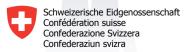
# 17 WAYS TO INCREASE YOUR PROPERTY TAX REVENUES

A guide for local governments in Kosovo







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# **Acknowledgements**

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#### **List of Abbreviations**

Al Administrative Instruction

AKM Association of Kosovo Municipalities
HSI Helvetas Swiss Intercooperation
LIPT Law on Immovable Property Tax

**LOGOS** Local Governance and Decentralization Support

**KPA** Kosovo Privatization Agency

**MoF** Ministry of Finance

MLGA Ministry of Local Government Administration

PT Property Tax

PTD Property Tax Department

MPTO Municipal Property Tax Office

OSR Own Source Revenues

SCO - Kosovo Swiss Cooperation Office - Kosovo

**SDC** Swiss Agency for Development and Cooperation

**SOE** Socially Owned Enterprises

**USAID** United States Agency for International Development

# **Executive Summary**

Endowed with a wide range of typical local government functions, the municipal resource base in Kosovo follows the logic of integrated fiscal decentralisation: together with their entitlement to annual transfers from the central government (general and conditioned grants), municipalities can count on a considerable revenue base of their own.

With new functions being transferred to the local level in Kosovo and the planned increase of the number of municipalities, it seems a rather unlikely prospect that the central government transfers will solve the existing gap between the resources available to municipalities and their needs to fulfill their core obligations – i.e. improved coverage and quality of public services. Part of the solution may lie in tapping into the considerable, underutilised property tax (PT) potential.

The actual realistic weighted average PT collection rate of the current year's property tax in Kosovo is 42.44% for the 2009-2011 period. With the actual annual invoiced property tax collection being under 50%, municipalities face at least two major problems. First, municipalities are not realizing most of the revenues they are owed by law, since the property tax is the only tax that has been decentralized at the municipal level, and therefore the full revenue and public investment and service potential for their citizens has not been realized. Second, the low collection rate creates an ever increasing debt problem; debt, penalties and interest on property tax increase each year, resulting in amounts which will become almost impossible to collect. The latter presents a very serious problem that deserves special attention because if this trend continues, municipalities will face a serious problem. Taxpayers will not be able to pay their old accumulated debts, while at the same time there will be no legal measure at municipalities' disposal to forgive, adjust or stop accumulating interest on these debts. As a result, the problem, if not addressed, will grow over time, eventually pushing municipalities to take drastic enforcement measures which could create a political problem or an inequitable system thereby discouraging regular payers.

Considering these issues, municipalities should make all possible efforts to increase property tax collection levels by improving the policies, planning, management and enforcement of the property tax with the aim of increasing collection and delivering visible improvements to the lives of their citizens.

The aim of this report is to support municipal efforts in improving their own source revenues by providing them with practical guidance on potential interventions, activities and resources required to improve property tax management and collection. It outlines seventeen (17) measures recommended to municipalities. These interventions are grouped into the following five areas:

- a) Property Tax Database;
- b) Collection and Enforcement:
- c) Provision of Resources to the Property Tax Unit:
- d) Improved Property Values and Tax Rates and;
- e) Transparency and Public Relations.

Work on the **Property Tax Database** should be concentrated on regular registration of new properties, verification of the properties already in the database and improved communication between the municipal property tax and cadaster departments.

Efforts to improve collection and enforcement should include activities to improve collection performance measurement, persuasion measures, enforced collection, conditioning of services and budgetary incentive policies, all with the aim of increasing incentives and enforcing property tax payment.

Currently, the **Property Tax Units** in most Kosovo municipalities do not have sufficient resources to carry out such an important job, so this report recommends measures to increase staffing resources, provide sufficient equipment as well as increase professional capacities of the Property Tax Units.

To deal with the issue of inaccurate property values, as well as to create a more fair distribution of the property tax burden, it is recommended that municipalities start conducting a broader consultative process for property valuations to estimate the value of taxed properties more accurately. Further, municipalities are encouraged to amend tax rate policies so that they also reflect the recent legal increase in the minimum tax rate on profitable revenue generating properties included in the category of commercial and industrial properties.

Finally, as taxes are always a sensitive political issue, the report recommends a proactive communication and public relations effort by the mayors and municipal staff to increase citizen awareness of the importance of paying the property tax and the benefits it brings to citizens.

Needless to say, any measure for increasing tax collection may be perceived as a political risk since it could be negatively perceived by citizens. For this reason, it is very important that mayors and municipal officials acknowledge this and make sure their good intentions and the benefits of increased collection of property tax are communicated clearly and directly to citizens, to ensure their support of these measures.

# 1. Introduction

"The expenses of government, having for their object the interest of all, should be borne by everyone, and the more a man enjoys the advantages of society, the more he ought to hold himself honored in contributing to those expenses."

~ Anne Robert Jacques Turgot - French Economist

Property taxes are vital to the operation of municipalities. Revenues from property taxes are used to finance key public services and non-payment or delayed payment may impede the provision of these services. PT is one of the key sources of revenue for municipalities in Kosovo and it is vital for municipalities to improve its management so that they can generate the necessary own source revenues for maintaining a sufficient level of fiscal independence and decentralization.

The importance of property tax revenues for municipalities in Kosovo heightens the need to enforce their collection, and the legal framework provides municipalities with the authority to do so. Despite the incentive for compliance that this enforcement authority creates, a large portion of tax obligations remain unpaid; the current estimate is over €8 million. Nonpayment of taxes means less money for basic services and a higher burden on other taxpayers. Municipalities, then, must select a strategy to overcome revenue shortages: cut funding for services, improve tax collection efficiency or find additional revenue sources.

