LOCAL GOVERNANCE PROGRAM IN ALBANIA

IMMOVABLE PROPERTY TAX – AN INNOVATIVE TOOL TO INCREASE LOCAL REVENUES

RESULTS OF A RESEARCH STUDY

OCTOBER 2010

This publication was produced for review by the United States Agency for International Development. It was prepared by ARD, Inc., with assistance from Co-PLAN, Institute for Habitat Development.

Prepared for the United States Agency for International Development, USAID Contract Number DFD-I-00-05-00121-00, Task Order 05, Decentralization and Democratic Local Governance (DDLG) IQC (Decentralization II)

ARD Principal Contact: Benjamin Lawrence, blawrence@ardinc.com

ARD Home Office Address: ARD, Inc.
159 Bank Street, Suite 300, Burlington, VT 05401
Tel: 802 658-3890, Fax 802 658-4247
www.ardinc.com

IMMOVABLE PROPERTY TAX – AN INNOVATIVE TOOL TO INCREASE LOCAL REVENUES

RESULTS OF A RESEARCH STUDY

This research study, *"Immovable Property Tax – an Innovative Instrument for Increasing Local Revenues,"* was prepared by urban finance experts from Co-PLAN, with support from USAID's Local Governance Program in Albania (LGPA), and the Open Society Institute's "Influence on Policymaking" project.

The immovable property tax, and especially the tax on buildings that is administered by local government units, is an underutilized source of revenue. Although Parliament increased the percentage of property tax that local governments receive to 100% in 2003, the immovable property tax could be further improved. This tax contributed only 5% of local government income in 2007, the equivalent of 3 dollars per person or about 0.1% of GDP. This under-performance is due to administrative weaknesses in local tax management. With improvements, revenues from this source could increase as much as 50%.

The study explores innovative alternatives that can be used by local governance units to improve finances and meet growing needs for infrastructure investment. Based on the preliminary results of the study, USAID's LGPA has launched 'Immovable Property Tax Action Plans' in four municipalities, designed to improve immovable property tax administration and collection rates.

The study also describes the potential role of the immovable property tax as important regulatory tools on land and building administration process. The study recommends changes in the existing immovable property tax law and better coordination of tax policies with urban planning and land development procedures.

Authors:	Anila Gjika (Co-PLAN)
Content Editor:	Dritan Shutina (Co-PLAN) Rudina Toto (Co-PLAN)
Content Contributor:	Altin Mihali (Co-PLAN)
Research Assistants:	Eralb Arapi (Co-PLAN)
Assistants in the collection of Information:	Belina Kodra (student, U_Polis) Ela Goxhaj (student, U_Polis) Iris Kashariqi (student, U_Polis) Marina Mekshi (student, U_Polis) Mario Shllaku (student, U_Polis) Refation Dobi (student, U_Polis) Renaldo Gace (student, U_Polis)
ARD Inc. / LGPA:	Silvana Meko (ARD, Inc./LGPA)

Table of Contents

1 Context

As is the case in many developing countries that are going through a process of dynamic urban transformation, Albanian municipalities are facing many problems, most of which relate to their low income level, compared to the need for capital investments in the social and physical infrastructure of these growing cities.

Albanian cities are lacking the resources to start a long-term program to build / complete their primary network infrastructure. Taking in consideration the fact that future infrastructure projects are uncertain and depend on central government transfers, currently there is no evident way to take advantage of them systematically through the development or redevelopment of land.

Many debates are going on in Albania in relation to whether local governments have sufficient funds. Some financial experts have observed that the level of local government spending in Albania is considerably lower than in other European countries, both in terms of GDP and in relation to central government expenditure, and the need to increase these levels is widely discussed. Local ‘own source’ revenue as a percentage of all public expenditures at the local level has increased significantly, especially in the first half of this decade. But with the changes made during the last year on the local tax law (No. 10117, dated. 24/04/2009), which directly impact local income, more and more local governments are facing difficulties in finding funds to deal with the growing demand for better services for citizens and the need for improved infrastructure.

But while local governments face the need to finance capital investment in the continuously growing cities, more money is devoted to the construction sector in Albania, almost all investments made from private sector.

The construction sector in Albania continues to be among the most dynamic sectors of the economy. According to the report of Albinvest [March 2008], the construction sector in the last 6-7 years has undergone a huge increase, now reaching 7-8% of GDP. This contribution to the Albanian economy has nearly doubled since 1996, when this ratio was only 4.7% of the GDP.

Local governments, and particularly Tirana, derive a substantial portion of their ‘own source’ revenues from building, or ‘infrastructure impact’ fees. This fee is paid before granting of building permission. In Tirana, the percentage of this tax is 4% of the building value, which is assessed referring national cost indicators, which are currently estimated to be about 300 Euro/m^2.

Another source of revenue for local government's is the immovable property tax (or more specifically, tax on buildings), which is currently administered by local governments. It currently brings a relatively small contribution to total local revenues. Although Parliament increased the percentage of immovable property tax that is received by local government to 100% in 2003, this tax still contributes only 5% of the income of local government in 2007. This was equivalent to three dollars per person, or about 0.1% of GDP. This partly comes from the fact that there are still many weakness in tax administration and enforcement, something quite common in transition economies. The coverage of this tax is at low levels - the properties are declared and registered only if their owners decide to declare them or if they are identified though different records. Tax values are based on reported property characteristics by the holders/owners, and in most cases they are reported in very low levels.

As a result, efficiency in tax collection is low. This is evident in the amount collected: no more than 50% of the expected potential.

***

Given these reasons, exploration of the immovable property tax, in all its complexity, is a high priority to be undertaken by Co-PLAN, after the work performed in eight municipalities to assist in improving performance through the preparation of local capital investment plans and better collection of taxes, especially property tax.

The immovable property tax is often considered as the most controversial tax in public finance theory. It is very unpopular –taxpayers do not like, perhaps because in many cases this is the only tax that they ‘see.’ Other taxes are deducted from their income or are included in the price of goods purchased/acquired. On the other hand, the immovable property tax is also seen as a imperfect indicator of 'welfare/net assets', because in each community there are families with low incomes, which nevertheless possess high value assets.

Despite these disadvantages, the immovable property tax seems to be an appropriate way to generate incomes in many countries. Regardless of the movement of the real estate market, the most important positive attribute of this tax is sustainability. The immovable property tax satifies the tax benefit test: that is, the value of property is influenced by local public services; the cost of building is not the only reason for the high value of the property tax, as a result of the high level of local public services its value is increasing.

In this study, property taxes will be shown to be associated with the construction industry in Albania and will be considered not only as a tool to improve local government finances, but also as an instrument for influencing the real estate market and encourage more efficient land use.

2 Conceptual and Theoretical Framework

In general, a good local government revenue system will generate an income flow that is relatively productive and stable over time, neutral with respect to its impact on private economic decisions, simple and predictable, and equitable.

In comparison with other possible sources of local revenue, the immovable property tax ranks high in all of these criteria. In accordance with the circumstances, such a tax should thus be an important part of any system of local revenue. A stable tax generates revenues that vary relatively more slowly than earnings, which means that revenue from income taxes is non-elastic.

If a tax on buildings is to be viable and practical, it should have the following characteristics:

Legitimacy: The immovable property tax depends on its legitimacy - the determination of tax for individual taxpayers under the standards set out clearly in legislation. Individual taxpayers must feel that they, together with all others, are contributing their fair share towards the overall functioning of local government operation. Therefore, taxpayers must believe they are paying a legitimate tax, (i.e. it must be accepted by them).

Transparency: To realize the legitimacy described above, the property evaluation process and results of this process should be transparent and accepted by all taxpayers. If one taxes works in a vague way, it is unlikely that taxpayers will willingly accept other tax obligations.

Thus, the determination of both, the tax base and tax rate imposed on them, should be understandable for all taxpayers. Determination of the base and tax rate should be easily understandable by taxpayers – i.e., to be based on transparent procedures ensuring solutions to simple and low cost to all possible complaints. They should be able to understand the functioning of the tax – i.e., it should be transparent - and they should be able to have their complaints abpout the administration or fairness of the tax resolved in a simple and low cost manner.

Technical Skills: The tax should be managed professionally and isolated from political influence. This feature of the assessment process is related to the quality and fairness of the evaluation rules, the appropriateness of the administrative structure, and the professionalism of the tax evaluation employees who should be trained and technically competent, and provided with the tools and information needed to implement their tasks.

Equity: Taxes should be administered so that taxpayers are treated uniformly and fairly. Also must have a legal provision, or ‘safet net,’ for relief from charges considered difficult in terms of a broader notion of ability to pay, such as current income.

Table 1. Immovable property tax as one of the local tax solutions

	Property Tax	Local Income tax	Local taxes on business assets or turnover	Taxes on vehicles	Various fees	Other Fees/Taxes
Can generate enough income to a low value	Passes	Passes	Fails	Fails	Fails	Fails
The tax is fair and equitable	Passes	Passes	Passes	Fails	Passes	Passes
The effects are not carried or exported across the border	Passes	Passes	Fails	Passes	Passes	Passes
Cost of implementation is low	Passes	Passes	Fails	Passes	Passes	Fails
There is little competition for the tax base with central government	Passes	Fails	Fails	Fails	Passes	Passes
Encourages / promotes efficient land use	Passes	Fails	Fails	Passes	Passes	Fails
Has a low ratio of administrative costs with revenues collected	Fails	Passes	Passes	Passes	Fails	Fails
Fees accepted by local voters	Fails	Passes	Passes	Passes	Fails	Fails
Implementation of the tax is effective	Fails	Passes	Fails	Passes	Passes	Fails
Elasticity of income is acceptable	Fails	Passes	Fails	Fails	Fails	Fails

Source: Bahl, 1998

2.1 Design Principles of the Property Tax

A number of basic principles under the design of a Property Taxation System. These principles can also be used as benchmarks to evaluate existing systems. They address matters of administrative justice, as well as social, economic, and political factors. Some are complementary, others are mutually contradictory. Most of the principles are based on a common understanding of prevailing notions of justice, equality and uniformity. These principles include:

Uniformity: means proportional taxation, not excessive in terms of the value of the property being taxed. To some degree, it is related to the "ability to pay". A policy of uniformity can be a fiscal benefit to systems based on market value. The over-assessed taxpayers complain easily of high taxes, which may cause restrictions on tax rates by governments, resulting in under-estimation of the taxpayers who will pay fewer taxes than they might be willing and able to accept.

Neutrality: A uniform, broadly-based tax is likely to be "neutral", which means it does not unduly distort economical decisions. An efficient tax encourages an optimal mix of production factors (labor, capital, management, and land), and tends to increase the general welfare. High taxes on one of production factors mentioned above will tend to shift investments to other areas or sectors with lower taxes. Of course, we should characterize the initial impact of the tax from its last situation. For example, a tax charged on owners of apartment buildings can be transferred in the form of a higher rent. Such a shift may be part of the justification for some form of discriminatory taxation; in fact, busineses and landlords are often seen as intermediate “tax collectors,” who simply pass on the tax burden to the ultimate consumer.

Table 2. Different types/forms of immovable property tax and characteristics it meets

Criteria / Principles	Lump sum	Based on surface area	Based on value
The tax burden should fall on those who benefit from local public services. This will ensure efficiency in resource allocation (according to tax benefits, efficient use of land, etc.)			X
The tax base in principle should be very large and values of the tax, relatively low. This will increase neutrality and tax affordability.	X		
The tax base should not be 'mobile'. Taxpayers can be transferred from areas with higher taxes on those with lower taxes and tax authorities' freedom to change their values may be limited.			X
Taxes may be transparent to the community by encouraging local government's credibility.		X	X
Taxes must generate enough revenues to meet current needs for local public services			X
Revenues from the tax should be sufficient and should not suffer fluctuations in time		X	X
Taxes should be equal and consider the possibility of taxpayers to pay	X		
Fees in principle should be neutral. It should minimize modification of the taxpayer's economic behavior	X	X	X
Taxes should not be able to be exported in significant part to non-residents. This would weaken the link between tax burdens and benefit from it (there will be competition for tax)			X
Management costs should be efficient and ensure its enforcement and collection.	X	X	X
Taxes must be politically acceptable	X	X	

Business Investment Promotion**:** The rationale for fair taxation on business property is the need to provide a ground for “fair play": properties that are over-taxed are at a competitive disadvantage. However, tax preferences and incentives - measured from the principle of uniformity - sometimes are used to subsidize particular industries or to attract business and investment.

Transparency**:** It is a feature of democratic governments. Open real estate markets work better.

Public Acceptance: Public acceptance is the cumulative effect of many factors, including the tax level, relief payments, benefits received, transparency, and fairness. A successful public information and assistance for the program could help build a "Public Acceptance”

Table 3. Comparison between different forms of property valuation

	A - Assumption rating: Value limited to existing use.	**B - Assumption rating: Assessment taking into account a property's "highest and best use '"**
1. Capital Value The price that property will be sold in a free market.	**1A: J**oint and proven base assessment and, based on the value of the property in its current state. Perhaps the most globally used. Easy to understand. However, the possible value of redevelopment is ignored by 1A.	1B: Well-known and well proven. It is planned to have economic advantages to encourage better use of the property. It requires a clear code of physical planning law so that more and better use becomes apparent. It is as easy to calculate as base 1A and 2A.
2. Rental Value Price at which property may be leased from year to year.	**2A: Basic good assessment test.** It works in almost any circumstance. There are some fiscal advantages. Easier option to collect taxes. It is understood less well than 1A in situations where there is a limited market or a lack of good market control.	**2B: It is not an easy option to apply in practice and rarely to be worth considered.** It is not realistic to taking into account the potential value from redevelopment in connection with an annual rental value.
3. Site Value Considers only the value of the land: the price that property will be sold for, without buildings and other improvements.	**3A: The basis of good assessment test that often works well.** It may have administrative priority and be a free system to work. Less easy to understand than 1A or 1B, which can affect the simplicity of collection. Associated with less ability to pay that 1A and 1B.	**3B: the real alternative in some circumstances.** The use that can be considered only ones allowed by physical planning or classes of zoning of the property.

Sustainability: Has to do with the ability to produce revenues regardless of the increase (or decrease) of the economy. Since property taxes are not transactions, sustainability requires administrative actions, such as frequent reassessment, adjustment of immovable property tax rates, or both a combination of both.

***Cost Effectiveness*:** conceptually, a cost-effective system of immovable property tax is a system in which virtually all taxable assets are discovered, assessment and other errors of estimates are minimized, collection of taxes approaches 100 % of the expected potential, and administrative expenses (including taxpayer compliance costs) are minimized. In practice, it is difficult to express all the efficiency measures in monetary terms, and each criterion must be assessed separately. A certain level of spending is needed before any measure of effectiveness can be achieved, but the optimal level of spending may be significantly below the level of spending that maximizes efficiency. However, sometimes you can change a system of property taxation administration (for example, by installing a new computer system) to achieve increased efficiency without significant additional cost.

3 Purpose and Objectives of the Research Study

The study aims to explore innovative options that local governments can use, first, as instruments for financing their growing needs for city infrastructure and, second, focusing on the role that municipalities can play as one of the most important regulators in the process of land management through the 'appropriate' use of the immovable property tax at local level.

