

Property Tax Reform in Serbia

Political Economy

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Introduction

This presentation focuses exclusively on the property tax reform as a part of fiscal decentralisation efforts in Serbia

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Overall political economy environment of decentralisation in Serbia

- Overall decentralisation environment difficult given challenging historical context
- Absence of decentralisation strategy due to the lack of political consensus
- Negotiations between Belgrade and Pristina are also a block factor for further decentralisation process

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Basic Facts

- Until 2006, state tax authority collected property tax
- 100% of property tax revenue collected by the central authorities was transferred to the local level
- Before decentralisation property tax was neglected and underutilised in terms of registration and collection

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Stakeholders (drivers and restrainers)

- Ministry of Finance (Including State Tax Authority)
- Ministry of Public Administration and Local Self Government
- Standing Conference of Towns and Municipalities
- Local Governments
- Citizens
- Donor Community

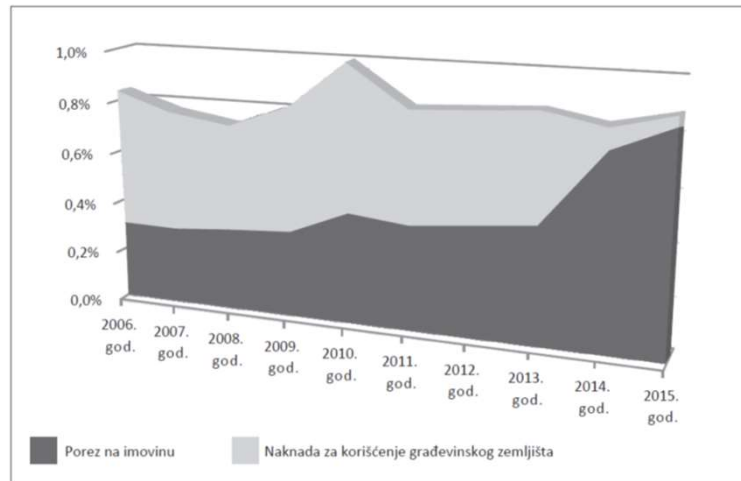
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Incentives for fiscal decentralisation

- Ministry of Finance was not initially interested to decentralise collection of the property tax, however, agreed under advocacy pressure
- Municipal leadership was initially reserved at being in charge of this new tax given since it is a direct tax (dependency on transfers and income tax)
- Legislative changes since 2006 made property tax third biggest revenue for local governments, and prime own source revenue

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Two major own local revenues vs. GDP



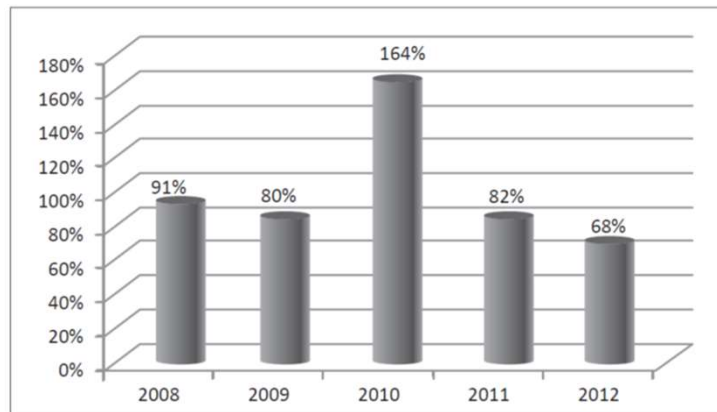
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Challenges at the local level

- Property tax as an instrument of local politics
- Local capacity to collect tax
- Righteousness of paying taxes (scope, natural vs. legal persons 56%-44%, blind passenger effect)

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Property tax collection rate 2008-2012



In 2010, there was a drop in local income due to economic crisis and reduced transfers and elections.