# 1.1 Background

The property tax system in Kosovo went into effect nationally in 2003, when the first comprehensive registration of properties was conducted. Although there is a requirement for updating the properties database regularly, many municipalities in Kosovo continue to use the same database, with some additions. The system is managed by the Property Tax Department (PTD) at the Ministry of Finance (MoF). There is a secure online MIS property tax system in place, which gives municipalities limited access to the property tax database. Properties are registered by municipalities and the data is collected centrally and used to calculate property tax dues, which are then issued as invoices by

the PTD. However, in most cases municipalities have taken over the printing and distribution of invoices. Municipal officials value properties based on the Administrative Instruction issued by the MoF (the valuation of properties is currently set on a square meter basis and based on the zone the property is located). However, the municipalities set the tax rates, which depend on the zone, the destination of use of the property and varied within the limits set in the Law on Immovable Property Tax (LIPT), which are 0.15% up to 1% of the property value.

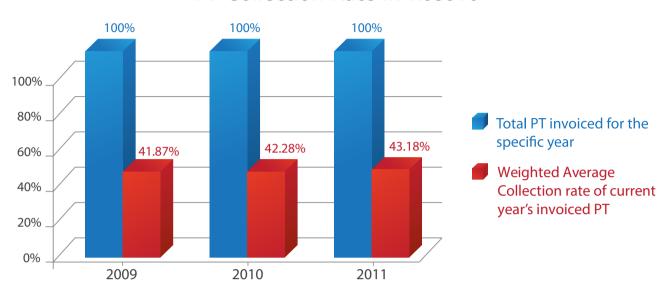
Since new property tax rates are applicable as of this year, and a considerable number of properties are still unregistered, thus escaping taxation, property owners whose taxes have gone up substantially may question why they should pay more when others pay nothing.

On the other hand, when looking at the collection levels of the property tax, there are wide misperceptions on the success rates, which are tightly connected to reporting and analysis problems. In general, most municipalities are under the perception that collection is around the 90% level. In reality the situation is much different. A large part of the annual collection registered in municipal accounts actually comes from payments of debts, including interest and penalties. The actual realistic weighted average PT collection rate for the 2009-2011 period is 42.44%.

Based on analysis, the total accumulated principal PT debt during the 2009-2011 period was €25,969,510.43, excluding fines, interest and accumulated debts before 2009 which would make this value even higher.

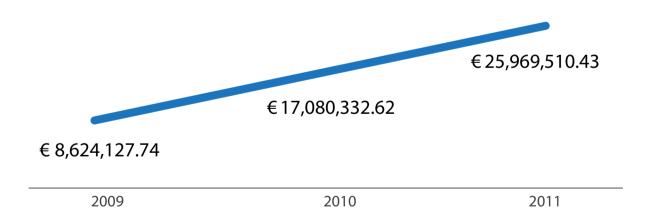
Based on expected legislative and policy changes at the central level, the property tax will only gain importance over the coming years and, as things stand currently, it will eventually become the single source for municipalities to raise general revenues from their citizens. Already, the newly amended Law on Construction will lower the capacity of municipalities to generate revenues from construction licenses, as they will be based on the actual cost to municipalities for issuing the license. Further, as part of its efforts to improve the business climate, the central government has issued an instruction to municipalities not to charge for business licenses. This means that municipalities are already facing a reduction of about 25% of own source revenues, and this will make the property tax the primary and most significant OSR generating resource. While other revenue sources are shrinking or have been eliminated, municipal responsibilities towards their citizens have not. Therefore, municipalities must do as much as possible to compensate for the loss of revenue and to continue to deliver services and improve living conditions for their citizens. Specifically, municipalities should improve policy decisions, planning, management and enforcement of the property tax.

# Weighted Average Current Year's PT Collection Rate in Kosovo



# Accumulated debts in Kosovo municipalities not incl. fines and interest 2009-2011





This aim of this report is to look at legal ways to improve property tax management and collection and support municipal efforts in improving the management of own source revenues. Further, it presents several examples from Kosovo municipalities in their attempts to increase collection levels.

Municipalities, in their 10 years of operation, achieved concrete results in this area but were also faced with certain difficulties and challenges, including:

- Diverse collection rates between municipalities due to the lack of a unified system for enforcing service bans on irregular taxpayers. Most municipalities did not have a unified approach to creating preconditions for equal partnership between the municipality and the taxpayers (reciprocity in exchange of services), and these inconsistencies resulted in citizens voicing their dissatisfaction in their contacts;
- Issues in regular collection of second installment payments. As defined by the Law on Immovable Property Tax (LIPT), the due date for paying the second installment is December 31, by which, municipalities were challenged with inability to spend these collected funds, consistently producing surplus of funds from year to year;
- Lack of sufficient personnel for the Municipal Property Tax Office (MPTO), especially officials and field officers (treasurers, surveyors, etc.);
- No vehicles designated for field work and surveyors' activities needs;
- Lack of reliable construction cost data from construction companies:
- Unrealistic contracts for property sales, irregardless of being executed by court or submitted to the municipality;
- Failure to enforce orders to block bank accounts of "bad debtors" from commercial banks under written orders issued by the Municipality, and;
- Negligence of the Kosovo Privatization Agency (formerly the KTA) to execute financial property tax liabilities for Socially Owned Enterprises (SOEs) that are privatized, etc.

# 2. Potential measures and past municipal efforts to increase collection

This section outlines a number of potential measures and actions municipalities can take to improve property tax management and collection. They relate to both practical steps as well as measures that are allowed or in some instances required by the Law on Immovable Property Tax and the Administrative Instructions from the Ministry of Finance. Municipalities should try to implement at least some of the measures and steps presented in this section and then closely monitor the effects they have on property tax collection during this and the following fiscal year. These interventions should be implemented through improved policy making, planning, management and enforcement of the property tax, with the aim of increasing collection and delivering visible improvement results to the lives of their citizens. The municipal political leadership should take a more proactive approach in collection, which should be accompanied by a well-thought and targeted outreach and communication campaign to educate citizens on the importance of paying their property taxes.

