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Property Tax Collection in Kosovo  
The Challenges of Collecting the Immovable Property Tax: The Case of the  
Republic of Kosovo

*An Honors Society Project*

Agnesa Jashari

Advisor: Venera Demukaj, PhD

Second reader: Besnik Bislimi, PhD

July 2020

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## **Abstract**

Property tax is the only tax in Kosovo which can be collected by municipalities as a result of fiscal decentralization. Key services at the local level are expected to be delivered by the revenues collected from the Property Tax, thus, delay or no payment of it impedes the delivery of these key services. The purpose of this project was to analyze the property tax collection in Kosovo and the factors that influence it. The analysis has been carried out through a triangular method of a legal overview, descriptive analysis of property tax collection rates, and qualitative analysis of the sources of low collection rates in Kosovo. Property Tax collection rate is still low at 40.46% and has been slowly increasing over the previous years. As to the sources of low collection rates this thesis concludes that the problems concerning property tax collection are of a systemic nature, including improperly designed laws, lack of institutional capacities, interference of politics, and decreasing citizen tax morale. The recommendations following the study are increasing the number of workers in Property Tax Departments, social-welfare oriented policies, enhanced accountability and transparency in local governments, dispersed investment combined with adequate campaigning, and adequately channeled foreign aid resources.

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*To my family:  
This one's for you*

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### *Acknowledgments*

*I would like to express my deepest appreciation to professor Venera Demukaj for her unwavering guidance in writing this thesis project.*

*Special thanks to professor Besnik Bislimi for being the second reader and offering valuable advice in making this research better.*

*Thanks should also go to the Property Tax Department workers of the Ministry of Finance for providing me the necessary data for analysis and the municipal officials of Gjakova, Istog, and Ranilug for offering their invaluable insights.*

*I'd like to thank and acknowledge the assistance of the DEMOS Project staff at Helvetas Swiss Intercooperation in inspiring me to focus on this topic.*

*Many thanks to all my professors at RIT Kosovo for coping with my assiduous curiosity and for being wonderful role models.*

*Last but not least, thanks to my friends who made the unbearable moments bearable and unforgettable.*

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## The Challenges of Collecting the Immovable Property Tax: The Case of the Republic of Kosovo

*Agnesa Jashari (2020)<sup>1</sup>*

### Introduction

The Republic of Kosovo is a landlocked country located in Southeast Europe in the Balkan peninsula, bordered by Albania, Montenegro, Serbia, and Macedonia. In its recent history, Kosovo used to be part of the Socialist Federal Republic of Yugoslavia and then of the Federal Republic of Yugoslavia until 1999, when the violent conflict known as the Kosovo war erupted (Malcolm, 1999). In the aftermath of the war of Kosovo, the UN established its temporary administration in Kosovo, called UNMIK (United Nations Mission in Kosovo). Afterward, in 2008 Kosovo unilaterally declared independence from Serbia and proceeded its democratic state-building process. During this transitional process, many institutions were reformed and created. One of them was the set-up of municipalities as local government units which preceded the decentralization of local governance.

The decentralization process in Kosovo took three forms, namely, fiscal, administrative, and political decentralization (Dalipi & Shala, 2016). Fiscal decentralization involves the transfer of financial resources (i.e. grants) and tax-raising ability to the local level of government (municipalities). Administrative decentralization confers the transfer of various functions from the central to the local level, and political decentralization gives power and responsibilities to locally elected governments.

Property tax is the only tax in Kosovo which municipalities can legally collect as a result of the fiscal decentralization (Law No. 03/ L-049 on Local Government Finance). The revenues collected from Property Tax are expected to contribute considerably to the municipal budget, which is meant to be destined for the delivery of key services at the local level. Delay or non-payment of these taxes by the owners impedes the delivery of these public services. *The Law on*

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*Local Government Finance* gives the municipalities the legal authority to collect these taxes in Kosovo.

The property tax system in Kosovo came into existence in 2003, when UNMIK initiated the registration of property in Kosovo. UNMIK is a body set up under the authority of the Secretary-General of the UN, to establish an international presence in Kosovo after the 1999 conflict. This body was vested with executive and legislative authority over the territory and the people of Kosovo until Kosovo declared independence. One of the systems that were set-up in Kosovo by UNMIK, thus, was the Property Tax.

Once the Property Tax system was functional and Kosovo declared independence in 2008, the management and administration of this system were transferred to the Ministry of Finance and the municipalities. As a result, the administration process goes back and forth between the central and local levels. The municipalities are responsible for the registration, verification, distribution, and collection of the property tax within their territory. On the other hand, the Property Tax Department of the Ministry of Finance is responsible for collecting the data, calculating the property tax dues, and verifying them (Helvetas Swiss Intercooperation, 2013).