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Features of the property tax

- Direct type of tax (high visibility, high awareness of taxpayers)
- one of the oldest type of taxes
- Local tax and local distribution
- Controversial (high attention and strong emotions)
- Smaller revenue if compared to the share of other taxes in GDP (0.84% of GDP). However, second largest local tax.
- Catalyser of local democratic processes

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Features of the property tax (2)

- Local Governments can decide on the level the local property tax rate up to 0.4% threshold according to the law
- 'Race to the bottom' vs. service delivery
- Strong opposing when having to pay (for example old objects)
- Not popular

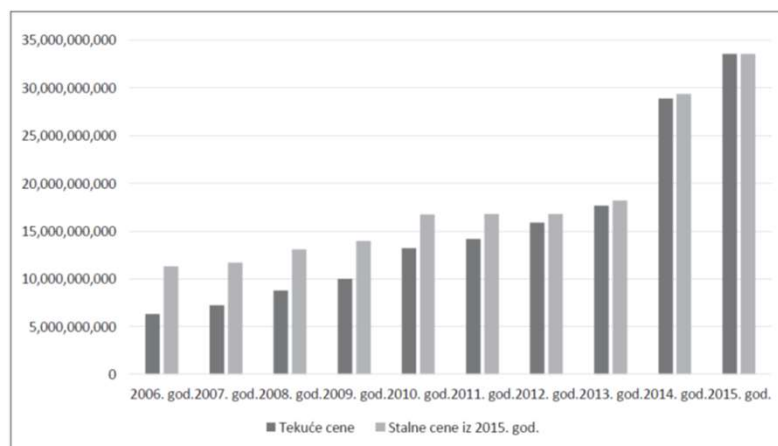
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Parameters for setting the tax base

- Zoning
- Coefficient (multiplying average prices of local real estates)
- Average price of square meters for certain type of property
- Parameters have to do with righteousness of tax enforcement

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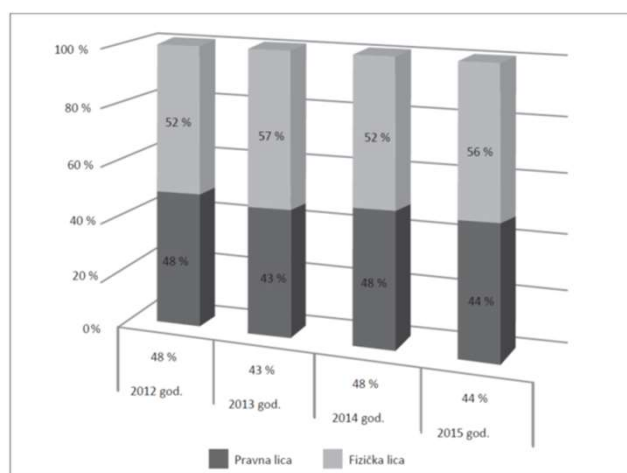
Property tax revenue 2006-2015



In twelve years (2006-2015), the property tax collection revenue has tripled

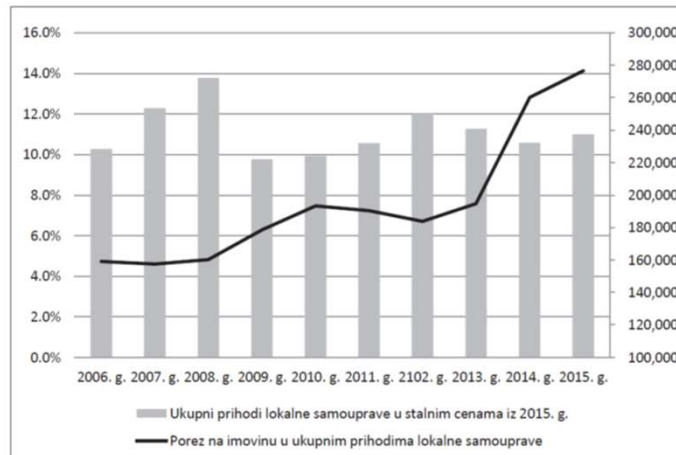
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Share of natural vs. legal persons



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Share of property tax revenue in local income



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Lessons learned

- Before decentralisation, the State Tax Authority was focused on taxes that bring revenue to the national budget. Therefore, there was not enough interest to fully exploit the tax potential.
- Decentralisation of the property tax showed the essence of decentralisation in practice. The revenue has drastically increased since LGs are motivated to collect this tax.
- Understanding of the political economy of the property tax reform coupled with capacity building and technical assistance was the key in having successful fiscal decentralisation of this tax.

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THANK YOU FOR YOUR ATTENTION!