The study focused on two main components: (i) the first concerning innovative ways that may be adopted by local governments for revenue generation to meet the growing needs of cities for infrastructure; (ii) the second related to recommendations for the improvement of policies to use the immovable property tax as an instrument to regulate land management in Albania.

Recommendations for improving the policy are accompanied by an ‘action plan’ which aims to guide local governments in the administration and better management of these taxes.

4 Methodology and Content of the Research Study

The objectives set out above were key drivers in designing the study methodology. Considering the complexity of the property tax and the result of this research study, the material is organized into several main parts, which distinguish among: (i) conceptual and theoretical framework, (ii) the existing situation regarding immovable property tax in the study cities (iii) immovable property tax in Albania and the region; (iv) the evaluation of immovable property tax potential – demonstrative model, (v) steps and proposals how to improve the law, and (vi) short-term action plan to improve the situation.

Collection of information was made through two main processes: (i) collection of the necessary information in eight municipalities: (Shkodër, Lezhë, Durrës, Fier, Korçë, Fushë Krujë, Kukës and Berat), by completing the prepared forms and direct interviews with top managers and specialists of the municipalities for immovable property tax and (ii) through a ‘desk study,’ in which ten cities were targeted (Shkodër, Lezhë, Durrës, Tiranë, Elbasan, Korçë, Fier, Lushnjë, Vlorë, Sarandë) which were studied and analyzed in three important moments of their urban development - in 1990, 2000 and 2007.

The study of cities was made by analyzing their respective maps for each of the cities at the three moments in time noted above. Based on the data collected, a database was built that was used during the study to assess the potential for calculating property tax. Also a series of thematic and synthesis maps were produced based on information collected, analyzed and interpreted. The data generated by the two methods were compared with each other in the cities included in both categories, and changes and trends were analyzed.

The survey research starts with explaining the conceptual and theoretical framework which underlies the study. After the 'state of art' is presented in relation to economic theories on the property tax, a discussion of some key positions related to the assessment, calculation and management of this tax takes place. This information is used further in the material as the main theoretical basis on which the study stands.

Further on in the report, the current situation in the country in connection with the property tax is analyzed in detail, including its administration, how much revenue is generated for local government from this tax, what are the problems related to tax administration, how it is perceived the tax by taxpayers and local government itself, and so on.

Comparison between the experience of Albanian cities in immovable property tax management and those of other countries in the region comes in the following chapter. Based on these experiences there are some key recommendations that could be used as a framework for action in the case of Albania. The discussion on what can be done to improve the situation and how to generate more revenues from immovable property tax close this chapter.

Based on recommendations and examples discussed in the above-noted chapter, a demonstrative model is presented that explains the unused potential of immovable property tax and the opportunities it provides for generation of local revenue. This model incorporates several scenarios (four scenarios) which analyze various options, whether the tax fee is applied to urban land, or to the building. A comparison is made with the current situation in Albania, and the tax burden is estimated for some typical categories of taxpayers affected by the tax.

The study concludes with a synthesis of the analysis, and with medium and short-term concrete recommendations for improving the situation regarding immovable property tax and the revenues generated from it.

5 Existing Situation Regarding the Immovable Property Tax in Targeted Cities

In this chapter we will analyze the situation which is presented in local municipalities in Albania regarding the management and administration of the current immovable property tax (tax on building), the problems encountered in administering this fee, revenues generated, and perceptions of various stakeholders. As a representative group of municipalities, we selected eight municipalities - Shkodra, Lezha, Kukës, Fushë Kruja, Durrës, Fier, Berat and Korça - based on the prior experiences that Co-PLAN has had working with them to improve their financial management practices.

5.1 Immovable property tax - an important source of revenue for local governments

Local government fiscal autonomy depends to a large extent on the level and consistency of their own source revenues. The level of these revenues reduces the dependence of local governments on central government transfers and other funds that come from the national budget. Local taxes and fees allow local governments to develop their own policies through the use of these independent sources of income.

Further, the autonomy of taxation at local level can make revenue collection more effective and allows local governments to take measures and policies with social character. One can also say that these sources of income increase the level of accountability of local governments because the taxpayers are interested to observe and participate more closely in process of decision making on the expenditure of these revenues when these are precisely collected through local taxes

In other countries of the region, immovable property taxes compared to other local taxes and fees are becoming an important source of financing of local budgets. The various taxes on real estate along with other forms of property tax have become an essential part of the fiscal framework of local government units.

As part of fiscal decentralization reform, local units in Albania have gradually developed their own sources of income. The legal framework on the immovable property tax was completed during the last decade. Currently, local government units have accumulated the necessary knowledge and experience for the design of their taxation policy. The main task to follow now is to increase the level of income from property taxes through a more efficient administration of the tax and to take responsibility for the social consequences that are brought about by a growing local tax burden.

In general, local taxes on real estate are a preferred source of revenue for a variety of reasons.

First, the tax base is easily identified, and avoidance of fees associated with real estate is relatively difficult.

Secondly, from the point of view of tax administration, collection of immovable property tax should be relatively easy because of the lien that can be placed on a particular property if its taxes are not paid.

Third, this tax is a consistant source of revenues for local government units and in long term this tax tends to follow the tendency of changes in local economic development.

Finally, as do other local taxes, property taxes increase the level of accountability of local leaders because it creates a direct link between tax payment and those services provided by local unit and connected with immovable property.

In countries in transition having a relatively new market of real estate, local units are sometimes not very enthusiastic about the imposition of immovable property taxes because property owners with low incomes may also be in possession of the assets with high value, and their taxation could cause social problems.

Especially in countries like Albania, where for the stock of housing built by state, the ownership was passed to tenants versus a fee and where the value of real estate has undergone a rapid growth, this could turn into on a major obstacle to mass application of the property tax. However, there are different ways to tackle the problem of non-affordable payments such as tax exemption of certain classes of owners, creating the level of tax restrictions, linking this with family income, freezing the tax level for a certain time or giving the opportunity to defer payment of tax over time.

5.2 Legal reform on Immovable property tax in Albania

Domestic tax legislation identifies some taxes directly or indirectly connected with the real estate to which local entities have full or partial discretion. The characteristics of the property tax, (whether applied to movable and/or immovable property), reflect two main components (buildings and land), also carries other specifications related to the transaction of property, impact on infrastructure, legalization of informal construction, registration of the property and many other elements which are treated as components completely separate from the property tax.

While in our legal system, property rights underlie everything, very little is done to give and protect the value of property. Within the context of tax, the mere transfer of functions from central to local levels and adoption of the formal legal framework on the building tax can not be said to have resulted in the best possible way to bring about its proper administration and management, as long as key law articles are still not applied. In particular, attention needs to be given to improvement of communications and coordination between institutions (local government units and Office of Registration of Real Estate), in keeping with the obligations laid down by law.

Let's review below the birth and development of legal reform in Albania, as applied to one of the most important components of the property tax, namely the building tax.

The immovable property tax in Albania dates to 1994 as a result of tax system reform in Albania. Law 7805 dated 03.16.1994 "On the immovable property tax on the Republic 'is recognized as the first law that sanctions the real estate tax in its two current forms: (i) tax on agricultural land and (ii) the tax on buildings

Based on this law, the immovable property tax applies for the first time in early 1995 and revenue planning was the responsibility of the Ministry of Finance which had the responsibility for the division of revenues: (i) 40% for the central budget and (ii) 60% for the local budget.

The immovable property tax was expressed in Lek/m2 of construction area, while property was classified in five categories of buildings, where the two main groupings evaluated are: a) residential buildings and b) premises for commercial activity. The measure of tax on buildings in this year is estimated:

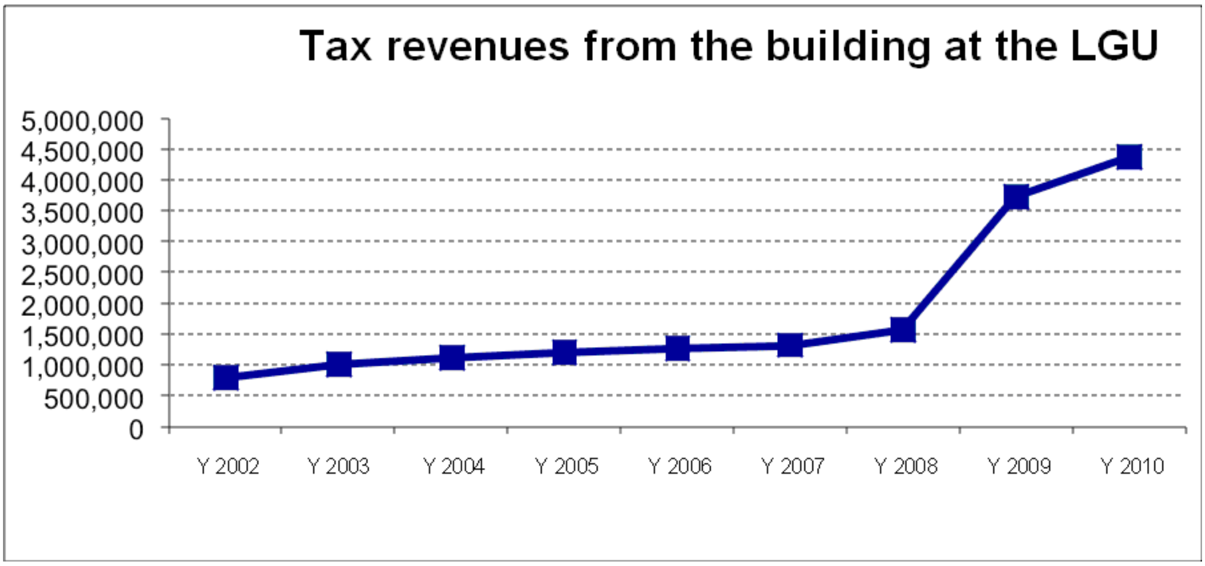
- for residential buildings 3-6 lek / m² / year
- for buildings with commercial activity 20-100 lek / m² / year and
- for buildings with public destination 2 lek / m² / year

Only in 1995 are sanctioned the implementation procedures of the immovable property tax by local units tasked with the responsibility of drafting the documents for the buildings in their jurisdiction, while power utilities are assigned as agents to collect the tax, with a charge of 5%.

After hree years, in 1998, responsibility for administering this tax was transferred to local governments that already receive 100% of income from this source although electric utilities continue to play the role of tax agent against 5% revenue collected. This year the administration of immovable property tax revenues (tax on buildings) is transferred to the direct responsibility of local governments, while in 2002 this tax is classified as "local tax" with the same structure (buildings category) giving in a way the local governments four years time to prepare administration and management of this tax. Since the immovable property tax was transferred to the responsibility of local governments, it is observed a growing interest in improving indicators, initially with the creation of organic structures in each unit.[1] Despite the high rates of construction in these years (formal and informal) and growing interest in local units for maximizing revenue from this source, the results achieved in the local level shows that this dynamic development in most cases is not followed with necessary steps by local administrations (mainly those of taxation) despite its positive trend in the last 10 years.

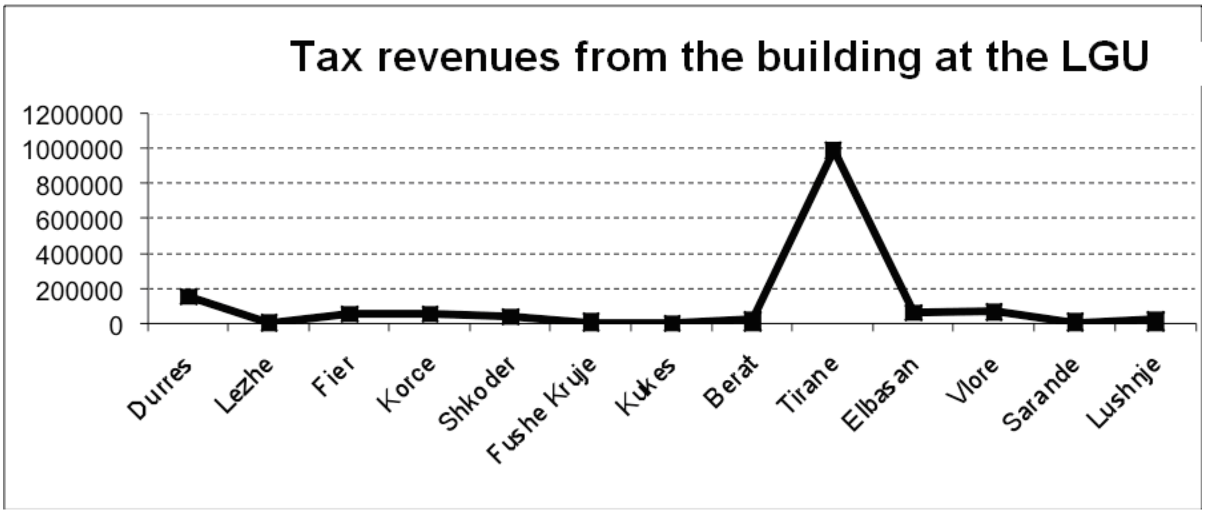
The biggest problem related to the construction tax is determining the taxable value. The parliament sets the values for the construction tax. These are based on the characteristics of property: a certain amount lek per square meter, which varies according to location and year of construction. Currently these values are indicative. The tax value of the building in Tirana, for buildings constructed after 1993, is for example 30 lek/m^2. Value for buildings constructed after 1993 in other cities is 5 lek/ m^2. Thus, an old apartment of 100 square meters in a small town pays about 5 lek/m^2. Recently, the government has proposed amendments to the law, that propose doubling the tax and presenting the fee of 'urban land' at a level of ½ of the building tax.

Figure 1. Revenues from Building Tax at LGUs (2002 – 2010)



Referring to the graph below, which presents the tax revenues provided by the building tax at the local level, the realized values of Tirana municipality are very substantial compared to other local units, which tend to realize the benefits almost at the same levels.

Figure 2. Local revenues from the building tax in a group of LGUs



Applied as a national tax up to the year 1998, then classified as 'local tax' in 2002, today the immovable property tax is the full responsibility of local government units and local councils. Law 8982 dated 12.12.2002 "On local tax system" and then the law 9632 dated 10.30.2006 "On Local Tax System" Section 9 'The types of local taxes' point '2' classifies the tax on real estate as local tax in its two forms: (i) taxes on buildings and (ii) taxes on agricultural land.

The subjects of the immovable property tax are all physical and legal persons, domestic and foreign, owners and / or user / administrator of real estate. A tax on property is calculated as the annual liability of taxpayers. Law 9632 dated 10.30.2006 (amended by Law 10,117, dated 23/04/2009) defines the minimum categories of tax base and tax levels indicated for each category, the minimum tax base of tax on buildings and agricultural land.

The tax base is the area in m² / ha of building / agricultural land above and below ground level and for each floor.