The management of this system is based on two key processes, the *registration and verification of the property* for taxation, and the *collection of the invoiced property tax*. Property registration and verification is an obligation of the municipality (Law No. 06/L –005 on Immovable Property Tax). To ensure the municipalities comply with their obligations, the Ministry of Finance has set forward a minimal verification requirement. Until October 2018 municipalities were obliged to verify at least 1/3 of the property (33%), while as of October 2018 with the newly reformed law, municipalities are obliged to verify at least 1/5 (20%) of the property (Law No. 03/L-204 on Immovable Property Tax; Law No. 06/L –005 on Immovable Property Tax). This change likely occurred because, until 2018, 24 municipalities could not meet their lawful obligations in verifying 1/3 of the property (National Audit Office, 2019). Consequently, many municipalities continue utilizing the same database compiled during the UNMIK administration with minor changes (Helvetas Swiss Intercooperation, 2013).

Verification is then followed by property tax billing and collection, which is the focus of this thesis. Tax billing is an administrative process and is carried out rather adequately within the

system. Nevertheless, tax collection is an issue. According to the legal framework, municipalities have the discretion and responsibility of employing necessary measures that ensure higher tax collection, which is in their ultimate interest. However, all this discretionary freedom was not followed with good enforcement and collection performance by the municipalities. According to the National Audit Office, the total property tax collection rate in 2018 was 47% (2019), which translates into a low rate considering the 90-100% target that the municipalities publicly declare they have achieved (by taking into account penalties and interest) (Helvetas Swiss Intercooperation, 2013). Since only two parties are involved in the collection process—the municipal public officials and the citizens – this low performance implies that there are impediments on either the municipalities, citizens, or both.

Hence, this study aims to analyze property tax collection in Kosovo and the factors that influence it. Moreover, the problems that municipalities face in enforcing the law on immovable property are identified and elaborated. Lastly, the analysis concludes by identifying measures that might result in increasing the tax compliance rate in Kosovo. Although the available legal framework does give sufficient autonomy to municipalities to employ various mechanisms to ensure a higher collection rate, municipalities rarely utilize those mechanisms. Thus, through this study, it is intended to apprehend what impedes the property tax compliance rates in Kosovo and provide recommendations accordingly. This will be accomplished by looking into *What municipalities can do?* (legal analysis), *How they have been performing?* (quantitative analysis), and *Why have they been performing so?* (qualitative analysis).

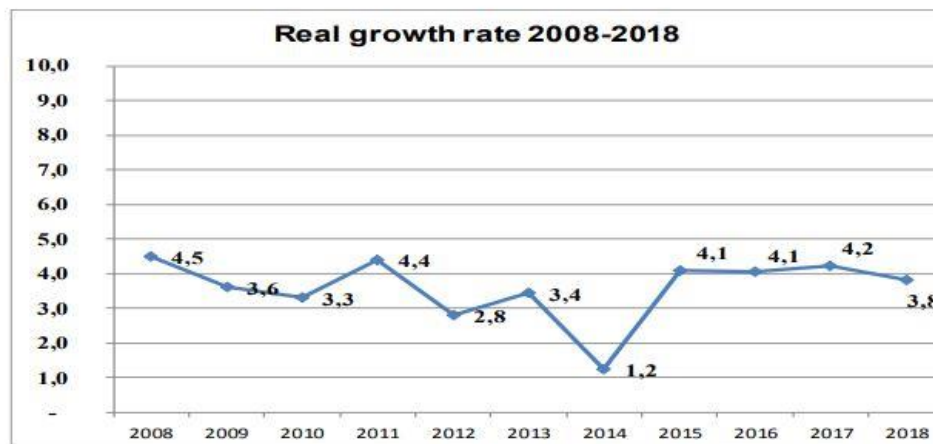
In so doing, the next section of this paper will elaborate on the macroeconomic indicators in Kosovo. Afterward, the determinants of tax collection in developing countries that are suggested in the literature, and property tax research in Kosovo, are presented. Then follows the methodology section. Next, a legal overview of the relevant legislation in the context of Kosovo is given. Subsequently, the analysis of property tax collection in Kosovo is put forward. Sources of low property tax collection are discussed next, followed by the recommendations section. Lastly, the paper is concluded by reiterating the main findings in the conclusion section.