The proposed measures are grouped and presented in the easy to follow structure below, outlining the measure, expected results, necessary activities and resource requirements.

The developed structure is intended as a guidance to mayors, directors of budget and finance departments and managers of the property tax units. To understand how the current level of property tax collection could be improved, this report also examines strategies and practices by different municipalities in Kosovo.

Of course any measure for increasing tax collection may contain political risk, as they may be perceived negatively by citizens. In addition, every municipality has a unique mix of taxpayers and economic conditions, so municipalities should consider all possible consequences before these measures are introduced. For this reason, it is very important that mayors and municipal officials make sure that the benefits of increased collection of property tax are communicated properly and directly to the citizens so that the community supports these measures. Needless to say, political support is crucial to the success of any attempt to increase property tax revenues.

The measures described in this report have been grouped according to the following figure:

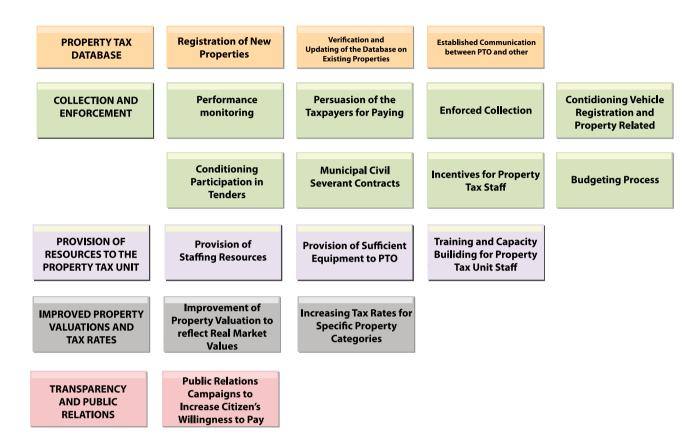


Figure 2: Potential measures per group

# 2.1 Property tax database

## Registration of new properties

**Description:** The Municipal Property Tax Unit should conduct registrations of previously un-registered properties year round. The legal basis for this activity is established by Article 10, paragraph 1 and 2 of the Law on Taxes on Immovable Property (LTIP)<sup>1</sup>. The procedure for collecting and registering information in the database is further detailed by the Administrative Instruction (AI) on Gathering and Registration of Information on the Property and Taxpayer<sup>2</sup>. Article 4 of this AI identifies two sources of data collection: 1) surveying properties in the field and 2) source documentation – collection of data from existing (reliable) documents (see: Established and Regular Communication between the Central and Local Level Property Tax Unit and Cadastral Agency/Department).

**Objective**: The objective of this measure is to create an equitable property tax system, where all properties are registered and taxed.

**Expected results:** Proportionate distribution of the tax burden on taxpayers and an increase of the tax base for the municipality, leading to increased own source revenues.

#### **Activities:**

- 1) Identify high development areas in the municipality (high levels of construction activity);
- Search the Ortophotos of the Property Tax System for properties that are listed as non-registered:
- 3) Prepare a plan of action for field visits and registrations;
- 4) Accurately and formally report the results of new registration efforts;
- 5) These activities should be conducted year round.

**Resources:** Trained property registration teams consisting of two property registration staff and one property tax system operator to input data into the system. Further, GPS based property registration equipment and means of transportation are required.

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<sup>1</sup> Kosovo Assembly. 07 October 2010. Law no. 03/L-204, http://www.kuvendikosoves.org/common/docs/ligjet/2010-204-eng.pdf

<sup>2</sup> Ministry of Finance of the Republic of Kosovo. March 2011. Administrative Instruction no. 03/2011 http://tatimineprone-rks.org/images/uploads/files/03\_2011\_ENG.pdf

**Practice:** In 2011, to deal with the issue of unregistered properties in various municipalities, which are not on the system and are subsequently not taxed, the LOGOS project supported all nine of its partner municipalities to register unregistered properties by using new coefficient inputs. This resulted in an average increase of almost 9% in the number of new properties registered in the system, and subsequently billed, in 2012. As a follow-up activity, in 2012, LOGOS, in close cooperation with USAID and the Ministry of Finance, supported another 26 municipalities to register unregistered properties, which resulted with an additional 35,722 newly registered properties.



## Verifying and updating the database of existing properties

**Description:** The municipality should conduct verification and updating efforts twice a year. This verification must include at least one third of the existing properties, according to Article 13 of the AI on Gathering and Registration of Information on the Property and Taxpayer, which recommends that these activities take place in May and November.

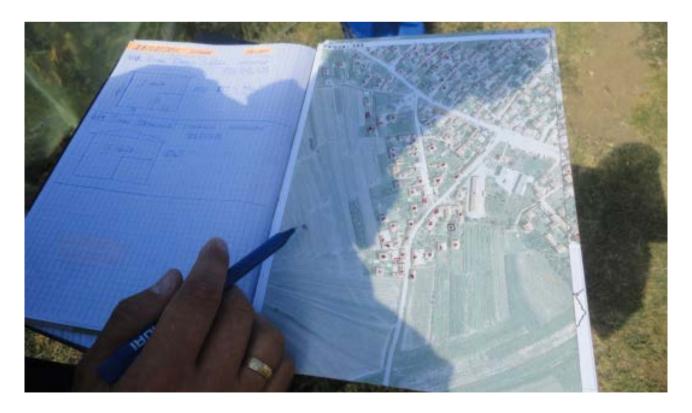
**Objective:** Municipalities have up-to date-information (including new developments) on the property tax database.

**Expected results:** Proportionate distribution of the tax burden on taxpayers as well as an increase of the tax base for the municipality, resulting in increased own source revenues.

#### **Activities:**

- 1) Create a plan for verification field visits, covering one municipal area per week;
- Implement verification efforts using the GPS devices to evaluate if the external look of the buildings/properties has changed compared to the photo saved in the database;
- 3) Staff reports its findings from field visits to their property tax manager on a weekly basis;
- 4) Update the database information, where applicable and necessary.