The tax rate is set at lek / m² / year or lek / ha / year, and revenues from taxes on property belong 100% to the local budget

The legal framework defines only major tax categories and levels, while its index is given full discretion of Local Councils:

- Approving the subcategories of tax and the respective tax level
- Relief or exemption from liability for payment of fees for certain categories of taxpayers
- Approval of the instalment tax payment
- Full authority in determining the level of the minimum fee for each category within +10 / -30% tax level indicator[1]

5.3 What happens with the immovable property tax at the local level?

Based on current legislation, the obligation to pay the tax can be based on three sources:

i. Verification of ownership (ZRRPP GST)
ii. Commission decisions on property restitution and compensation, privatization, etc.
iii. Special committees established by municipalities for verification of data on assets in their jurisdiction also clarified where the property is situated in the territory of more than one local unit

Based on our observation, let's stop on the 'reaction' of local units in relation to these processes.

5.3.1 Inter-institutional relationships (IPRO, CRCP and ARP)

Article 24 of Law 9632 states:'.... within three months since this has been effective, IPRO gives free data to municipalities and communes for assets recorded at their estate. IPRO report regularly every three months for municipalities committed new records and changes in the properties'

Referring to the definition of law, during interviews conducted with senior representatives of local governments it is found that in none of the eight local government units, this information is forwarded by the institution in charge of law, despite continuing demands of local governments for information. From Branches of tax authority in the districts, formerly responsible for tax administration has inherited a database which is dating since '98, though accordingly to LGU until this year that the database is not complete. Even IPRO- itself had a system of accurate data (at least until that year) on the assets in their jurisdiction, while the registration of property is still in progress (the municipality of Fier had completed only two cadastral areas and are in process the two other sites). Currently there are initiatives from units to collaborate with ZRRPP - the (Municipality Fier case) but the database in these institutions is not conclusive, as long they are not updated. It is difficult to get the information from NJQV-even when assets are registered, considering this process almost impossible IPRO’s staff. In the case of the Municipality of Fier to solve this problem, the municipality has undertaken the processing of data registered in IPRO based on an official agreement signed between the institutions concerned. Conversely, although ZRRPP's from their side have the 'obligation' to create the database for assets, they still are operating with partial information which in any event is not available to local units.

The only data that was handled by local units were data for privatized assets (houses acquired in the period up to ‘90) taken by the ACP, but this source is considered inadequate and inaccurate as long as they do not reflect property transactions, done after 90s.

CRCP - has been evaluated as another source of local government units in the process of creating the database for resources but this agency's role is limited to assets that have undergone the process of restitution and compensation to owners.

<u>Other actors involved in the process</u>

The self-declaration process of illegal construction is another important step of the process to formalize the property market, the process in which local entities were involved and the agency responsible - ALUIZNI. The engagement of local governments in this process showed that the registration of assets, regardless of the time required to be implemented, is a process more than likely to be realized. The situation becomes even more easy / favorable if you consider the fact that units already possess all the necessary information for informal constructions by further facilitating the inventory of assets still remaining outside the range

5.3.2 Actions taken by LGUs in situation of lack of the data

Confronting the fact of lack of data on assets, it is understood that a small number of local units have implemented alternative mechanisms associated with property tax, where most frequented remains the creation of special commissions for the verification of assets, as in Fier and Lezha municipalities, while in many cases it is found that it is collected through the self-declaration of tax payer or setting a fixed level of tax; as Kukes municipality where the tax rate is 300 lek / year / household, or Berat municipality which is settled the fix level of immovable property tax for 1 +1, 2 +1, etc., Korca municipality, where tax rate is 1000 lek / year / house, city of Fushe Kruje with 300 and 400 lek / year / house. Related to the construction process self-declaration for buildings without permission, although the local municipalities have the main role in the first important phase of selfdeclaration[1,] have failed to use this process in function of building a database, even modestly, as long as the categories included in this process constitute a considerable measure of the target of this tax.

Creating a database is considered an undertaking "difficult and extended in time" by the local units, mainly for “residential" property, while the situation, is somehow more positive when the use of property destination is aimed at "business" as limited number of assets. Positive trends are noted in very few local entities regarding the creation of database for the category "business", but even when they exist, they belong to the period when business was established, remaining not up-dates, like municipalities of Korca, Fier, Berat and last year in Fushe- Kruja. There is a recording of this category as some units chartered in Fier, Berat and Korce, but nevertheless they remain partial data as long as they not accurately reflect the physical condition of the property due to high tax evasion.

While law 10117 dated 04.23.2009 "limits" areas to determine the level of tax by + / -30% to +10 / -30% concluded that municipalities have used this little space. Only for the wealth with the destination "business" local councils have used their authority to change the level of tax while no such initiatives identified in the change of the level of the building with the destination tax 'residential' influenced by:

- Application of mechanisms based on data and partial in self-declaration (Durres, Kukes and Korca)
- Application data not up-dated (Berat, Fier, Lezha,)
- Range / space fee

Are identified three local council initiatives using of space that immovable property tax law gives you:

- To assess the level of buildings tax with destination 'business' (Berat, Lezha, Korce, Fier, Durres)
- In determining the fixed level of the tax buildings with destination 'living' (Durres, Kukes, Kruja field, South)
- The adoption of favorable policies for groups of taxpayers 'in need' (Durres, Berat, Korce, Lezha, Fier)

In a total of eight local government units the effect of preferential policies for groups of taxpayers summarized "in need" is estimated 13%. Local units in total are estimated 17,645 residential building belonging to the categories of taxpayers exempt from paying council tax with local decisions

5.3.3 Institutional relationships

Organizational structures of local governments are aiming to promote co-operation between departments / units within sectors. Administration of the immovable property tax often is seen as a liability to local tax departments. This perception avoids from responsibility the other sectors related to this process as the urban sector, the asset management sector, CRT, forest sector, regions agent, the information sector, dependent units etc. The Findings support the argument that the lack of coordination between departments within local governments is faced very often; the most typical cases are considered lack of information on building permits, use permits, lack of data on payments, etc.

Table 4. Some Indicators for LGUs re the tax on buildings

Nr	Description /municipality	Durres	Shkoder	Korce	Fier	Fushe Kruje	Kukes	Berat
1	Population by Civil Status Office	199.000	113.824	86.480	84.615	23.870	21.600	63.999
2	Current resident families who lives in town	39.033	21.473	29.223	23.000	6.101	4.000	16.823
3	Households that possess buildings	37.633	30.500	15.000	20.832	6.130	4.000	14.000
4	Families who have paid (number and% against holders of buildings)	11.284	13.975	11.663	7.647	550	1.900	7.437
		29,98%	45,82%	77,75%	36,71%	8,97%	47,50%	53,12%
5	Families that must pay	37.633	18.000	13.000	18.118	5.546	3.646	10.371
6	Families who are debtors	30.849	-	1.337	4.471	4.796	1.746	-
7	**Potential Planned Tax (5 / 3)**	100,00%	59,02%	86,67%	86,97%	90,47%	91,15%	74,08%
8	**Utilizing Potential Tax (4 / 5)**	29,98%	77,64%	89,72%	42,21%	9,92%	52,11%	71,71%
9	Tax on family building / Fact 2007	9.218.856	5.957.000	6.311.415	6.880.000	11.750	-	2.647.000
10	Tax of private business building / Fact 2007	76.871.627	13.907.000	24.951.825	18.242.000	1.895.650	1.191.000	8.287.000
11	**Total Fact 2007**	86.090.483	19.864.000	31.263.240	25.122.000	1.907.400	1.191.000	10.934.000
12	**Total Fact 2008**	-	25.526.000	38.471.958	-	19.459.000	2.450.000	11.267.000

The panorama of the indicators found in municipalities shows a coherence lack of organizational of the administering process of the immovable property tax seen by the dynamics implementation of tax indicators in each of the local units referred to.

The data collected in eight municipalities’ show that approximately 85% of assets owned / managed or used by a family and in average 15% and there are qualified as ' co-ownership', so they belong to more than one family.

Indicators of planning and implementation of local budgets report that the local tax administration itself 'can not identify the' real potential as long as tax planning income analytical approach does not rely on indicators of tax base referred to categories defined in the law.

Based on our estimates based on the tax of eight municipalities received in this report shows that average tax base for residential buildings is estimated at 45-60 m^2 where Berat and Durres municipality are assessed respectively with lower ratios (40-50 m^2) while for buildings with destination "business" average tax base indicators is reported between 43-75 m^2.

Looking it from the perspective of development in the dynamic construction market, it remains to assess how these indicators fit with reality.

The construction boom in our country is not associated with the same expectations in revenue from taxes on property, even sometimes the income tax register almost the same levels or lower in different years, as Durres municipality which in 2007 made less income compared to 2006 and 2005 and the municipality of Berat which registered less revenues from taxes in 2007 compared to the previous year, as municipality of Kukes, which has realized 16% less revenue in 2007/2006.

Although by the local units, the immovable property tax and especially building tax, is considered as a stable and substantial source of revenue in independent budget, system reform efforts remain minimal and sporadic. Data recorded in local units and even time - to time let ypu think that despite more than enough time available, still this tax may not be considered stable, and the conclusion is based on income tax in the same category from year to year. This negative approach is faced in Fier, Berat, Durres and Fushe Kruje where revenues trend in 2007/2006 for the category "residential building" is negative. In this evaluation are not taken into consideration data of Kukes municipality which does not recognize the financial result for these revenues for this category in 2007.

Indicators measuring the respective budgets of the units shows that the share of national budgets within their own revenue is estimated to average 11% (Table x)

As indicators reports, revenues from taxes on the buildings make up approximately 11% of revenues from local taxes and fees in relation to its own incomes (local taxes and fees along with the unconditional transfer) this tax takes an average of 6.2%. Within a block of its own revenues, taxes on the building are considered one of the three main budget revenues including small business tax and cleaning fee. In this aspect, the priority of the tax is not assessed how much and why is needed from local units while our findings report minimum financial indicators.

Table 5: Income from immovable property tax in relation to local income

Local units[1]	**Building tax in relation to local incomes (fees & local taxes) (%)**	**Building tax in relation to local incomes and unconditional transfers (%)**
Durrës	11,6	7,6
Korçë	11,5	7,7
Shkodër	6	3,2
Berat	7,7	4
Fier	8	5,6
Fushë Krujë	36,4	15,7
Kukës	7,6	2
Lezhë	5	3,6
Tiranë	19	16,9
Elbasan	14,2	9,6
Vlorë	10,2	7,7
Sarandë	4,3	3,5
Lushnje	8,1	5,2

[1] For municipalities of Durres, Korca, Shkodra, Berat, Fier, Fushe- Kruje, Kukes and Lezhe, source information is taken from the this local units and for municipalities of Tirana, Elbasan, Vlora, Saranda and Lushnje the source of information is the Ministry of Finance for '09

Still, the municipalities don't put enough efforts to increase the performance of the immovable property tax while this source, more and more, increases the extent "hidden" to its potential. This conclusion is based on data collected in the municipalities where the results are that none of them uses more than 55% of potential "known" tax. Although operating with partial information, in any case the local units have not been able to accomplish what they themselves plan. All units have scheduled payment expectations of 60-80% of assets in its jurisdiction. Transforming in figures what we said, the result for each of local units in the building management fee remains minimal. "Samples" taken (only 8 / 65 local units or 12%) in terms of tax administration are composed in three groups of 2.

The level of immovable property tax collection versus the potential calculated / estimated from it, is presented below:

- The result of <35% (10% Fushe - Kruje, Lezhe 28% to 34% in Durres)
- With the score 40-50% (Fier 42% and Kukes by 45%)
- With the score 50-55% (53% Berat, Shkoder 53% and Korce 55%)

Distribution of local units within the composition clearly argues that our expectations and conclusion that: in many cases the improvement of immovable property tax administration it is left in the hands of spontaneity, chance and subjectivity, and even creates the image of a local administration "fully agreed with this reality" as long as the maximum of indicators is half of what units dispose of this tax in the inventory of buildings, their structure and nature.

Statement for all targeted LGs: In all municipalities taken into consideration only in the city of Fier and Lezha tends to apply the system based on the tax base (the surface) while all other units apply the tax rate "fixed" (Fushe Kruje 300 - 400 lek / building, made under structure 1 +1, 2 +1, etc., Korce 1000 lek / building, Shkoder 480 lek / building, Kukes 300 lek / building, Durres based in self-declaration)

The common thing of units grouped in the first group (<35%) relates absolutely to the lack of organization of an efficient system of tax administration, whose basic component is estimated inventory of assets and the creation of the database. Absolutely it requires more time and resources to local units "large" as is the case of the Durres municipality. Although this applies self-declaration as an instrument of inventory and create the database, it can not be regarded as an effective tool as long the result of income tax remains minimal.

Respectively municipalities that have begun to work with improving the system evaluated (although not satisfactory) at 50-55%. In three units evaluated within this result verified that they are initially inclined to build necessary infrastructure for the collection of liabilities by applying the system easily monitored through the level "fixed" of the tax and in parallel are working to create the database as the case of Korca municipality which applies 1000 lek / year / building.

In financial terms the performance of local units "in block" evaluated based on indicators of income generated, the indicators on the number of buildings which have been paid, the indicators on the number of buildings which have not been paid, the lack of indicators for buildings belonging to the category "immigrant".

5.3.4 How the municipalities are currently utilizing the immovable property tax potential?

To give an answer to this question we will need to bring attention to some basic indicators which not only disclose the current situation but, lay a whole complexity of tasks and actions for next period.

Table 6. Indicators related to immovable property tax administration at the local level

Units	Buildings	Required	Excluded	Immigrant	Debtor	Paid
Berat	14 000	10 371	3 629	1 394	3 140	7 437
Durrës	37 633	33 133	4 500	3 100	18 749	11 284
Fier	20 832	18 118	2 714	6 000	4 471	7 647
Fushe Krujë	5 794	5 546	248	200	4 796	550
Korçë	20 098	18 098	2 000	5 098	1 337	11 663
Kukës	4 200	3 646	554	0	1 746	1 900
Shkodër	30 500	26 500	4 000	0	12 525	13 975
Total ‘8’	**133 057**	**115 412**	**17 645**	**15 792**	**46 764**	**54 456**
Expressed in %		**87**	**13**	**12**	**35**	**40**

The effects of policies at the local level are "stimulating" the exemption from payment of tax to 13% of assets in eight municipalities. The beneficial categories in most cases reflect the "economic family support" or head of household to which "enjoys" special status (disabled, veteran, blind, etc.), but although the units themselves possess accurate data for the category "family assistance economic "in most cases have no official information for families with different target status adversely affecting the process of planning and implementation of tax.

Evaluated in terms of tax, are 13% (or 17'645 buildings) the owners / administrators / users free from paying fees in a total of 133,057, in the eighth units, while 12% is the index of buildings which belongs to the category "immigrant" (or 15,792 buildings). Despite the indicators on these two categories of buildings, direct indicator of the efficiency evaluation of domestic tax administration in tax administration remains the consideration of paid and pending level of payments. Clearly the data units are weak argument on the performance of the system implemented in the unit and low commitment to the local administration in this process. There are two essential factors that must be taken into consideration:

- Reference entities in connection with tax and
- Almost the same index between payments and debtors

As long as do not possess data on assets, the system which they refer to revenues planning is considered subjective income directly affecting the level of payments and debtors.