## Macroeconomic Indicators in Kosovo

With a GDP per capita from around 1 thousand USD in 2000 to one of approximately 4 thousand USD (roughly 3,756 EUR) in 2018, Kosovo's economy is one which grew consistently in the post-global financial crisis system, outrunning the Western Balkan average (World Bank, 2019; Kosovo Agency of Statistics, 2019). Although macroeconomic stability is maintained, the economy is highly dependent on remittances and foreign aid (CIA, 2019). The remittances account for 17% of the GDP, while international assistance accounts for 10%. (2019).

A major issue that Kosovo's economy faces is unemployment. The current (TM4 2019) unemployment rate is 25.9% (Kosovo Agency of Statistics, 2019). The 15-24 age group is exposed to the highest rate of unemployment at a level of 49.1% (2019). The unemployment rate among females is 36.6%, compared to males at 22% (2019). Moreover, the labor costs in Kosovo are generally low (CIA, 2019), which has translated into low wages for those who are in the workforce. Resultingly, these economic conditions encourage emigration into countries with better opportunities. Emigration from Kosovo in 2017 was estimated to be around 11,300 (Kosovo Agency for Statistics, 2017). Moreover, as of 2017, it has been estimated that 18% of the population lives below the poverty line, while 5.1% are below the extreme poverty line (World Bank; Kosovo Agency of Statistics, 2019).

*Figure 1. The real growth rate of the economy of Kosovo 2008-2018*



*\*Source: Kosovo Agency of Statistics.*

Although Kosovo has had an impressive record of economic growth over the past years, it has scarcely had an impact on improving the property tax collection rates. According to the Kosovo Human Development Report by UNDP, the high unemployment rates are attributed to the low

demand for workers, which is a result of insufficient economic growth coming merely from remittances, donor assistance, and public infrastructure investments (2016). That is, the economic growth in Kosovo has hardly been achieved from decent economic activity, and it has not been invested in human development to improve life quality as an outcome. The high unemployment rates and the rate of the Kosovo population living in poverty leaves many families with low income which considerably constrains their consumption and their compliance with overall taxes. Thus, these difficult living conditions have undoubtedly had some negative impact on the property tax collection rates in Kosovo.

## Literature Review

Property tax is essentially an act that influences the behavior of the government and society. Taxes have a reducing effect on the income of the citizens, therefore, affecting their consumption behavior. Thus, it is natural for the citizens not to be fond of taxes, and various social factors reinforce that belief. Moreover, the government is also impacted by the overall tax collection, as revenues coming from it, finance government expenditures. Since taxes are such an essential component of government activity, policymakers need to ensure that laws and policies are adjusted to the society's ability to comply. Hence, various determinants need to be taken into consideration by the government and the society in regard to tax collection.

## Determinants of Tax Collection in Developing Countries

Various factors that influence the collection of taxes generally are also valid in the case of property tax. When it comes to tax collection in the literature, there is a distinction between developed and developing countries. Thus, considering that Kosovo is a developing country, the review is going to consist of tax collection determinants in developing countries. It is noteworthy that the available research regarding developing countries is considerably less than that of developed countries.

The level of tax collection and its composition have been long discussed with insights from various perspectives. Di John elaborates on tax collection from three disciplines, namely, *economy*, *political economy*, and *administration* (2006). Firstly, according to the economic approach, the determinants of the level of tax collection are economic variables such as production, income, alternative resources such as transfers or debts, and the level of urbanization or size of the

agricultural sector (Hinrichs, 1966; Lotz & Morss, 1970). Hence, economic indicators have the capacity to mark the potential or the limits for tax collection. Nevertheless, this approach is not sufficient in explaining why countries, states, or municipalities with similar economic variables have different levels of collection. That is why incorporating political economy is important in explaining the complexity of political and social processes taking place in the background of the level of tax collection of a government.

Secondly, the political economy approach begins by considering taxes as a political problem. It is considered as such because taxes are unpopular by nature, thus, they require reaching a consensus between the government and the society (Gutiérrez, 2018). That is why factors such as the power of interest groups are emphasized since they do explain the type and level of tax collection. The function of the interest groups in a society is usually to limit or modify the options of others in the name of pushing for their alternatives, thus, power is what defines the way resources are extracted from the state. This brings Best to arguing that the tax structure of a country reflects the distribution of power in society since those who enjoy greater power have a greater influence on the state and the tax policy as a result (1976).