**Resources:** Teams of two (maximum) perform systematic verifications in the field, as recommended, in two one month periods during one year. GPS based property registration equipment and transportation means are also required.



# Established and regular communication between the MPTO and other departments/offices

**Description:** There have been many cases of inadequate communication between the Cadaster Agency and the Property Tax Department at both the central and municipal levels regarding updating information on property ownership. This issue will become even more prevalent when the Tax on Land is introduced. Thus, it is recommended that communication channels and practices between these two actors are standardized at both central and municipal level.

**Objective:** Synchronized information on both the property tax and cadaster database on properties, owners and users.

**Expected results:** Improved synchronization between two government systems leading to accurate information decreasing the possibility for mistakes in property tax calculation, invoicing and property valuation.

#### **Activities:**

- 1) Establish a system for regular meetings between the property tax, cadastre and inspection directors and managers;
- 2) Establish a protocol of information exchange between these entities, where all parties report new registrations to each other, ensuring that all information is updated;
- 3) Update the property tax database system with this new information;
- 4) At the end of each year, the property tax managers should prepare a brief report to the municipal director of budget and finance on the exchange of information on property issues with the Cadaster Department.

**Resources:** The heads of the Property Tax Department, the director of the Cadastral Agency as well as operational staff at the Municipal Property Tax Unit and the Municipal Cadaster Department should set regular meeting times and a protocol for sharing information.

# 2.2 Collection and Enforcement

## **Performance monitoring**

**Description:** In order for municipalities to be able to improve property tax collection, they must use regularly updated information and analysis to create a systematic approach to increase their collection rate.

**Objective:** Improve the oversight of the Property Tax Department by regularly monitoring collection levels throughout the year to having a clear picture of the current state of affairs.

**Expected results:** Use a systematic approach to encourage tax payment and enforce collection, leading to a higher collection rate.

#### **Activities:**

- 1) Extract regular monthly reports from the Property Tax System (Report on Property Tax Invo icing and Payment);
- 2) Use Excel based analyses to determine the collection levels in different areas, streets and villages to determine non-paying locations;
- 3) Prioritize areas with large numbers of property tax invoices and high levels of commercial properties. Also prioritize areas with high levels of debt (non-payment);
- 4) Develop and implement an action plan to contact non-payers directly, starting with commercial and industrial properties, and continuing with larger residential properties.

**Resources:** A property tax operator with access to all reporting tools in the property tax system to generate weekly progress reports on collection, divided by property type, location and amount of the current year's invoice and previous debts.

Practice: The municipality of Viti, with support from LOGOS, has performed continuous monitoring of the property tax collection process. They generated regular reports (the Report on Property Tax Charges and Collection) based on information from the Central Property Tax System, (found on the system tab "Look" and option "Load Annual Report Collected"). This report was generated in the form of database information and then processed in Excel. Using a number of calculations and pivot tables, segregated data are generated on the collection of the current year's property tax, as well as previous years' debts, interest and penalty payments. This data is generated based on location and specific addresses, and is disaggregated according to the type of property; the largest property tax payments come from business properties (industrial and commercial) and separate data is provided for residential properties. Based on these analysis, the municipality of Viti prepared an action plan, which it began implementing on July 2013. The first step was contacting owners of commercial and industrial properties and visiting non-paying taxpayers. The action plan prioritized high level taxpayers and those with larger debts. As a result, compared to 2012 (excluding December), the municipality of Viti increased its 2013 property tax collection rate by 33.65% (January - September 2013). During the same period, Viti increased its total collection of property taxes by 11.48%, compared to the previous year (January - November 2012).



#### Convincing citizens to pay taxes

**Description:** This measure takes a pro-active approach to encouraging taxpayers to pay their property tax on time, including all or a proportion of accumulated debts. Regular collection measures are prescribed in the Administrative Instruction No. 08/2011 on Immovable Property Tax Collection.

**Objective:** Increase the number of taxpayers that pay their property tax, increase the amount of property tax collection to at least 50% of the current year's total invoiced property tax and collect a proportion of accumulated debts.

**Expected results:** Increase the collection of invoiced property taxes, which then increases municipal revenues.

#### **Activities:**

- Municipalities should publically announce the intention to enforce property tax collection through press releases on their websites, public service announcements on local radio, posters announcing these steps and proactive participation in media programs to announce this change;
- 2) An enforcement official, or another municipal official in charge of enforcement, should begin phoning taxpayers to ask for payments, once the deadline has passed. This should be followed up with a personally delivered first warning notice. If no payment has been received after the second payment deadline (either 30 June or 31 December), follow-up with a second warning letter should be personally delivered. This is a year round activity, as the 31 December deadline should be followed in the next year during January-June period, while the 30 June deadline should be followed during the July-December deadline;
- The second warning letter should be sent to non-payers informing them of the second penalty being applied to all unpaid bills. Tax collectors are expected to start inquiries on properties for which the tax has not been paid, and financial and employment information of the property owner is recorded in the database or the in the PT files. They are then expected to inform the taxpayer of legal actions that will be taken in case of non-payment;
- 4) If no payment is made by the targeted property owners, the municipal director of finance and economy may issue a final written notice on the unpaid property tax, stating the municipal intent of enforcing collection, which becomes valid within 10 days of being issued;
- 5) Tax collectors and enforcement officers should prepare regular monthly reports on payment deadlines.

**Resources:** At least three property tax officials (even if not employed by the Property Tax Unit), regular monthly meetings to conduct analysis of areas and collection levels and regular weekly meetings to discuss progress and implementation of the action plan.