Excluding above the two categories (the excluded and immigrants), despite the fact that all local units operate with partial and non correct data, the indicators for buildings that do not contribute to the national budget remains "threatening."

Policies adopted by councils at the local level are "exempt" from paying fees for certain categories of taxpayers, the index which is estimated at 13% of the apartments, but almost as many buildings are identified that belong to categories of "immigrants" (12%) who are considered "self excluded" from paying the land tax.

Our survey finds that 35% of buildings (or 46,764 buildings) do not contribute to the local budget; it is enough to say that this contingent is identified only in a budget year. What about nine years, during which this tax is administered locally?!

Only 54 456 133 017 buildings in such (or just 40% of them) seem to be contributing to the local budgets for the tax (amounting to 46,019 thousand lek) without considering other factors associated with lack of potential tax 2.

In its total, based on current data available from the units for buildings, the potential use of average tax is 40% while 60% of this potential remains to be taken into consideration. There are 80,201 buildings that are permanently not paying any contribution to local budgets. This missing value in the local budgets, only the category of "residential building" is estimated at 67,000 thousand lek / year, and referred to the period 2002 and following, identifies about 600 000 thousand missing money income in the budgets of local units are taken together to create 82'201, the non taxed wealth.

Analytical approach of indicators identifies the fact that municipalities continue to be keen to improve the outcome but remain "passive" in the implementation of instruments that connect maximizing revenue to the improvement of the system. As the result of lack of time (67 000 thousand lek) is higher than that obtained (46 000 thousand lek), the assumption arises: whether there would be more "effective “if units will be focused on the lacking result?

What does this mean for the units?

Following the economic logic of indicators, the incomes realized in local units taken together in a budget year are 227,352 thousand leks where the contribution of buildings with destination "residential" is estimated at 20% (or 46,019 thousand lek) and buildings with destination "business" is valued at 80% (or 181,333 thousand leks).

5.3.5 Problems related to tax administration

Although municipalities do not reflect fast and in a visible way in such unfavourable situation, the complexity identified, it is reflected in the system and in the way of tax administration. In all tests performed for each unit are given specific recommendations for each observation and the negative approach of the units as well as concrete actions are undertaken within specific territories. The units reflect a lack of initiatives and concrete actions "reinforced" even further their positions "comfortable" waiting for the self-declaration of taxpayers and the desposed to pay. In the absence of a database, entities are applying forms "clientelist" and "opportunistic" of relationship with taxpayers, interest-related relations of taxpayers to benefit a particular service at municipality. (Certificate or an official document). Even in this comfortable position, local units "are stimulated" by the local councils who, approve illegal instruments of assessment and tax administration. Approval of fixed tax levels (as in Korce, Berat, Fushe Kruja, Kukes, Shkodra) is not a legal act based on law enforcement which arises from incorrect interpretation of the law on this aspect. Let's stop the following:

Article 24 of Law 9632 dated 10/30/2006 in his last paragraph quotes:

In case of lack of documentation that proofs the ownership, the municipal council decides the size of the taxable area, "BUT" based on the decisions of the commission for the verifications of the real estate. Local Authorities has set up the committee to verify the real estate, in case of absence of legal documentation. Duties and functions of this commission are established by the municipal council decision.

Discussion on this paragraph is very important and essential for the orientation of recommendations on the system applied to local units. Based on this article, the local council has no right to approve fixed levels of immovable property tax which is part of the taxes of the building, without having a decision of committee for the verification of real estate. Translated into concrete action, this means that the first action, necessarily considerable is the creation of the commission (the case of Lezha and Fier municipality), the definition of his duties and deadlines for meeting obligations. In none of the other units we do find a local council decision which authorizes certain sectors within the local municipalities for creation and the functions of this committee, moreover there are no reports of committees on which local governments are taking decisions about the level tax. Approval of a fixed level of tax (especially for residential buildings) does not stimulate and encourage and for more does not assign with responsibility the local administration in carrying out its legal obligation. Moreover, there are cases when local councils did not express themselves clearly about tax administration (the case of Lezha municipality when the responsibility of management fee is charged directly to the directorate of local tax administration, although the division of this responsibilities with water administration company is required) .

5.3.6 Organization of the process

Our observation on the process of tax administration has found a number of deficits associated with this process. These findings support the argument that within the units, there are process elements which can be used for other units, but in its entirety systems applied by the entities do not produce the desired result. Seen from this point of view, the system built in the city of Fier would be a very good start in all units, while the weak point of the system considering the relationship with agents and taxpayers. None of the local entity has established a clear relationship with tax agents and the taxpayers. Only in two units (Korce and partly in Berat) the invoice of the bill is performed while this obligation is not performed in six other units. What does this mean? Municipalities itself, in lack of data situation does not know how much and to whom to charge it. Under these conditions, the tax agent, excluding the situation where he should explain to the taxpayers the obligation, can not find any motivation to "exert pressure" on the payment of tax. In the same logic, the entities themselves can not "pressure" on the agent for the amount of liability to which they should be responsible as long as they do not know themselves what taxpayers should pay and who should pay, acknowledging the results reported by the agent.

Another argument relates to financial accounting of taxes. None of the units is booking the obligations of taxpayers and therefore had unwittingly they "legalize" the tax evasion. In many cases this does not happened either for categories of buildings with "business" destination, whose number is smaller than those of category "housing". There is no record of debtors and therefore they are not carried as debt obligations from one year to another. Just blocking the actions in the municipal offices (registrar's office) is not enough for encashment of taxes, even it is considered as illegal.

The considered research through the respective analysis, time-to time, will attest the lack of local tax administrations in relationships, stimulating the ' desire to drop “of the taxpayers for paying the debt.

The encashment of debts, regardless structures used as tax agent, in all cases is superimposed by shrinking the paying ability. This is explained by the fact that municipalities tend to collect all charges simultaneously by applying a system non flexible and not closed. Enough to watch the progressive realization of indicators in all units where the highest volume of revenues is recorded in the first fourth quarter and the lower volume in the last four months.

The selection of agents is often based only on some financial indicators related to agent and non-based on analysis of cost / benefit. These tests could be initiated in cases of contracting the agents out of municipality and will facilitate decision making in this process (the case of Korca municipality where the tax agent for tax is the water supply while the municipality states that this agent does not tax on 8098 subscribers to the fact that they do not consume the service provided by the company but the same is the result of taxpayers who avoid paying tax automatically!)

Argument: At best possible case, if "self-declaration" will be considered a "tool" available for units and self-awareness of taxpayers, results that this instrument has never presented data which are consistent with the real situation of the property, therefore resulted in considerable differences in local units’ drawback. Durres Municipality, which applies exactly this instrument, reports that in all cases of declared information verification (in the business category) margin of error is about 50%, which translates into even higher indicator of potential absence of tax. This statement stands for the inventory of buildings in the city of Fier, (category businesses and buildings in cadastral areas 2) where the instrument used in the country based on asset valuation.

A general evaluation is related to the fact that they spend very little on communication and transparency as long as in any of the local budgets is not set up a special fund which destination is the communication and transparency with citizens on issues related to local fiscal framework. Initiatives to engage local communities in some units (Fier, Lezha, Korce, and Berat) along the process of "participatory budgeting" promote and specialised effective forms of cooperation and interaction with the community and as such they can and they should also expand their focus in aspects related to maximizing its financial resources. Moreover, these valued forms of communication are highly necessary for another argument: the information send by local units to taxpayer are considered partial. The survey on the organization's process management estimates that the only estimated information transmitted is considered the one connected with tax level, even this only in the moment when a taxpayer wants a particular service to the respective local unit and this service is provided by a person who is responsible for tax collection. In this case this relationship is born, developed and ends in a single moment and is built on the basic service needs of taxpayers. In all local units of our "simple", it is concluded the existence and functioning of the information offices and assessment that can be "pending office”. Excluding one case (Korca Municipality distributes brochure for taxes) in any of the seven units considered, the information offices do not possess information on issues related to the administration of local taxes and fees. Their function in most cases is contented with information providing on services that sectors / director / departments provides within the units and in complete applications for a certain limited number of issues or problems.

Civil forums and also their commitment even for fiscal management issues remains an option which is estimated to expand interest and interaction of units with taxpayers. Respectively in all municipalities, the trial and the forecast level of local taxes and tariffs remains "the right" of a very narrow group of specialists within the entity (usually the director of the tax sector, which prepares the material and presents it for discussion with the Chairman and Economic Commission Board) which makes the process closed and conflictual. In this regard, it is needed more action from the opening of the process units and involve as many stakeholders outside the local units in fiscal policy design, community and civil society, interest groups and other parts of unit would be the less costly form to increase trust, cooperation and financial performance.

6 Tax on Property in Albania and in Other Countries of the Region

In this chapter we will bring some of the most prominent experiences of more developed European countries but also of those in transition about systems of property tax, application ways and relevant issues, trying to reflect on these systems and the access to use them in terms of Albania.

One idea on the incomes generated from immovable property tax can be obtained by examining the experience of other countries. Even in countries where immovable property tax is administered well as in Switzerland and Denmark, it is usually not the main income source. In these countries, the estate tax at the local level generates an average of 0.7% of GDP and contributes only 1.85% in revenues from local taxes.

6.1 Immovable property tax in European countries

Armenia: Local government can make exceptions when it is necessary; however these exceptions are ignored when the subsidies are calculated.

Bulgaria: New residential buildings owned by ordinary people are excluded from taxes for a period of five years. Buildings owned by the Ministry of Transport and used for air, rail and sea transport, are also excluded.

Czech Republic: New constructions built by the conquest- owners and those with one family are exempt for 15 years. Returned homes are also exempt for 15 years as long as they are not sold and as long as taxes are kept and used for maintenance improvements. Costs for maintenance of historic buildings can be deducted from immovable property tax

Estonia: Municipalities can reduce rates on individual properties when the greater economic use of them is restricted by law (such as conservation areas).

Georgia: Re-cultivated lands receive a five-year exemption. Abandoned buildings, pastures and meadows state are also exempt. Land and buildings used for transportation, telecommunications, and transmission of electricity, environmental protection, water supply and fire protection are excluded.

Hungary: Agricultural lands are exempt from property tax. Only a few plots of land on some set-sized municipalities are taxed. Lands owned by transport and Telecommunications Companies are exempt from this tax for plot. Temporary dwellings are exempt from property tax, even though they may be subject to the tourist tax.

Latvia: According to the previous property tax, agricultural land is excluded.

Slovenia: Land for new buildings and apartments is exempt from the obligation of use of land for construction for five years. 10-year exclusion is warranted for newly constructed buildings and renovated buildings when their values are increased by 50%. Buildings used for agricultural purposes are also excluded.

France: agricultural and forest properties are usually excluded of land and building tax. New residences may be given an support under a flat tax regime.

Germany: The values of new construction of residences under certain defined boundaries (especially low-value homes) are excluded for 10 years.10-year exemption applies for five new Lands used for housing ownership, provided housing to be built after 31 December 1980 but before 1 January 1992. Empty apartments are taxed at favorable quotes. Estimates of agricultural land are not indexed.

Ireland: Agricultural land is exempt from the tax rate because in 1978 the high court considered that the assessment of year 1852 were not in constitutional uniform. Mining are excluded for seven years before opening or re-opening them.

Netherlands: Agricultural and forest lands (including land for horticultural purposes and green houses) are exempt from municipal taxes. Also the natural sites and the low lands that are part of the assets protected by the "Nature Protection Act." are excluded.

Portugal: There are temporary exceptions to the owners / proprietor and rental houses.

Spain: Agricultural land is taxed on the basis of net production. Mines are excluded from the Rural Land Tax (but have a special tax for this property). Woods may be temporarily excluded from the Rural Land Tax.

Turkey: There are broad preferences and incentives for the property tax. They cover agriculture, fisheries, shipbuilding, tourism and industry, ensures facilitation of the immovable property tax for new homes.

United Kingdom: agricultural and forest lands are excluded. Free properties receive a full except for the first three months after the competition, and 50% except that from now on under uniform Business Rate. Under the Council Tax, vacant homes get a tax deduction of 50%.

Italy: Rural Activities "are exempt from real estate tax. Taxation based on property in Italy is known as *ici* (pronounced "ichy"). Anyone who owns land in Italy, if they are resident or non-resident, pays this tax which is usually between 0.4% and 0.7%. The amount depends on local authorities and the size, location and category of property owned. If the property is transferred as non habitable or rebuilt, the taxes are reduces by 50%. Ici is paid in two installments - 90% by June 30 of each year and 10% between December 1 and 20. If tax is not paid on time, an additional up to 200% may be applied.

6.2 Property Taxes in the region

Armenia: There are a variety of structures for various rates. Under the new law of property tax, the marginal rate of the first residences runs between 0.0% (for values under 3 million Drams) and 0.8% (for values over 40 million Drams). With an exchange rate of U.S. Dollar Drams in the year 1998, the progressive rate structure excludes the first $ 6,000 in value.

Montenegro: the immovable property tax rate is estimated at 0.08 to 0.8% of the property value.

Bulgaria: residential buildings are taxed at 0.2%, businesses, industrial and other non-residential buildings by 0.4%, and some homes off 0.6%. There is also an additional rate for buildings over a certain size.

Croatia: Taxes on homes outside the city is based on four categories of age, with the new category that pays the highest rate per square meter. Taxes on houses outside the city and other centers in town are decreased with 75% for Croatian citizens.

