- Regular registering of new and existing but unregistered properties;
- Strict measures for collection and forced collection of Property Taxes (all measures provided by the Administrative Instruction even the seizure of assets and real estate assets);
- Creating a system for proper and ongoing weekly or monthly monitoring of the performance / collection rate;
- Strict Implementation of conditionality measures with payment of property taxes;
- Providing human and technological resources for Municipal Property Taxes Team;
- Training and capacity building for the staff of the Property Taxes Team;
- Public Communication and Relations, including public relations campaigns to increase citizens' willingness to pay;

Kosovo municipalities should be encouraged and impelled to take some or all of the recommended measures to improve the property tax collection.

Acknowledgements

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About FOL

The mission of the organization is to support active citizenry, increase transparency and accountability of public institutions in order to contribute to good governance and preventing corruption and other forms of misuse of public authority. In order to fulfill its mission, the organization will realize activities such as: debates and trainings, conferences, seminars and roundtables, publications and researches, advocacy and technical and institutional support, public institutions monitoring and mobilizing and networking. Expenditure of public funds, conflict of interest, negligence and institutional responsibility and access to official information, are the main components of FOL performance.