**Practice:** Based on continual analysis, described in more detail in the previous section (performance monitoring), the municipality of Viti implemented its action plan to persuade taxpayers to pay their property tax, with support from LOGOS project. The first step was contacting non-paying businesses (commercial and industrial properties) by prioritizing the largest tax payers with the largest debts. As a result, compared to 2012 (excluding December), the municipality of Viti increased its 2013 property tax collection rate by 33.65% (January - September 2013). During the same period, Viti increased its total collection of property taxes by 11.48%, compared to the previous year (January - November 2012). This shows that if based on proper analysis and planning, engaging with taxpayers and encouraging them to pay their property tax is effective.

#### **Enforced collection**

**Description:** Sometimes encouragement and reminders are not sufficient measures to ensure property tax collection. In these cases, in order to maintain credibility and address debt issues, municipalities are encouraged to take the next step. Measures for enforced collection of Property Tax are prescribed in the Administrative Instruction No. 08/2011 On Immovable Property Tax Collection and Administrative Instruction No. 09/2011 For the Loss of The Right On Property.

**Objective:** Increase the credibility of the municipality, increase the number of regular tax payers and property tax collection levels, thus alleviating the increasing problem of debt accumulation from unpaid invoices from previous years.

**Expected results:** Increase the property tax collection rate and decrease the amount of accumulated debt.

#### **Activities:**

As per Al No. 08/2011 and Al No. 09/2011, the following actions should be taken to enforce collection on the following types of properties:

#### **Commercial and Industrial Properties:**

- 1) Issue a notice of seizure or establish the mortgage rights on a bank property or other third party with taxpayers' assets in his possession; send a request for blocking the bank account and liquidation of debts (unless the taxpayer has made a request for delay or a complaint);
- 2) Terminate municipal services to the taxpayer's property; establish the mortgage rights on a person's property who has the duty to pay the taxpayer a wage, rent, or other debt;
- 3) Seize and sell the taxpayer's personal property, in proportion with defined tax value, if it is the severalty property or a property that is composed of independent parts. If the property cannot be separated, then the right to a pledge can be established;
- 4) If, after two years after the final payment notice, the taxpayer's debt is still outstanding, the municipality may deliver a notice of seizure or establish mortgage rights for the immovable property to all persons who have an interest in the property;
- 5) A list of properties subject to seizure should be announced in a major Albanian language publication with a wide circulation in Kosovo and a major Serbian language publication. If the payment has not been made within thirty (30) days from the day the notice of seizure was sent and the list of properties subject to seizure was published, the municipality may sell the property or a part of the property in a public auction, in accordance with rules and procedures to be set out in an sub-normative act issued by the Ministry of Finance and Economy.

#### **Residential properties:**

 Issue a notice of seizure or establish the mortgage rights on a bank property or other third party with taxpayers' assets in his possession; send request to block the bank account and liquidation of debts (unless the taxpayer has made a request for delay or a complaint);

- 2) Terminate municipal services to the taxpayer's property; issue a notice of seizure or establish the mortgage rights on an individual's property who has the duty to pay the taxpayer awage, rent, or other debt:
- 3) Seize and sell the taxpayer's personal movable property in proportion with the defined tax value, if it is the severalty property or property that is composed of independent parts. If the property cannot be separated, then only the right to a pledge may be established;
- 4) If, after two years from the final payment notice the debt has still not been paid, the municipality may deliver a notice of seizure or establish mortgage rights for the immovable property to all persons who have interest in the property. Mortgaging is not allowed for primary residential properties, however it is allowed for secondary residential properties;
- 5) A list of properties subject to seizure should be announced in a major Albanian language publication with wide circulation in Kosovo and a major Serbian language publication. If the payment has not been made within thirty (30) days from the day the notice of seizure was sent and the list of properties subject to seizure was published, the municipality may sell the property or a part of the property in a public auction, in accordance with rules and procedures to be set out in an sub-normative act issued by the Ministry of Finance and Economy.

**Resources:** Property tax collection officers should be continually in year-round contact with taxpayers. This engagement should be encouraged, monitored and enforced by the property tax unit head and the municipal director of finance, with the political backing of the mayor. Further, means of communication (telephone lines, fixed and mobile) and transportation should be available and reserved for the Property Tax Unit all year.

# Conditioning vehicle registration and property related services with property tax payment

**Description:** In addition to using the vehicle registration conditioning on property tax payments, municipalities are recommended to use additional conditioning tools, as per the Administrative Instruction No. 07/11 On Orders Banning the Offering of Municipal Services for Enforcement of Property Tax Payment.

**Objective:** Increased and timely collection of the current year's property tax and decreased outstanding debts.

**Expected results:** Increased property tax collection, leading to a higher level of disposable own source revenues for capital investments and municipal development.

#### **Activities:**

- Improve conditioning vehicle registration by requiring proof of payment certificates issued from the Property Tax system (which leaves log traces, thus decreasing the possibility of counterfeit certificates);
- 2) Condition the provisioning of cadaster and urbanism related services with property tax payment, and require proof of payments issued through the Property Tax System;
- The municipal budget and finance director should set up a monthly review process of all property tax payment certificates issued by the municipality. These can be extracted from the property tax system automatically, and before the certificate issue date samples should be checked for any discrepancies between the certificates issued and property taxes paid. External monitoring of certificate provisioning cases on a sample basis is strongly encouraged.

**Resources:** Designated official from the property tax department are needed to check and print the proof of property tax payments. There should be penalties for municipal officials who provide municipal services to citizens who do not present the official system generated proof of property tax payment.

**Practice:** A number of LOGOS project partner municipalities have begun implementing new conditioning criteria for vehicle registration. In fact, in addition to conditioning vehicle registration to payment of the current year's property tax, the municipality conditioned the service with the payment of a part of accumulated property tax debts from previous years. They have implemented various ranges of conditioning, from paying one fourth to one half of all accumulated property tax debts. These new conditioning measures were introduced under the initiative of the respective mayors and are backed by municipal decisions.