Slovenia: Standards for buildings usually go from 0.1 - 1% depending on the value of the building or a part of the building. However, a rate for resorts goes from 0.2 - 1.5% and rates for business premises will go from 0:15 to 1:25% (the rate for the business grow by 50% for certain business uses). Reforms currently undertaken in Slovenia has defined nine specific patterns of wealth, namely: (1) agriculture land, (2) forests (3) palaces (4) private homes, (5) garage, (6) commercial buildings - offices (7) commercial units (small business), (8) industrial property (9) undeveloped land for construction

Rep. of Macedonia: you should pay for real estate and certain types of movable property, for example, vehicles. A taxpayer is a juridical person or physical person, owner or beneficiary of the property. The norms of tax rates are proportional and they are 0, 10% of real estate and 0, 0 5% of other resources. Serbia = The immovable property tax system recognizes its three forms: the transfer of property, taxes on inheritance and gifts and taxes on property. The responsibility for their management is under the central government which through its units in the country manages incomes and then transferred them to local budgets, but at a very low percentage. (from 0.1 to 1.5%). Immovable property tax is determined based on the value of the property's market value, namely: (i) <€ 86,000 is 0.4%, (ii)> 86,000 to 215,000 € is 0.8%, (iii)> 215000-430 € 000 is 1.5%, (iv) € 430,000 is 2%

Table 7. Property taxes in the countries of Central East Europe

County	The components of property tax	Administrative Responsibility	Determining authority	The system applied
Kroaci	Applied to six different taxes: a) tax on holiday homes b) taxes on agricultural land left barren c) the business of unused properties d) Construction of unused land e) tax on housing f) tax on business building garages,	First four are taxes and have different levels of taxation, while the last two municipal fees assessed as Collected by the local administration or agency contracted	Local Council Coefficients were determined from the central and the council approves the appropriate level within the limits set	The value for m^2 based on two coefficients: a) the area where buildings are and b) the nature of the use of property
Hungari	a) taxes on buildings and b) taxes on urban land	The responsibility of local administration or agency contracted	Local council determines the level and manner of payment	a) square area in the building / land b) adjust the market value of the building / land (3% of market value but not less than the maximum 900 HUF / 200 m² for buildings and land for urban HUFm ²)
Rumania	Building fees for residential buildings, commercial, industrial, cottage, etc. garage	Local government	Council determines the level of local taxes within a limit set by law	The tax base is the area in square or based on the value of the building between the limits 1 to 1.5%
Poland	The tax of real estate	Administered and collected by local governments	Maximum tax rate is authorized by law and the local councils	Based on the face of real estate

Macedonia	a) Property Taxes b) Dhuratave dhe trashëgimnisë c) Transferimit të pronësisë	Public Revenue Office under the jurisdiction of the Ministry of Finance. Units set up local committees verification methodology based on Finance Ministry and head of this Ministry controls the assessment made	Minimum Level / maximum set by law and councils have the right to adopt within this level and raise the level for some categories the maximum level	Applied on market value and is 0.1 to 0.2%, but residential buildings can be reduced by 50%. Based on the statement itself or in rough assessment of civil office under similar assets.
Montenegro	Are subject to tax: land, buildings, whether or not owned and classified according to destination of use of property: a) residential buildings b) business building a) buildings for industrial purposes b) Agricultural land c) forest management	Municipalities are responsible for the collection and management (Department of Property Tax)	The tax rate is set by law and the advice people can decide within the limits provided by law. The methodology is determined by the Ministry of Finance and 45-50% are unregistered taxpayers	Apply the value of the property and is 0.08 to 0.8% of it.
Serbia	Appears in four forms: a) transfer of property b) heritage and gifts c) property and Fee for use of urban land (fee reimbursement)	Responsibility of central government through its agencies in each unit Fee for use of urban land is the responsibility of local governments	Revenue management forms "a-c" done by the central government which then transfers the account to the local budgets while the rate of compensation for management is done by local units	Immovable property tax based on market value at 31 December of the previous year where the market value is assessed according to a formula. Is from 0.4 to 2% of property value based on self declaration. Fee use of urban land compensation fee is based on the surface in m^2 per floor.
Sllovenia	The object of the law are the land and buildings by establishing nine specific patterns of wealth and land use fees for construction	Authority for tax administration have local units	Limits are set by law but they differ from one municipality to another and	Based on property value and destination of use of property: a) 0.1 to 1% housing b) 0.2 to 1.5% cottage c) 0.15 to 1.25% business buildings
Spain	Property Taxes	Administered by local units	Local Councils	Local councils can freely decide the tax rate
Kosovo	Property Taxes: - Residential buildings in order - Building the business purpose - Industrial - Agricultural land - Abandoned lands	Local government is responsible	Each local unit determines the market value of assets in its jurisdiction every 3-5 years	Based on market value of property in accordance with standards and procedures established by the Ministry of Economy and Finance and the tax rate is 0.5 to 1% of the market value of property
Armenia	Property and land tax	Central Government	Administration of tax made by the State Tax Agency	Based on market value of the property: a) buildings for public purposes and industrial 0.6% b) 0.2% villas and garages c) residential buildings from 0.1 to 0.8% of the value

6.3 Recommendations on improving the situation / generating more revenues from immovable property tax starting from the experiences of countries in the region

Precondition for any significant increase in value of the tax on building is to improve the way of how to share the tax charge. Currently, its features report the charge falls not proportionally on those taxpayers who claim their property, and pay their obligation. Improvements to the fairness in sharing the tax charge request improvements in coverage, value and efficiency of collection. Regarding coverage, the goal is to shift from the current system - based on statements declared from owners - on the system based on maps. This will enable all taxable assets to be recorded and counted as such. About the value, the objective is the shift towards market value. In principle this would allow a more accurate estimate of the relative value of various assets.

Assessment based on market value seems to be difficult in existing environment, considering that prices paid in real estate transactions are often presented below the real value of official documents. However, in actual transactions exists sufficient information to enable the successful implementation of such enterprise. Also this information can be updated with the standard technique to massive property evaluation to determine its value.

Increase taxable and tax base on market value can increase the taxable base, but not necessarily will boost revenue collection. The income from the immovable property tax is the product of a number of factors: (i) number of properties listed in the registers of assets; (ii) evaluation for every property; (iii) rates and (iv) level of collection. Failure in the last two stages could relocate any profit in the first two stages. Property taxes (especially property taxes inhabited) are politically sensitive, depending on quantity and value at which they grow. For different cases local governments failed to adapt to the new list of property values due to political fear approaching it. Where local government controls the amount of tax, there were cases where the tax rate is reduced to increase the number of payments. Implementation of tax collection may also fail, as long as local governments were deterred tax accumulation of stable property owners. Efforts to improve tax collection and to move towards fee based on market value of property can be rewarded, but only if they displayed the same growth persistence in the nominal value and improve the payment obligation.

Is there any tax mostly preferred by the local government?

The information in the table illustrates the various taxes on which local governments lean to fund services provided in many places.

Obviously, there is no superior fee, or ideal tax in any circumstance. Immovable property tax is generally defined as the best local taxes because its base is immobile, inhabited part can not be move, allows local units charge those residents who benefit from public services together, and its visibility above helps to ensure that local authorities processes it with responsibly, transparent, and efficient. Critics of the immovable property tax argue that it is difficult to manage especially if the tax base is the property value and lack of proper real estate market. Also, it is a tax-poor when is required to charge the visitors and is not flexible in relation to income. In some places where property taxes has been the backbone of local finance, there is a growing concern if this tax will continue to be the only income of local governments and ensure that they will be sustainable from the fiscal point of view.

Table 8. **Relative importance of local taxes in some OECD countries** [2]

Table 1: Relative Importance of Local Taxes in Selected OECD Countries, 2001

Countries (1)	Tax sources as a percent of total local tax revenues: Income[1] (2)	Sales[2] (3)	Property[3] (4)	Other[4] (5)	Local taxes as a percent of GDP (6)	Local Taxes as a percent of all taxes[5] (7)
Federal:						
Australia	0.0	0.0	100.0	0.0	1.0	3.0
Austria	55.3	29.7	9.9	5.1	4.4	10.1
Belgium	86.5	13.2	0.0	0.3	2.1	4.7
Canada	0.0	1.9	91.3	6.8	2.9	8.1
Germany	78.0	6.0	15.8	0.2	2.6	7.5
Mexico	0.0	2.6	86.7	10.8	0.1	0.8
Switzerland	84.4	0.3	15.3	0.0	5.0	14.0
United States	6.5	21.8	71.8	0.0	3.5	11.5
Unweighted average	38.8	9.3	48.8	2.9	2.9	7.5
Unitary:						
Czech Republic	90.8	4.2	4.6	0.4	4.8	12.4
Denmark	93.4	0.1	6.5	0.0	15.9	32.9
Finland	95.4	0.0	4.4	0.1	9.9	21.2
France	0.0	11.5	48.2	40.4	4.4	9.7
Greece	0.0	46.3	0.0	53.8	0.4	1.0
Hungary	0.8	76.2	22.5	0.4	2.0	5.2
Iceland	78.0	7.6	14.3	0.0	8.3	22.4
Ireland	0.0	0.0	100.0	0.0	0.6	1.8
Italy	12.2	8.6	18.6	60.6	4.8	11.4
Japan	47.4	20.7	30.9	1.0	7.0	25.6
Korea	16.6	26.5	53.3	3.6	3.9	15.1
Luxembourg	92.9	1.3	5.6	0.3	2.4	5.9
Netherlands	0.0	44.0	56.0	0.0	1.4	3.4
New Zealand	0.0	9.7	90.3	0.0	1.8	5.8
Norway	89.9	2.2	7.9	0.0	6.5	16.3
Poland	78.4	1.8	19.8	0.0	5.7	16.3
Portugal	21.6	33.7	44.5	0.2	2.3	6.3
Slovak Republic	59.9	11.8	28.2	0.1	1.5	4.0
Spain	25.2	36.1	37.3	1.4	5.9	16.9
Sweden	100.0	0.0	0.0	0.0	16.0	29.8
Turkey	24.7	31.5	6.5	37.3	4.3	13.0
United Kingdom	0.0	0.0	99.5	0.5	1.5	4.1
Unweighted average	38.0	16.8	31.6	9.1	4.8	12.7

[1] Includes individual and corporate income tax plus payroll tax.
[2] Includes general consumption taxes, taxes on goods and services (fuel taxes, hotel and motel occupancy) and taxes on use on goods or on permission to use goods or perform activities.
[3] Taxes on property including recurring taxes on net wealth.
[4] Includes social security contributions in Austria and some residual taxes mainly on business (Austria, Canada, and Germany) and miscellaneous taxes everywhere.
[5] Total includes central government, state government, local government and social security funds.
Source: OECD, *Revenue Statistics 1965-2001* (Paris: OECD, 2002), Tables 135 to 168.

7 Assessment of the Potential of the Immovable Property Tax in Albania - Demonstrative Model

In this chapter desiring to create a general idea about the potential that exists in use of immovable property tax in all the variety that it offers a way to stop the demo in the calculation of this potential and the impact it has on certain categories of taxpayers regarding property and local government.

The model has to do with decisions to build a new policy of property tax, but due to limitations of the study mentioned above does not stop at a number of important issues in tax policy, formulating a communication strategy and costs evaluation of implementing policies. None of these elements should be overlooked to ensure the successful implementation of a new tax policy.

[2] OECD – Organization of Economic Cooperation and Development

Figure 1. **Extent of major cities over the years'90, '00, '07**

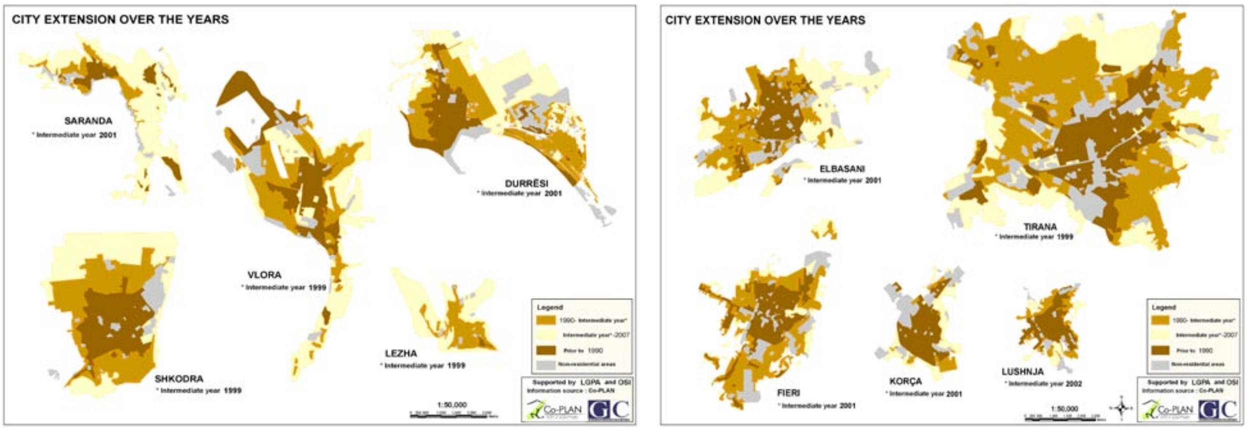


Table 9. **Calculation of potential property tax value according to the price [scenario 1]**

TIRANA						**TIRANA**					
data generated	**year '90**	**Year '99**		**Year '07**			**urban centers**	**zona sub-urbane**		**periph-urban areas**	
		added to	**in total**	*added to*	**in total**			*added to*	**in total**	*added to*	**in total**
						average. Euro/ha	20.000	7.000		4.000	
extended area (ha)	**1.057,64**	2.120,69	**3.178,33**	1.253,85	**4.432,18**	1%	21.152.800	14.844.830	35.997.630	5.015.400	**41.013.030**
non-residential areas	918,06		918,06		918,06	0,80%					7.344.480
total	**1.975,70**		**4.096,39**		**5.350,24**						**48.357.510**
Number of buildings	**19.117**	31.992	**51.109**	12.841	**63.950**						
Non-residential	5.653		5.653		5.653						
total	**24.770**		**56.762**		**69.603**						
						average. Euro/ha	800	500		400	
Built area (ha)	**349,72**	409,84	**759,56**	175,27	**934,83**	0,02%	279.776	204.920	484.696	70.108	**554.804**
Built areas in non-residential	209,06		209,06		209,06	0,01%					41.812
total built area	**558,78**		**968,62**		**1.143,89**						**596.616**

Table 10. **Assessment of potential for building tax 10 cities 'model' [scenario 1]**

Scenario 1: Taxed land at market value (1%) and building (0,02%)				
City	**Incomes from land value**		**Income from building value**	
	Urban	**industrial**	**civil**	**industrial**
Tirana	41.013.030	7.344.480	554.804	41.812
Durrësi	9.680.660	1.835.712	193.774	-
Elbasani	7.537.160	1.047.240	150.230	10.004
Fieri	5.426.225	953.720	123.197	9.886
Korça	1.843.845	522.176	90.241	3.710
Lezha	1.948.610	62.976	21.076	350
Lushnja	1.894.440	157.472	44.792	1.250
Saranda	5.199.510	214.496	52.011	1.500
Shkodra	6.751.890	470.528	179.755	3.552
Vlora	9.637.410	623.232	162.112	3.318
sub-Total	**90.932.780**	**13.232.032**	**1.571.992**	**75.382**
Total	**104.164.812**		**1.647.374**	
Total (Euro)	**105.812.186**			

Table 11. Assessing the tax charge in different categories of proprieties [scenario 1]

Scenario 1	**Category a**	**Category b**	**Category c**	**Category d**	**Category a**	**Category b**	**Category c**	**Category d**
Taxed land at market value (1%) and buildings (0.02%)	apartment in a building located in the urban center, Tirana	private residence located in the urban center, Tirana	private residence located in the urban center, Tirana	business activity located in Tirana	apartment in a building located in the urban center, Tirana	private residence located in the urban center, Tirana	private residence located in the urban center, Tirana	business activity located in Tirana
Middle value. Land tax /ha	**Land Area (m2)**	**Land Area (m2)**	**Land Area (m2)**	**Land Area (m2)**	**Value in euro**	**Value in euro**	**Value in euro**	**Value in euro**
1,00%	30	300	500		60	600	1.000	
0,80%				500				400
Middle value. Land tax /ha	**housing (m2)**	**housing (m2)**	**housing (m2)**	**housing (m2)**	**Value in euro**	**Value in euro**	**Value in euro**	**Value in euro**
0,02%	80	200	300		6	16	24	
0,01%				200				4
					66	**616**	**1.024**	**404**

Figure 2. **Expansion of cities and heights of buildings in years'90, '00, '07**

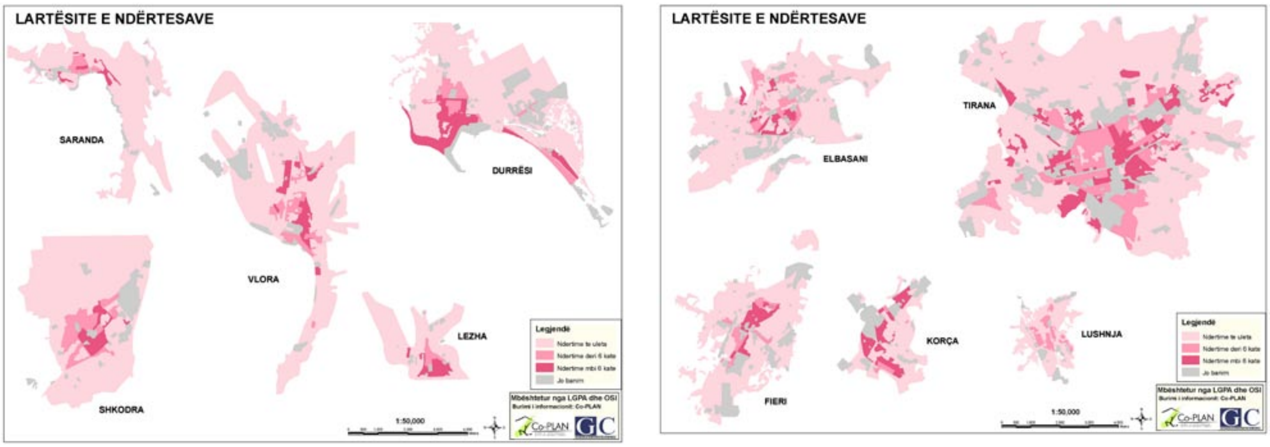


Table 12. **Expansion of cities and heights of buildings in years [scenario 2]**

DURRES						Durres					
Data generated	Year '90	Year '99		year '07			Urban area	sub-urban area		Periph-urban area	
		added to	In total	added to	In total			added to	In total	added to	in total
						Average . euro/ha	7.500	2.500		1.500	
extended area (ha)	353,23	541,78	895,01	557,77	1.452,78	0,50%	2.649.225	1.354.450	4.003.675	836.655	4.840.330
non-residential areas	286,83		286,83		286,83	0,30%					688.392
total	640,06		1.181,84		1.739,61						5.528.722
Number of buildings	7.673	10.255	17.928	7.764	25.692						
Non-residential	1.909		1.909		1.909						
total	9.582		19.837		27.601						
						Mes. euro/ha	20.000	12.500		10.000	
Built area (ha)	116,86	129,50	246,36	88,84	335,20	0,50%	2.337.200	1.618.750	3.955.950	888.400	4.844.350
Nuilted area in non-residential			-		-	0,30%					-
total Built area	116,86		246,36		335,20						4.844.350

Table 13. Assessment of potential for building tax 10 cities 'model' [scenario 2]

scenario 3: Land and buildings are taxed on market value equal to 0.5%				
City	**Incomes from land value**		**Income from building value**	
	urbane	**industrial**	**civil**	**industrial**
Tirana	20.506.515	2.754.180	13.870.100	1.254.360
Durrësi	4.840.330	688.392	4.844.350	-
Elbasani	3.768.580	392.715	3.755.750	300.120
Fieri	2.713.113	357.645	3.079.925	296.580
Korça	921.923	195.816	2.256.025	111.300
Lezha	974.305	23.616	526.900	10.500
Lushnja	947.220	59.052	1.119.800	37.500
Saranda	2.599.755	80.436	1.300.275	45.000
Shkodra	3.375.945	176.448	4.493.875	106.560
Vlora	4.818.705	233.712	4.052.800	99.540
sub-Total	**45.466.390**	**4.962.012**	**39.299.800**	**2.261.460**
Total	**50.428.402**		**41.561.260**	
Total (euro)	**91.989.662**			

Table 14. Assessing the tax charge in different categories of proprietary [scenario 2]

scenario 3	category a	category b	category c	category d	category a	category b	category c	category d
Land and buildings are taxed on market value equal to 0.5%	apartment in a building located in the urban center, Tirana	apartment in a building located in the urban center, Tirana	private residence located in the urban center, Tirana	business activity located in Tirana	apartment in a building located in the urban center, Tirana	apartment in a building located in the urban center, Tirana	private residence located in the urban center, Tirana	business activity located in Tirana
average value of land tax /ha	**Land area (m2)**	**Land area (m2)**	**Land area (m2)**	**Land area (m2)**	**Value in euro**	**Value in euro**	**Value in euro**	**Value in euro**
0,50%	30	300	500		30	300	500	
0,30%				500				150
Average value of building tax./ha	**housing (m2)**	**housing (m2)**	**housing (m2)**	**housing (m2)**	**Value in euro**	**Value in euro**	**Value in euro**	**Value in euro**
0,50%	80	200	300		160	400	600	
0,30%				200				120
					190	**700**	**1.100**	**270**

8 Concrete Steps and Proposals for Improving the Law, and Action Plans for Improving the Situation at Local Level

From the study results that the administration and collection of immovable property tax has proved to be generally effective in terms of businesses and institutions/organizations and follows the same trend in the achievement of anticipated levels of income taxes and other charges applicable by local units (small business tax, cleaning fees, greenery, and lighting). This relates mainly to the low percentage that these categories occupy in the total number of local taxpayers, making so the physical identification and then collection relatively simple to implement, also, because of other restrictive measures those local units have authority and capacity to apply on these two categories.

Meanwhile, figures have not been the same for the category "Family" of taxpayers. Even here the tendency to collect this fee goes in the same direction as the collection of other local fees that citizens must pay. For this reason the following analysis focuses on several essential elements of the tax on property associated with a particular category "Family".

In this final chapter we present the synthesis of the analysis elaborated in the material associated with the relevant recommendations under the following three issues considered to be the most important and each of them will be given recommendations applicable to long term and short term periods:

- A.1 Identification of the taxable base
- A.2 Application and tax collection
- A.3 Transparency and public relations

8.1 *Identification of the taxable base (A.1)*

Identification of the taxable base is the first step in the process of administering local taxes and fees in general and in particular the property tax. As any other local taxes and fees, creating and updating an accurate and reliable database of taxpayers and their characteristics is crucial in planning the expected revenues from this tax, in setting targets for the level of its collection, in determining performance indicators for the relevant tax administration and improving policies related to determining the tax level.

Regarding property tax, the problem of identifying the taxable base is twofold. Tax on immovable property (or using the language of the legislation on local taxes and fees – taxes on buildings and agricultural land) has two basic elements.

First, its method of calculation is related to the area of the property taxed, which means that the local unit should develop a database with location mapping and accurate data that are subject to this tax.

Second, regardless of method and sources of information used to develop base mapping data, the local unit should establish a link between property that is subject to taxation and the individual (the owner / eligible owners) to which should address the bill for this tax.

So, local governments need to create and crosscheck two databases which in case of non-real estate are not necessarily the same. These are inventory/register of the real estate and the register of taxpayers. Below we will discuss on how to design and crosscheck these data as the only option to have an acceptable level of accuracy in identifying the taxable base.

In principle, identification of assets begins with the design of an inventory / database of all real estate subject to the building tax. Creating a basic inventory would be easy only if the registration offices of real estate (IPRO) would be able to provide updated information periodically. Besides this source, municipalities can also use other sources of information they may possess (e.g. building permits).

Register taxable property must include at least the following information:

- Property identification number
- Address
- Classification of property usage
- Legal status
- Size and shape of the parcel

Ways of determining the area on which taxes are applied are settled in the law Nr.9632, dated 30.10.2006 "On local tax system" under which *"the tax offices of the municipality and other LGUs recognize documents that certifies ownership according to registry offices of registration of real estate"* and in their absence the legislation provides the following alternatives or additional replacement:

If the property is not registered in the real estate database, considering the tax payment due amount by the taxpayers, tax offices in the municipality can also recognize the ownership certificate that comes from:

- *Decisions of ownership*
- *Decisions of the commission for compensation of immovable property*
- *Privatization decisions*
- *Other documents issued by relevant state institutions in accordance with relevant legislation*

What is noted in the cities studied and appears to be similar in other cities, is that the information above is not reached through the registration offices of real estate. There are two reasons for this situation:

a. Most of the cities have not yet completed the initial registration process, which means that for their IPROs is almost impossible to give a clear information-level on the administrative territory at a time when they possess information that is based only on sporadic recordings of property. Under normal circumstances the above mentioned documents as a substitute or complement, and any other documentation that is ownership, should be found in the registration offices. Practically, this do not happens also because of lack of information from citizens which have the obligation to register this kind of documents in IPRO;

b. Frequently lack of cooperation or lack of desire to cooperate occurs, despite the fact that the exchange of this information is a legal requirement. By law Nr.9632, dated 30.10.2006 "On the local tax system" the *"IPRO offices report regularly every quarter, without compensation to municipalities and communes for new registrations and change of situation of registered properties"*.

Local tax legislation also expresses about the definition of the taxable area where the IPRO's documentation is missing. In this regard two solutions are suggested:

- In case of lack of the verified property documentation, the municipality or municipal council decides the size of the taxable area, based on the decision of a committee created on real estate issues. Local Authorities set up a verification commission to real estates in case of absence of legal documentation. Commission duties and functions are established by decision of the council of the municipality.
- In case of lack of the verified property documentation for objective reasons (not registration of property from property registration offices, offices or the assets verification committees) municipal tax offices have to determine the base providing taxable data from physical persons, legal entities and individuals through self declaration. The data provided through self declaration will be used temporary until the moment that will be verified with the property registration offices of real estate or through the property verification committees that can be created in the LG

In the current situation for many municipalities and communes, the only solution was to create the bases of data through the establishment of working groups from each side who tend to collect and process all available data sources from various agencies and on the other hand realize controls also.

It is noted that the establishment of such database, update and build necessary capacities, generally is missing, collection and processing of information on the other hand, require substantial commitment of human resources and financial analysis and a detailed cost-benefit does not justify in all cases such mission.

Another problem encountered by local entities which constitutes the second part of the process of identification of the taxable base, is the identification of individual taxpayers or to whom the invoice should be addressed on the immovable property tax payment. As above mentioned, most of the cases that individual currently uses the property may not be the sole owner or may not be one of the owners of this property, but simply its user or leaseholder.

An available source, sufficiently reliable, relatively easy to consult and updated at no cost to municipalities is the Electronic Register of Citizens, which provides useful information about the family head (which can be addressed not only for tax property payments, but also other local taxes) and family address. The current situation shows that this information is not easily accessible by all local government units.

This should take into consideration the fact that from the perspective of the local unit is not very important if the tax payer is the owner / leased owner of eligible property (as applied to IPRO concept) or the user as long as the taxes are applicable on the property.

Seems like there is a conflict with the definition given in the law for "Local Tax System" under which taxes on the property "is applied on all individuals or legal entities and physical that are owners of a building and / or a land surface of classified as agricultural”.

However, considering that the owner or leased owner are legally difficult to be identified, the immovable property tax bill can be directed to the current user of the property passing to him the responsibility to settle with the owner / owners of the relevant property the payment of such fee, as part of the agreement that they may have to grant / lease or use..

8.1.1 Recommendations on the identification of the taxable base (A.1)

In short terms, it seems almost not effective the effort to create a database that requires substantial commitment of resources for development and for updating the lack of regular exchange of structured information with central agencies.

Moreover, a database on a "local" established methodology and daring not to match the data collected and processed at the national level can bring distortions and underestimate or overestimate for the potential tax.

Despite this, local government units should necessary perform an analysis of the potential tax and the effects that could have over the income levels.

The data can be used and also crosschecked for this purpose may include:

- Civil register
- Official population register by INSTAT
- IPRO
- OSSH
- Water Supply Enterprises
- Housing Authority
- ALUIZNI
- Property Restitution and Compensation Agencies
- Privatization Agencies
- Courts, etc.

However, as above stated consultation for all those basic data in the current stage can only serve to make much more realistic assessment of the taxable base.

In short terms conditions for the local units there are two new opportunities which can help reduce the "margin of error" in calculating the potential tax.

First, the finalization of the Address database and crosscheck of this system with the Civil Registry could eventually bring a solution at least in terms of number of families who must pay local taxes and fees according to their correct address.

Second, the central government, through INSTAT has plan to finance a new population registration in 2011. A lobbying to the central government, through proper presentation of arguments, which may affect the questionnaires to be filled for this purpose include questions about the area of property in possession or use, thus creating an opportunity for the application of clause plea mentioned above and adding more instruments simultaneously for comparison with data collected from other sources.

Referring to this point would be recommended lobbying to the central government for including such questions in the sample questionnaire and the Municipal Association can play the role of as a representative of this group of interest (including question about the religion in the questionnaire is an example of the possibility for other type of data to be included within the same funds granted by the central government for the population registry).

In long term what is seen as the only opportunity to identify more accurate and cost effective taxable base is the use of databases that collected, processed and updated by the national government agency.

The most possible solution is the database on which the Central Registration Office Real Estate operates. Currently it is difficult to set a deadline of when it might be complete and available; but there are some arguments in favor of this option:

- The property registration is a process that is gradually being finalized;
- The government has recently presented the idea of creating an electronic database of national assets;
- Flow and exchange of information between local government units and offices of real estate registration can only improve with time;

As above mentioned, local government units can and should benefit from other data bases that are produced nationally and here may be included the Electronic Civil Registry System Address, expected to be realized soon. Would be comparatively easier for the central government the merge of these databases within the GIS systems, which can be available to interested parties including the local units.

8.2 Application and tax collection (A.2)

The ability to possess or create an inventory of real estate is an important element for application of tax on the property, but this does not resolve the issue of collection.

As mentioned above, at a time when information is updated on transactions made about real estate, regular registration of the contracts to purchase / use / rent and the current location of the rightful owner of the property, it is necessary to cross check the information on real estate with information about the user or holder of current assets.

An additional argument for this is that real estate generally has more than a legal owner and that would make almost impossible to apply the tax only upon the legal definition.

While there are efforts to create a database of assets through the use of different sources of information, we see different local units apply different approaches towards the identification of taxpayers, accounting and billing and collection of the obligation taxes.

One part of local government give the right to the taxpayers decide for the tax payment (and other local fees) resulting in a very low level of tax collection. Experience shows that a tax for which there is no appropriate action followed by local unit to collect back returns to be a simple voluntary tax.

Another part of local governments applies the limitation of services (especially civil ones) as a measure to ensure the payment of local taxes and fees. This approach can raise the level of tax collection by the percentage of those people who have a certain period of having civil services. However, this percentage is expected to drop more and more as a result of the ID cards which will replace the previews significant need for certificate.

A last group of local governments try contracting a tax agent. Here we can mention the case of Korça that as the tax agent has contracted the Water Supply enterprise.