## **Conditioning participation in tenders**

**Description:** Conditioning participation in municipal public tenders with property tax payment is a measure described in the administrative instructions of the Ministry of Finance, however although many municipalities are considering implementing this measure, currently it is not strictly enforced.

**Objective:** Encourage business owners, who proportionately generate the most property tax revenue per unit, to regularly pay their property taxes.

**Expected results:** Increased property tax collection, leading to a higher level of disposable own source revenues for capital investments and municipal development.

#### **Activities:**

- In addition to requirements set out in the Law on Procurement, all public tenders should
  have a requirement for competing economic operators to provide a property tax payment certificate from the municipality where they are registered, together with other tender documentation;
- 2) The municipality should ensure that certificates are issued from the online form in the property tax system;
- 3) Tender evaluation committees established by the municipality for specific public tenders should be required to double check the property tax payment status of each individual bidder in order for their offer to be qualified for consideration.

**Resources:** Direct contact with other municipalities to verify the proof of property tax payments issued to economic operators who are based in other municipalities.

#### Municipal civil servants contracts

**Description:** Several municipalities have recommended that all municipal officials and civil servants working on the municipal budget have their contract extensions conditioned on their individual payments of their property tax.

**Objective:** Increase property tax collection from civil servants, who comprise a large number of taxpayers. This provides an example to citizens that the municipality will not tolerate non-payment.

**Expected results:** Increased property tax collection rate.

#### **Activities:**

- 1) By 31 January all municipal public servants should deposit system generated proof of payment for their property tax of the previous fiscal year;
- 2) In cases of non-payment, the process of enforced collection should begin, and civil servants should be given priority.

**Resources:** The decision of the director of finance and the mayor to follow-up on this procedure, the engagement of the designated property tax officer to issue proof of payments and dedicated municipal property tax collection officers are needed for this intervention.

**Practice:** Based on the principle that municipal officials should be an example to citizens by regularly paying their property tax, Kaçanik/Kačanik municipality has taken measures to encourage and persuade civil servants, starting with PTO officials, to pay their property tax debts. Local civil servants have provided proof of PT payment or have entered into an agreement with the municipality to refinance their debt before the expiration of their employment contracts. This has had an impact not only in the increased PT collection level, but also in raising awareness, since PT collection initiatives cannot be perceived positively by citizens if municipal officials and other civil servants who are paid by the Kosovo budget do not pay their property taxes. Further, civil servants have more incentive to be regular taxpayers since their salaries are provided by the Kosovo budget.

# Incentives for property tax staff

**Description:** Several municipalities have proposed linking municipal property tax officials' compensation to incentive schemes. This proposal has been submitted to the central government for consideration and a response from the MLGA is expected.

**Objective:** Provide incentives for property tax collection officers to increase collection levels.

**Expected results:** Improved follow-up processes and more engaged collection officers, leading to increased property tax collection.

#### **Activities:**

- 1) The director of finance and the property tax unit head should develop a reward system for property tax collection officers which rewards higher levels of collection;
- 2) This process must be approved by both the MLGA and the Ministry of Finance.

**Resources:** The property tax unit head should set clear and measurable indicators and allocate time to monitor, calculate and award bonuses for the higher performing collection officers.

## **Budgeting process**

**Description:** The municipality should use the budgeting process to make the connection between funding from collected property taxes and public investment projects. This requires the municipality to take a proactive approach in analyzing property tax collection data and monitoring the collection process throughout the year through management reports, while at the same time reaching out to citizens to learn about their needs and preferences.

**Objective:** Encourage citizens and community leaders to generate internal pressure within neighborhoods and villages to promote property tax payment, which will qualify these areas for public capital investments, ultimately improving their living conditions.

**Expected results:** Increased property tax collection rates, both for the current year and past debts.

#### **Activities:**

- 1) Based on the list of proposed capital investment projects, the municipality should define the exact physical locality of the project;
- 2) The municipality should calculate the level of property tax collected from the specific localities (area, street, village). This should be based on the collected amount of the property tax invoiced for the previous year (i.e. payments of debts, interest or penalties from previous years should not be included). This calculation should also be made for the first six months of the current year;
- 3) The municipality should calculate the average property tax collection level of the annual invoiced property tax for the same two time periods across the municipality;
- 4) The political leadership in the municipality should set a collection level goal (a minimum of 60% is recommended);
- 5) Capital Investment projects located in areas, streets or villages where property tax collection rate is above both thresholds (average municipal collection rate and desired minimum threshold) should be given priority. If the collection level is above the municipal average, but lower than the desired level, projects focused in these areas should be given second level priority. Finally, projects located in areas where property tax collection is under the municipal average should be given third level priority;
- 6) Publically set collection targets should be presented during public budget planning hearings, and the implementation of investment projects should be conditioned on achieving these specific collection targets. This should create peer to peer pressure between inhabitants of specific areas of the municipality to pay their property tax;

7) Since the property tax is part of municipal own source revenues dedicated to public investments and improved services for citizens, the budgeting process should be used as a tool to encourage property tax payment. Municipalities are encouraged to introduce an objective system for scoring proposed capital investment projects during the budget preparation cycle. There can be multiple sets of criteria, but one of the key components should be the level of property tax collection in the particular municipal area or village during the previous year, and potentially also in the first six months of the current year;

- 8) Change municipal policies so that municipalities and the mayor publically declare that they do not expect citizens to contribute at any level towards the costs of capital investment projects;
- 9) Capital investment projects located in areas where the property tax collection rate is higher than the municipal average and the set municipal targeted collection rate should be given public priority during the budgeting cycle.

**Resources:** The mayor, Policy and Finance Committee (PFC) and the Municipal Assembly (MA) must request that specific levels of property tax collection rates be set as criteria for prioritizing and selecting locations for capital investment projects. The Municipal Assembly or the mayor should set the required collection levels, which should then then be incorporated into the selection criteria for selecting capital investment projects during the budgeting process. A collection officer from the Property Tax Unit should report on a regular basis on property tax payment levels in the specific zones, areas, streets or villages, under consideration for capital investment projects.