However, the use of a tax agent requires that the local unit before taking such a decision should prepare an analysis of several factors mentioned below:

- Geographical activity of the contracted tax agent;
- Agent performance for the collection of own revenues;
- Database which is available tax agent;

- Outcome indicators, which means the definition of a level below which the contracting agent will virtually have no value anymore.

Even Korça experience has shown to us that such tests have missed, except receiving a tip on the agent's performance indicators for its activities, which means figures about the level of collection of water consumption by customers. This is insufficient making example also to other factors that are equally important and that could affect revenues collection as well.

In the case of Korca is not exactly known if the geographic expand of water service match the territory administered by the municipality and if the number of subscribers is the same or sufficient with an estimate number of families who must pay tax on property.

On the other hand, due to insufficiency of data, municipality has not yet had the opportunity to make available a register about taxpayer agents. Thus would normally influence in setting a realistic threshold of agent performance.

8.2.1 Recommendations on application and collection of immovable property tax (A.2)

In short terms situations, either in terms of technical, financial inability of local government units to have an accurate database and then "forced" family taxpayers to pay their liabilities, using tax agents appear as an option that could succeed.

Currently, there is such an experience that works well either in terms of using national data bases either using a tax agent.

Under Article 30 of Law no. 9632 dated 30.10.2006 "On local tax system, the General Directorate of Road Transport Services through 12 Regional Directorates is a tax agent for collecting the annual registration tax on road transport vehicles. For this service, the Directorate General of Road Transport Services receives 5% of the amount receivable.

Recommended a tax agent for the local units would be the Distribution System Operator (OSSH) of electricity. OSSH provides a range of advantages compared to other potential agents (such as the Water and Sewage enterprises, Postal Service, etc..):

- OSSH covers almost 100% of the Albania territory, which means that the company can provide full coverage of the administrative territory for a particular local unit;
- Because of measures taken to cut off illegal connections, OSSH number of subscribers is always moving closer to the number of users of electricity;
- Privatization has affected a gradual increase the percentage of subscribers who pay for energy, which means that there is an increase in the company's performance in relation to revenue collection;
- OSSH contracts applied by the user associated with the current owner or the property is automatically subject to payment of taxes and other local charges;
- Monthly energy bills creates for the local governments the option of sharing local taxes and fees in some payments which will affect both the revenue forecasts for different periods of the year as well as to facilitate citizens from paying off the full and of all their liabilities;
- OSSH is recently privatized and the mentality of a private company would be acceptable to the realization of any kind of service that would enable growth of its revenue. On the other hand, the OSSH has already set up a database network

of subscribers and revenue collection, causing no additional costs for such a service for local units;

- OSSH has the possibility of applying restrict measures which are not currently used by the municipalities. If included in the energy bill, liability for back taxes and local fees in liability to OSSH and the suspension of power supply is a much more effective instrument.

Looks like the use of such agent would seriously affect the improvement of performance in relation to the local governments on property tax. However even this option has its limitations:

- The database of subscribers hold by OSSH provides information about the owner or user of the property but not the surface of property that is the basis for calculating the liability. Identifying the areas with buildings possessed or used by each of the subscribers will cause the same problem as mentioned in section A.1., while the possible solutions would be the same. However, contracting the OSSH in this regard represents another advantage. OSSH operates through field inspectors for individual reading of energy meters. During their work in the field these inspectors can get from their customers information on the surface of the building. This information can be based on the ownership document or self declaration by the users. Such "extras" service should be subject to negotiations between the local entity and tax agent.

- The Database owned by a potential agent like OSSH should be matched up to with data available in the local unit in order to ensure the fair determination of liability for the groups differently treated and benefiting from the subsidy schemes of local units. However, municipalities may choose not to do that subsidy in the bill but to use other approaches that can simplify the work of the tax agent and reduce the number of abused cases. So the citizen who takes part in such schemes may pay the subsidy rate as calculated taxable surface and then get reimbursed near the municipality providing the necessary documentations that classifies it as a target.

Referring to the long terms, could be recommended some alternatives that can replace each other or that will function as combined and will need legal initiatives aimed at improving the methods of application and management of property tax. Some of these alternatives are described below.

a. *Transfer from a Building Tax based on area of the property to a tax on real estate property based on Property Value*

Calculation of tax based on the property value is considered the most effective because it better reflects the relationship between use of services provided locally and the price paid for these services through local taxes on property.

A home or facility located in a neighborhood with streets and services improved, with easier access to educational institutions and other services will cost more, so that their owner should therefore pay more for these services.

Calculation of tax based on property value can also be an indicator of the affordability of the tax payment: the incomes of a real estate owner are generally in proportion to its value.

European procedures show that local immovable property tax based on value of property could be arranged by a national system of calculating the value. In this case, municipalities will have full autonomy in calculating the value of the assets, so the administrative due of asset valuation is lower. In this case, prices for different units and coefficients can be determined by normative acts. Municipalities would not have autonomy in determining the different areas within the city, but in determining the value they would have to use the standard ratios to determine national ones.

Most countries in the region apply the immovable property tax based on its value, although for the countries in transition this occurred only after experiments has been done with the taxation by area methods.

The difficulties of local tax administration, such as lack of information, lack of qualified assessors and the opposition of local politicians to property taxed as the main form of private capital are the main reasons to apply initially to taxation on the surface basis.

There are two ways to determine the value of property: through self-declaration or through external evaluation.

In case the self-evaluation by legal entities, it is usually reported the book value of their property assets, which are subject to local property taxes, while individuals can report to tax authorities simply providing basic information about their home and land.

In case of external evaluation, individuals can be given the opportunity to respond to the evaluation performed on their property through the acceptance or rejection of the amount and the factors taken into consideration. What would help in this case is to determine the law of the minimum value of taxable property thus reducing the administrative rate of local government in determining the value.

External evaluation of the property can be more easily acceptable and understandable if before is made a determination of fees under certain different categories of properties and setting a clear set of criteria for classification within each category. Also, the calculation of tax from one category to another can be defined in such a way to provide some sort of progression.

Even if the individual assessment of each property is not applicable, such categorized system and local taxation of property is sufficient acceptable.

Such a system permits a faster process and less expensive to assess property and generally simplifies the tax administration.

On the other hand, taxpayers are expected to always slighter react for their property assessment. Their complaints will change the level of tax if their property changes the category within which is classified.

Such method would influence the reduction of administrative costs of the immovable property tax base value after revaluation is not required to do each year. Local units may use simple coefficients to calculate the actual value of the property or change the level of fees.

However, the application of a tax system based on property value does not exclude the need for data on the surface of the property. Nevertheless, in a taxation system based on property value, density that property is expected to have in calculating the area of liability is much lower than in other system based entirely on surface.

Additionally, categorization or grouping of assets further reduces the density, because for purposes of calculating the surface the related data can be used in national or regional level without the need to correct information available to the surface of each special asset.

Finally, the application of a new methodology of calculating the tax on property, as we described above would require changes to current legislation on local taxes and fees and determine nationwide coefficients assessment would require collaboration with local organizations and / or international specialized in the evaluation of assets.

b. *The combination of immovable property tax with tax and other fees to local services (cleaning, grass, lighting, etc..)*

Regarding this recommendation we can refer to the assumption that the level of services provided by the municipality in a given area can directly affect the increase or decrease of the value for a real estate located in that area.

For this reason the above methodology, although it could be seen as an alternative to the previous recommendation for the application of taxation on the value of the property, again is creating a logical link with the value of property.

Such a methodology will almost completely avoid the need for creating, managing and updating the geographic databases and would allow the use of only those data that are currently least accessible and whose update is performed at the central level. Here we consider the Civil Registry System and Electronic Address.

Normally the application of such a system would require further analyze by the local unit regarding the level of the "combined fee", however this would be a different process from local units performed during the discussion and determination of tax and other local charges.

Another aspect to be taken into consideration is the discussion on the settlement of the costs of service charges should be considered as "set services" provided by the local unit rather than for each individual service.

c. *Transfer of authority to collect immovable property tax from local government to central government (legislative changes associated with the conception and categorize the level of tax)*

Application of local tax on property does not mean that all administrative matters relating to tax like billing, collection and application of measures are due to the local government.

Those functions can also be separated because the central tax administration may also be more effective due to the fact that the major operating systems or the possibility of consulting the various bases of national data. Opportunities and capacities at the local level are often insufficient

Such recommendation has effect from the fact that databases built at national level (Civil Registry, IPRO, Address System etc.) and that are necessary to identify and collect taxes on property, are "owned" from central agencies and there is little chance that the legal requirements (provided in laws or DCM) which require mandatory sharing of information between central and local agencies, will operate in a near future.

Such proposal is against the spirit of decentralization of local finances, however it can be applied temporarily until the reach a certain level of standards on the design, management and circulation of information from central agencies to the central government units and vice versa.

Referring to this situation, the central government could be considered as "tax agent" of the local units. However, due to lower interest central government may have to collect taxes in favor of local government units, shall, if applicable, such a relationship is reflected in relevant legislation.

d. *Legislative improvements that would enable local governments to collect tax on the property by setting restrictive measures.*

In tests conducted in some districts, a substantial portion of those who do not pay local charges represent the immigrants, while legal framework do not except them from paying local taxes and fees as long as are registered on the relevant local unit.

Intervention in this case (which is equally valid for the case of payment by any other individual which is not immigrant) can return consisted of local tax bill in Executive Title.

Another problem observed and associated with new construction is that the immovable property tax obligation "is due" only by signing the final contract of sale between the final client and Construction Company / investor and the registration of this contract to the registration office real estate.

Delays in registration of these assets create a delay for the application and collection of immovable property tax for this part of the construction for which the municipality has full information on surfaces, location, destination, etc. (From the office of urban planning which reviewed the application about the construct permission).

It would be recommended is that the municipality begins collecting this tax from the construction company from the moment when issued the permission of inspection and utilization of the facility. Responsibility to promote the transfer of liability from the construction company to the final buyer should be the responsibility of the interested one, in this case, the Construction Company or investor.

8.3 Transparency and public relations (A.3)

Local immovable property tax is considered as less exposed to corruption and fraud, because of relatively high transparency to the way the administration has.

Tax base is visible as a local tax that is easily comparable to the taxpayer, assuming always that they are able to access the information related to property assessment and determination of tax liabilities. Risks of corruption in local property taxation can come from two directions: (i) tax administration claims payments higher than necessary and (ii) the taxpayer attempting to avoid tax payments.

The second might occur especially in the evaluation of assets (the value or area).

Deviations and corruption in local property taxation can be avoided by placing the proper way clear rules on tax administration. In general, clear rules of the simplified taxation can reduce the risk of corruption.

On the other hand, good management and application of regulations from tax departments can improve the quality of tax administration. By the most widely used methods can be mentioned the establishment of a proper internal audit system or enforcement of the conduct code.

These methods can be added using special phone numbers for complaints to be used by taxpayers and rotation of staff within the tax administration.

In general, the proper distribution of information on policies and administration of tax on property is another factor that increases the transparency of local tax administration. Information via the Internet, informational materials and public information campaigns are some of the methods being applied gradually from many municipalities and large cities.

Even at the local level could operate the same electronic system that works for businesses that currently are taxed by the local central government, through which taxpayers use an Internet platform to control their tax liability, paid taxes and all other information that are required to collect tax in a transparent manner including the preparation of on-line tax declarations.

Different countries have different experiences in terms of increasing transparency and awareness of citizens regarding the payment of domestic obligations.

In the United Kingdom applies the publication of what is called "citizen card" (Citizen Charter) and that seems to be an effective way to bring the local tax administration to taxpayers.

Citizen card is published by the local government and provides the basic features of local taxes (the tax base, method of calculating the liability, the categories of citizens who benefit from exemptions, etc.) and inform the public about the important issues of tax administration. It also includes terms, payment methods, how to information, points of contact in local tax administration and procedures for complaints.

In other countries (example, Romania) applies what is called "Letter from the Mayor" and sent to each taxpayer at the beginning of the fiscal year and is used for the same purposes the citizen card. It includes information about overdue debts, tax liabilities for the current year, payment terms and payment options for performance and objectives of the mayor and local council for that fiscal year.

Another factor that impacts directly on the transparency as well as the level of local tax collection is as clear wording of the obligation and the manner of delivery of the "receipt" of the local tax.

This bill should clearly obligation by providing the following information:

- Calculated obligation
- Legal basis and method of calculating the amount of liability
- Fines and penalties for delays in payment
- Deductions applicable to liability in case of payment within a specified period
- Payment Terms

- Possible Methods of payment

Bills of local obligations to the taxpayers should arrive two to three weeks before the payment deadline. Large taxpayers may be treated separately. Submission of bills local immovable property tax can also be contracted.

Depending on the method of choice for local tax collection, the postal service could be an opportunity efficient and low cost distribution of these bills.

8.4 Medium term action plan to improve the situation regarding immovable property tax

MEDIUM TERM ACTION PLAN FOR THE IMPROVEMENT OF THE ADMINISTRATION AND MANAGEMENT OF THE PROPERTY TAX

Code	Process	Description	Responsible	Task
A.1	**Identification of the taxable base**			
	LOCAL Level			
A.1.1	Creation of the taxable base Registry, crossing through the databases as follows:		Working Group, responsible for the collection process and the creation of the databases set at LGU-s and approved by the Municipal Council	Collection and coordination of data from different agencies and verification of field data
A.1.1.a	Registry of Immovable Property	Design a basic mapping and location data with accurate real property surfaces that are subject to this tax: (i) no. Identification of property, (ii) address, (iii) the classification of the use of property, (iv) legal status, (v) size and shape of the parcel	In the absence of an integrated database created at the central level, the Working Group will collaborate with the following institutions:	
			The verification Committee of immovable property created by the decision of the Municipal Council under the relevant law	The Collection of data regarding the properties which results unregistered/documented somewhere, verified in the field
			Offices / taxes and fees sector at the local level through the self disclosure process until the verification of property	The collection of temporary data in relation with real estate areas, until the verification/registration of property
			Immovable Property Register Office (IPRO)	The guarantee of the data periodically updated (quarterly respecting the law)
			Office / department in the municipality of City Planning	The collection of data related to building permits and use of buildings
			Offices/Units of ALUIZNI at the regional level	The collection of data related to the self disclosures made in the process of legalization
			Office of Housing Offices at district level / prefecture	The collection of data related to property acquired by this institution
			AKKP	Data related to the properties benefited as a result of return/compensation of property
			Privatization Agencies	Data related to properties acquired through the privatization process
			Courts	Data related to the properties/real estates
A.1.1.b	Register of taxpayers	Will contain all information related to the head of the family and the address/location	In the absence of an integrated database created at the central level, the Working Group will work with the following institutions:	Identification of the taxpayers, creating a link between property that is subject of taxation and the individual (the owner / eligible owners) which should be addressed the tax bill.
			Civil Status Office	Electronic Register of Citizens
			INSTAT	Official records of the population
			OSSH; Water and Sewer Enterprise	Database related to the respective taxpayers enterprises
	CENTRAL level			
A.1.2	The creation of an integrated data base referring to the basic information that has ZRPP (IPRO owns)		Task Force/Working Group created at ZRPP [to be discussed the institution] for the property tax	
		Finalization of the Initial Registration of property	Immovable Property Registration Office (ZRPP)	
		Register created electronic resources at the national level	Immovable Property Registration Office (ZRPP)	
		Improve legislation / obligations regarding the coordination of information between and NJQV ZRPP States		
		System addresses I cross the Civil registry information		
		The creation of a new registry of the population estimated in 2011 by INSTAT		
A.1.3	Training of responsible staff/working groups at the local level to establish and manage the database		Task Force/working group created at ZRPP for the property tax	