**Practice:** At the time when this report was published, most of the nine LOGOS partner municipalities have adopted a guiding document on prioritizing capital investment projects in the budgeting cycle, in which the property tax collection level in specific beneficiary areas of the municipality is one of the key indicators for the inclusion of a project in the next year's budget.

# 2.3 Providing Resources to the Property Tax Unit

## **Providing staffing resources**

**Description:** Most municipal Property Tax Units in Kosovo are insufficiently staffed. Units should be staffed as prescribed in the Administrative Instruction No. 10/2011 on the Organization and Functioning of Property Tax Municipal Offices.

**Objective:** Improve the capacities of the municipal Property Tax Units to better and more effectively administer the most important revenue generating source.

**Expected results:** Improved property registration, valuation, monitoring and collection enforcement, leading to increased municipal revenues from property taxes.

#### **Activities:**

- In larger municipalities, the Property Tax Unit is converted into a full-fledged municipal department, but smaller municipalities should provide the appropriate number of staff to the PT Unit for the optimal performance of surveying, data entry, invoicing, invoice distribution and collection;
- 2) The municipality should consider all possibilities, including reallocation of municipal staff to the Property Tax Unit, especially in busy periods such as just before and just after payment deadlines, mass new property registration or property verifications, so that the unit can take a more proactive approach;
- 3) The mayor and director of budget and finance should provide a higher level of general political and economic support to the Property Tax Unit;
- 4) In order to respect the MoF Administrative Instruction No. 10/2011 on the composition of the Property Tax Office/Department within a municipality, the mayor should recommend the following structure:
  - Property tax manager;
  - Collection officer(s);
  - Surveyor/Geometer;
  - Distribution team;
  - System operator(s) (input data into the system);
  - Property tax officer(s).

**Resources:** Additional staff dedicated to the Property Tax Unit can come from within the Budget and Finance Department, now that the business tax and other levies and fees have been eliminated from the municipal level. In most municipalities this only requires a reallocation of staff, but other municipalities may need to hire additional staff.

## **Providing sufficient equipment to the Property Tax Unit**

**Description:** In most cases municipalities are working with old IT equipment and as a result property tax management is inefficient. Although SDC-LOGOS and USAID-DEMI have provided GPS based registration equipment for municipalities, property tax units still require additional office based IT equipment (i.e. upgraded PCs, printers for printing invoices or letters to taxpayers).

**Objective:** Improve the capacities of the municipal Property Tax Units to better and more effectively administer the largest municipal revenue generating source.

**Expected results:** Improved property registration, valuation, monitoring and collection enforcement, leading to increased municipal revenue generation from property taxes.

#### **Activities:**

Property Tax Units should have the following equipment:

- Upgraded desktop or laptop computer(s);
- 2) Higher capacity printers or printing facilities for printing property tax invoices;
- 3) Direct distribution facilities dedicated to the Property Tax Department;
- 4) Functional and compatible GPS registration devices (the number should be proportionate to the size of the municipality);
- 5) Fixed phone line in the PT Units' office, so collection officers can contact tax payers, and mobile phones for registration and collection officers;
- 6) Official vehicle dedicated for the PT Units' field work.

**Resources:** This measure and its actions require a level of investment in equipment and fixed assets. Investing in IT and printing equipment may require several thousand euros. Municipalities are also advised to allocate one of their existing vehicles for exclusive use by the Property Tax Unit.

## Training and capacity building for Property Tax Unit staff

**Description:** Due to the small staff numbers in most municipalities and the time strain put on them due to staffing capacities, there has been limited scope for staff capacity building in terms of legal requirements and duties, usage of the current property tax system and its capabilities and additional excel based analysis tools, as well as the use of legally prescribed collection procedures.

**Objective:** Increased capacities of Property Tax Unit to monitor, follow and enforce collection of property taxes.

**Expected results:** Increased property tax collection rate.

#### **Activities:**

Capacity building training should be provided to Property Tax Unit staff in the following areas:

- 1) Reporting and analysis methods provided by the property tax system;
- 2) Using the MoF Property Tax Department excel tools to conduct scenario analysis;
- 3) Conducting excel based disaggregated analysis using simple database mining (pivot tables) on the reports generated by the property tax system (Report on Property Tax Invoicing and Collection and The Property Tax Collection Report), to follow trends, monitor collection levels in different areas, streets, villages or from specific property categories and generating reports and automatic action plans to support collection efforts.

**Resources:** The MoF Property Tax Department should provide substantive trainings on a regular basis on the options and availabilities of the system (refresher courses and trainings on system updates). The MoF PT Department staff should provide training on the excel based scenario tool. The MoF or Excel/Database training providers should conduct both class and on the job trainings on using excel based resources to utilizing data provided by the system.

# 2.4 Property Valuation and Tax Rates

# Improve property valuation to reflect real market values

**Description:** There are a number of ways municipalities can influence how the tax burden is distributed, and property valuation is one of them. When comparing municipalities, there are large discrepancies when it comes to the frequency and procedures of property valuation. Market valuation of properties in most cases is not done properly; prescribed property values are set well under real market values. The immovable properties valuation is prescribed in the Law on Immovable Property Tax as well as Administrative Instruction No 04/2011 for the Determination of Immovable Property Value and Evaluation Standards.

**Objective:** Conduct valuations that reflect the real market value of properties for property tax calculation purposes.

**Expected results:** Improved and more fair valuation of properties, resulting in an equitable distribution of the property tax, as well as a larger property tax base. Other results may include shifting the tax burden and fostering economic development.