A.2	**Application and fee collection**			
	LOCAL level			
A.2.1	Planning of expected revenues from building taxes	Taxable Base Assessment through taxpayers Identification and calculation of the respective obligations - refer to the process A.1	Working Group / tax staff at the local level	Realistic assessment of the taxable base, referring to all the sources of information mentioned above
A.2.2	Improvement of policies relating to the application and tax collection	Established procedures for billing and collection of tax by the tax agent (OSSH / Water Company)	Working Group / the tax staff in local level propose and the approval is done by the Municipal Council	
A.2.2.a	The definition of the appropriate tax agent given by	Factors in determining the tax agent: (i) the geographical scope of its activities, (ii) performance in the collection of its revenues, (iii) updated/temporary base compilation of data by field inspectors, etc..	The Working Group prepares the proposal / associated with the respective cost-benefit analysis and the approval is done by the Municipal Council	
A.2.2.b	Established a data base made available for the tax agents and differentiation of the groups that benefit from subsidies as a result of exemptions from local taxes and fees	The relationship with the tax agent is placed behind the creation of a database, even if temporary in order to guarantee further indicators of outcome/performance	Working Group / tax staff in the local level	
A.2.3	The determination of objectives for the collection level of the building tax	The definition of outcome indicators, which means the definition of a level below which the contracting collection agent will have virtually no value on	Working Group / tax staff in the local level - approved by Municipal Council	
A.2.4	Defining performance indicators for tax administration		Working Group / tax staff in the local level - approved by Municipal Council	
A.2.5	Policy improvements related to the tax level		Working Group / tax staff in the local level - approved by Municipal Council	
	CENTRAL level			
A.2.6	Transfer from Building Tax per square/meter to a Real Estate Property Tax based on the Property Value			
A.2.6.a	Established a national system of calculating the value	Local Units would have autonomy in determining the different areas within the city, but in determining the value they would have to use the standard ratios defined on national level		
	Evaluation of property through self disclosure	Legal persons usually reported the accounting value of their property assets, which are subject to local property taxes, while individuals can report to tax authorities simply providing basic information about their home and land		
	property evaluation through external evaluation	Individuals can be given the opportunity to react to the evaluation conducted on their property through the acceptance or rejection of the amount and the factors taken into consideration. What would help in this case is to determine the law of the minimum value of taxable property thus reducing the administrative burden of local government in determining the value		
A.2.7	The Combination of Property Tax with taxes and other fees of local services (cleaning, grass, lighting, etc..)	The level of services provided by the municipality in a given area can directly affect in the increase or decrease of a real estate value located in that area - It's associated with a Local Unit analysis regarding the level of this "combined tax"	Only through the use of Electronic Civil Register and the integrated Addresses System	

A.2.8	Transfer of authority for the collection of property tax from local government to the central one (legislative changes associated with the conception and the categorization of the tax level)	Temporarily applied to improve system management and administration of tax - the central government is considered as a 'local government tax agent'	The Are used Databases build at the national level (Civil Registry, ZRPP, Address System etc..) And those who are necessary to identify and collect taxes on property, are "owned" by the central agencies	
A.2.9	Përmirësime ligjore që do t'i mundësonin njësive vendore të mblidhnin taksën mbi pasurinë nëpërmjet përcaktimit të masave shtrenguese	The return of Local Tax Invoice in an Executive Title.		
A.3	**Transprarency and public relationship**			
	LOCAL level			
A.3.1	The definition of clear rules on tax administration			
A.3.1.a	Establishing a proper system of internal audit or enforcement a code of conduct.			
A.3.1.b	Use of special phone numbers for specific complaints from taxpayers and the staff rotation within the tax administration			
A.3.1.c	Staff rotation within the tax administration			
A.3.1.d	Appropriate distribution of information on policies and administration of property tax is another factor that increases the transparency of local tax administration			
A.3.1.e	Similar tiitiatives like "Citizen Card", "Letter from the Mayor"			
A.3.1.f	The clearest formulation of obligation and the manner of delivery of the "bill" local tax	The bill must express clearly the obligation by providing the following information: (i) exent of liability; (Ii) the legal basis and method of calculating the amount of liability, (iii) Fines and penalties for delays in payment, (iv) deductions applicable to liability in case of payment within a specified timeframe , (V) Timing of payment, (vi) the possible methods of payment "		

8.5 *Short-term action plan to improve the situation regarding immovable property tax*

SHORT TERM ACTION PLAN FOR FOR THE IMPROVEMENT OF THE ADMINISTRATION AND MANAGEMENT OF THE PROPERTY TAX

Code	The Process and its Purpose		Actions to be taken to achieve the purpose in short term by LGU-s	Time required	The Responsible/ Responsible	Comments on the implications
				[To be discussed specifically with LGU-s, it can be altered from a local unit to another]		
A.1.1	The Creation of the taxable base registry, crossing through databases					
	[In short terms, it comes to creating a temporary basis of data which is updated continuously during the implementation process]					
	Preparation Process	_.1	Establish a working group to revise the database, the division of tasks for each member of the working group and defining deadlines	1 month	LGU-Mayor with the heads of departments: Taxes, Finance, Urban Planning, etc..dependency structures if necessary	This step hasn't significant implications in cost, except the time of main leaders involved in this process step
	Data collection within the institution of the municipality / different directorates	_.2	The signing of a cooperation agreement with the regional office of ALUIZNI for using the data collected during the own statement process of informal construction	1week	LGPA; Mayor of LGU-s; dependency structures	This process may take place in two steps, in central LGPA can sign an agreement with ALUIZNI-n central level then with the local one the LGU Chairman makes an agreement at the local level. There is no considerable administrative cost
		_.3	Extraction of data for own statement buildings in the process of own statement for the legalization of informal buildings (as well as in municipalities as in the ALUIZNI's district) for all buildings in the LGU-s territory (housing, commercial units)	1month	Working Group, Tax Department, Urban Planning, Dependency Structures	This process will require that LGU-s specialists (one or two) be engaged in completion of this step by leaving the chore. Cost of the work of one or two experts for the period in question (one month)
	Data collection from ZRPP	_.4	The signing of a cooperation agreement with the regional office of ZRPP for the disposal of database on real estate for LGU-s (!!!)	1week	LGPA; Mayor of LGU-s; dependency structures	Even this process can take two steps, in central ZRPP level and local level. In the agreement should also be defined the way of information exchange. There is no considerable cost
		_.5	Obtaining data from the Immovable Property Registration Office for buildings in the jurisdiction of the Municipality	2 months	Working Group, Tax Department, Dependency Structures	From previous experience will be needed that LGU-s specialists (one or two) will be engaged at regional offices of ZRPP to obtain the necessary information. This means that the process costs is associated with the cost of employees to be engaged throughout this step
	Data collection from ALUIZMI	_.6	Collection of data from the Department/Office of Urban Planning for new constructions (after '93) equipped with the Construction/Use permission (household, business)	1 month	Tax Department, Urban Planning Department	With a better coordination between the two offices, with the assistance of the Working Group, not only can build a database, but will establish standard procedures of exchanging information. The cost of this step is also associated with labor costs of involved specialists (who will be forced to break from the routine daily work)
		_.7	Creating a commission for the collection of the missing data about real estate field	1 - 2 weeks	Working Group, Tax Department and respective structures	**Will remain in the willingness of LGU-s if this commission will be approved by the Municipal Council, or only the internal order of the Mayor.** This commission depending on the information that will have to gather there may be with two-four experts, labor costs which are directly costs of this process

SHORT TERM ACTION PLAN FOR FOR THE IMPROVEMENT OF THE ADMINISTRATION AND MANAGEMENT OF THE PROPERTY TAX

Code	The Process and its Purpose		Actions to be taken to achieve the purpose in short term by LGU-s	Time required	The Responsible/ Responsible	Comments on the implications
	Data collection from the field for assets there is no information	_.8	Organization of work on the ground for objects that haven't data and their identification from the respective committee established by LGU	1.5 - 3 months	The Commission established above, Tax Department and the dependency structures	The costs of specialists involved in the commission over the period in question constitute the main cost of this step, along with some minor logistical costs
	Collecting data from the electronic register of citizens	_.9	Processing of data collected by different institutions or directorates as well as their verification on the ground [through the commission]	1 month	Working Group; Tax Department	It is necessary that the department which will use the database must organize them in order to be easily editable to generate and collect information. This process can be done in parallel with data collection considering that wouldn't be the same people who would be engaged during the collection and organization of data
		_.10	Throwing them in the Municipality databases **[initially in a hard copy in the absence of a database software]** under taxpayer categories (housing, commercial units) and printing the data for each region / block / neighborhood (written form)	1.5 month	Working Group; Tax Department	
	Data collection and establishment of database	_.11	Signing a cooperation with the Line Ministry regarding to the use of information thrown in the Electronic Register of Citizens in each of LGU-s being coordinated by ZVGJC	1 week	LGPA; Chairman of LGU-s; dependency structures	This process is also divided into two steps, first to obtain that approval for use of the information on local level, and secondly to coordinate between LGU-s and ZVGJC
		_.12	Completion of the population registers for each region with appropriate characteristics [hard or soft copy by LGU-s] (owner, year of construction, surface, the rate in lek per square/meter, amount)	2 months	Working Group; Tax Department, Respective Structures, Inspectors	The cross intersection of mapping data collected by different institutions with the information provided to citizens through electronic registry will enable the creation of a database almost complete. Intersection data will require work and commitment of tax
A.2	**The Application and the Collection of the Property Tax**					
	[In short terms, it comes to evaluating the potential tax base given by the existing legal base; way of its billing, collection and penalties in cases of					
		_.1	The updated data regarding the categories of taxpayers exempt from taxes through the War Veterans Association, Disabled, Blind (organizations / associations of categories excluded from payment of tax by law) and the calculation of the amount of income that would not scheduled to be collected	1 month	Tax Department; Dependency Structures	No significant additional cost, it is necessary to put permanent procedures for the exchange of information with these target-groups
	Calculation of tax potential	_.2	Calculation of the tax potential; Extraction of data for each region **[in hard copy if necessary]**, number of dwellings and the amount to be collected taking in consideration the exceptions of the categories above	1 month	Tax Department; Respective Offices	It's about when the LGU-s is convinced to organize the process of billing and revenue collection by itself, through regional offices or its facilities within the Tax Department. The entire process will be accompanied by a
		_.3	Preparing the Liability Act in three copies for each taxpayer based on location	2 months	Tax Department; Respective Offices, inspectors	
		_.4	Sending the Act Liability for each taxpayer (Billing) and monitoring of the billing process: a copy to the taxpayer, - a copy of the checkout area, a copy to the Tax Department	2 months	Responsible Structures (inspectors)	
		_.5	Collection of Obligation	2 months	Responsible Structures (inspectors)	

SHORT TERM ACTION PLAN FOR FOR THE IMPROVEMENT OF THE ADMINISTRATION AND MANAGEMENT OF THE PROPERTY TAX					
Collection of tax by the municipal tax administration	_.6	Monitoring the collection process	Continuously	Tax Department	
	_.7	Analysis of the situation for daily and weekly income for each region / block / district	Continuously	Tax Department, Respective Structures, inspectors	
Collection of tax by tax agents	_.8	Signing a cooperation between LGPA and OSSH to use the latter one as a tax agent at the local level and to create a framework of operating standards	1 week	LGPA in discussion with the Mayors of LGU-s	It will be suggested in cases where there is interest for LGU-s to use OSSH services as a tax agent, for example, when the relationship
	_.9	Signing a cooperation between LGU-s and tax agent (potentially OSSH), making available the potential, the temporary register, performance criteria given by the expectations, and other conditions for liability and obligations	2 weeks	LGU-s Mayor; Municipal Council; Working Group, Tax Department	To ensure an efficient relationship and a better result is necessary that LGU-s have previously all expectations clear about the OSSH. This will required the involvement of specialists in the tax department, but wouldn't have a substantial additional cost
	_.10	Reconciliation with the regions / tax agent for the income generated each month	0.5 month	Tax Department; Respective Structures, inspectors	There is no considerable cost.
A.3		**Transparency and Relations with the citizens / community**			
	_.1	the Municipality newspaper, local media, civil society	1 month	Working Group	especially in time of billing is necessary to have
	_.2	Comparison of data in recent years and inform the	0.5 month	Tax and Finance	There are no implication in the cost, it is
	_.3	Undertaking initiatives to enable transparency of billing system and the collection tax system such as: Use of special telephone numbers for complaints from taxpayers and rotation of staff within the tax administration		Working Group; Tax Department	Small costs related to telephone service or a worker who will engage in this process. The Rotation process in the Office is associated with minimal cost
	_.4	Publication of data process on the Journal of Municipality and the local media and reporting on the Municipal Council		Tax Department; information office	There is no considerable additional cost

9 Annex

Attached Material to the research study report on immovable property tax in Albania as an innovative instrument to increase local revenues are set and a set of documents which are used as database for analysis and issues identified in this study as well as incentive in assessing the potential possible. Below you will find a list of those documents listed established as annexes to this study.

> Information collected in eight municipalities of the targeted (Shkodra, Lezha, Kukes, Kruja field, Durres, Fier, Berat, Korce) on the current administration and management of immovable property tax
> Thematic maps about the synthesis and extent of the phenomenon occurred in ten cities targeted (Shkodra, Lezha, Durres, Tirana, Fier, Elbasan, Korca, Vlora, Saranda, Lushnje)
> Information generated by synthesis processing of thematic maps related to areas of the city layout, number and surface engineering, etc..
> Model built on tax potential of the targeted buildings in cities under four different scenarios (variations of the value of land and the tax on buildings)
> Model built on the heavy tax burden in different categories according to scenarios prepared taxpayers value for immovable property tax
> Medium-term action plan with regard to improvements immovable property tax system in Albania
> Short-term Action Plan in connection with improvements immovable property tax system in Albania

10 References

Allan, C.M. (1971) *“The Theory of Taxation”* (London: Penguin Books)

Almy, R. (2001) *“A Survey of Immovable property tax System in Europe*”, Slovenia

Bird, R. (2000) “*Subnational Revenues: Realities and Prospects*”

Ebel, R. (2003) “*Subnational Tax Policy Design and Fiscal Decentralization*”

FDI – CEE publications (2006) “*Reforming Property Taxation in South - East Europe*”

NALAS (March 2009) *“Improvement of Local Administration Taxes in South – East Europe; Guidelines on Local Immovable property tax Administration”*

World Bank, (2007) *“Urban Sector Review”*, Albania

World Bank, (2008) *“Albania Policy Note on Local Finance”*