#### **Activities:**

- 1) Property valuation staff (commission) should be provided with at least basic property valuations training from a certified program;
- 2) Invite and involve real estate agents from the municipality so that a new framework for property valuations that would better reflect real market values is developed;
- 3) Process for property valuation should be conducted more frequently (annually, however current practice of just copying values from the previous year should be avoided);
- 4) Set uniform minimum and maximum sealing for property values so that large variations between property values in Kosovo are avoided;
- 5) Municipalities should not decrease the estimated market value of properties with the aim of decreasing the overall property tax burden, as this will only lead to problems in the future.

**Resources:** External training institutions must be engaged to provide certified property valuation trainings. If there are any real estate agents operating in the respective municipality, they should be engaged as well. These experts may require per-diems.

#### Increase tax rates for specific property categories

**Description:** Municipalities are recommended to review their current tax rates policy regarding commercial and industrial properties, and should proportionately raise the tax rates to reflect 2013's increased the minimum rate, at least in proportion to the raise on residential properties.

**Objective:** This measure intends to reflect the increase in the minimum property tax rate on commercial and industrial properties, in order to maintain and ensure a proportionate division of property tax burden on the various types of properties. However, in most cases these properties were not affected by the increase in the minimum rate as they were already over the legal minimum.

**Expected results:** Increased property tax base from commercial and industrial properties.

#### **Activities:**

- 1) Increase the property tax on commercial properties, at least proportionately to residential properties. For example, if the tax rate on residential properties increased from 0.10% to 0.15% in 2012 (a 50% increase), then if the tax rate on commercial properties was originally 0.18%, it should be increased by a minimum of 50%, to 0.27%;
- 2) Increase the rate on industrial properties in the same manner as above.

**Resources:** The Policy and Finance Committee must make a political decision and approve new tax rates, and the Municipal Assembly must approve the municipal regulation on property tax rates.

# 2.5 Communications and Public Relations

# Public awareness campaigns to convince citizens to pay the property tax

**Description:** The mayor and the municipality should adopt a coherent outreach campaign presenting the changes in the property tax system and the need to pay the property tax.

**Objective:** Awareness raising activities promote the property tax as a tax used for the citizens' benefit, i.e. a tax that is returned to the taxpayers in the form of capital investments, which improve the living conditions of the citizens.

**Expected results:** Increased citizen understanding of the property tax, and as a result citizens are less resistant to paying it. Political pressure on the mayor and municipal officials decreases and the collection rate increases.

#### **Activities:**

- The mayor is trained on the best ways to reach out and communicate with taxpayers. The mayor understands their needs and preferences and links property tax collection targets with investments in these high collection rate areas;
- Engage village leaders and community representatives to advocate making property tax payments;
- 3) Publically require all public servants to pay their property tax. The mayor should lead by example and present his/her property tax payment slip to direct subordinates, or at least the municipal departmental directors, and ask them to pay their property tax and also take the same approach to their subordinates:
- 4) Publish the names of the largest debtors in a Wall of Shame style, which also supports the efforts of the tax collectors. According to Article 8 of Al 08/2011, tax collectors can disclose to the public all information on the property tax, including information on individual taxpayers and their payment status, with the exception of direct personal communication with the taxpayer.

**Resources:** No specific financial resources are required for this measure. The only requirement may be for training/advisory services for the mayor on public relations and communications issues, and direct engagement of the mayor, director of finance and property tax unit head in communication with the citizens, communities, informal community leaders and influential individuals.

# 3. Recommendations

The existing legal framework on the property tax provides an opportunity, and obliges municipalities in Kosovo to enforce the LIPT and the Als concerning the administration and collection of TPs. However, not all legal provisions are strictly enforced, especially the provisions on forced collection. In addition, the current legal framework must be improved to avoid some of the difficulties that municipalities face. Recommendations for changes are summarized below:

- The deadline for the second installment of the property tax payment should be changed from 31 December to 30 September, or no later than 31 October. The current framework has made it legally possible to increase the surplus of the remaining budget at the end of each fiscal-year. Although it is reasonable to have a surplus, taxpayers and citizens sometimes misunderstand the situation and think that municipalities do not know how to manage their revenues. This judgment becomes evident especially when comparing the remaining budget with the list of capital projects. Currently, financial rules force municipalities to only collect revenues, and not spend them, which creates unexpended year-end balances;
- 2) Set of a timeframe of 60 days from the receipt of the annual bills (31 March deadline for delivering bills to the taxpayer), to encourage taxpayers who will pay liabilities. The debts transferred from previous years will be reduced by 10%, the invoiced amount for the current year will be reduced by 5%, i.e. a period of 1 April to 31 May;
- 3) Eliminate double penalties, i.e. an additional penalty of 10% for non-payment after a period of 60 days; the 1% interest per month and 5% payment delayed after deadline will be the only penalty remaining, since in practice this applied penalty has generated only negative effects;

- 4) Create performance based monetary incentives for property tax unit officers. Some examples are listed below:
  - Collecting property tax revenues (annual objective / 12 months =  $\Sigma$  \* 10%)
  - Increased number of properties registered as a result of ground research, i.e. registering previously unregistered properties which were constructed in the previous year or five years. Application of criteria: annual receipts of property found 5% \* =  $\Sigma$  / no. of officers from the surveying group;
- 5) Unify all measures implemented by the municipalities through a legal framework, and harmonize it with the LIPT or Administrative Instructions. Avoid blending distinctions and actions from different municipalities with the aim of creating an unique partnership policy between the municipality and citizens, i.e. taxpayers (application of service reciprocity forms, adhering "bidirectional" cooperation with the taxpayers when dealing with rights and issuing documents for: possible change of property, certificate-verification for settled liabilities, vehicle taxes, tendering, restructuring of the liabilities by specific contract, extending or creating a labour contract, etc.;
- 6) Strengthen the fair rating of real property values and mortgages by increasing citizen awareness on the importance of fair property ratings, improved promotion of real value mortgages by commercial banks when granting loans etc.