Thirdly, the administrative approach considers that the low revenue is impacted by the lack of the institutional capacity of the authorities (Bird & Jantscher, 1992; Tanzi, 2000; Burgess & Stern, 1993). Institutional capacity refers to “the ability to perform tasks in an effective, efficient and sustainable way” (Grindle & Hilderbrand, 1995, p. 34). Whereas the process of building institutional capacity emphasizes the process component, namely, the skills or mechanisms that are necessary for the government to accomplish its tasks. Some of these mechanisms are the development of management structures, the development of human resources, the development of support functions with the technology of information and communication, and the legal and institutional framework (Gutiérrez, 2018). A weak administration, in this case, is one that has little experience, inadequate accounting, insufficient information, and control systems. Hence, a weak administration is one of the reasons for low tax revenues. From this perspective, it is emphasized that the efficiency and effectiveness of governments to collect taxes is crucial.

A study conducted by Gutiérrez on the level of property tax collection in Mexico finds that institutional capacity and political considerations are the factors that explain the level of tax collection (2018). Further, Gutiérrez finds that the greater the institutional capacity, the greater the

collection of the property tax. She argues that mayors, treasurers, and directors of cadastre are not generally inclined towards increasing rates, nor verify the properties since they judge such acts are going to come at a political cost.

Nevertheless, when the motivation to enforce taxes is there, Ortega, Lucas, and Sanguinetti suggest that governments need to focus on increasing incentives in the overall tax morale (2016). Through a regression analysis run on the data from 17 cities in Latin America, they find that there is a positive and significant correlation between government performance and willingness to pay taxes. Thus, they concluded that when governments intend to increase tax revenues, besides focusing on the coercive measures only, they can also employ measures that increase the tax morale as an effective measure. Coercive measures refer to more regulations, requirements, auditing, sanctioning, etc., while the tax morale usually encompasses aspects of moral rules and sentiments that make citizens comply with their tax obligations (2016).

The morale of the citizens to pay taxes is influenced by two major factors, namely, their personal perception and the cycle of reciprocity (Ortega, Ronconi, & Sanguinetti, 2016). Their personal perception is translated as the citizen's responsibility towards the society and the government, while reciprocity is translated as the opposite (the responsibility of the society and government towards the citizen). Culture, social norms, moral rules, education, and sentiments, are some of the factors that shape the internal personal perception of the citizens. On the other hand, reciprocity is influenced solely by the performance of the government and society. Firstly, reciprocity of the citizen towards the government happens when there is an impression the government is not doing a good job, meaning that its resources are not being used to the benefit of the individual. Consequently, the citizen will be disincentivized from paying taxes, since they will not benefit from it. Secondly, when the citizen is under the impression that the society is evading taxes, the individual realizes that their individual contribution is going to be irrelevant to the state revenue, thus, they are going to be inclined to evade, as well.

When it comes to improving the administrative aspect of tax systems, Basri, Felix, Hanna, and Olken, consider that changes in the traditional tax administrations and tax rates might result in considerable increases in revenue (2019; Gunn, 2019). They reach this conclusion by analyzing the case of the 2009 tax reforms in Indonesia. They noted that administrative changes such as specialization of tax departments and increasing the staff-to-taxpayer ratio considerably increased

revenues. These types of measures affected overburdened tax workers which could only go after large corporations when collecting taxes, thereby causing an ‘*enforcement tax effect*’ regarding those corporations. The ‘enforcement tax effect’ refers to the state where an overburdened tax worker only goes after entities whose tax obligations are higher when compared to the tax obligations of the others. Consequently, in this situation the tax worker turns a blind eye towards the entities with fewer tax obligations, increasing the likelihood of them evading taxes. Considering this effect, Indonesia has eased the burden of its tax workers by increasing the number of staff.

Additionally, the precondition for higher tax revenues in developing countries is a more legitimate and responsive state (Bird, Martinez-Vazquez, & Torgler, 2004). While the conventional method of taxation emphasizes the supply side, namely, development (in terms of GDP growth), openness, economic structure, and the region; these authors suggest that the demand factors, such as the social institutions, also have a significant impact on tax determination. Improved social institutions are discussed in the aspect of *enhanced rule of law* and *reduced corruption*, while the considered determinants are the *government’s accountability, stability, absence of violence, effectiveness, respect for rule of law, and control of corruption*.

Lastly, Gupta studies the principal economic determinants of tax revenue efforts in developing countries (2007). Through econometric analysis, the determinants that are significant under this study are GDP per capita, trade openness, agriculture share in GDP, and foreign aid. Other contributing factors are political stability, corruption, etc. Per this study countries that have a higher GDP, thus, perform better on tax collection. International trade also affects the level of tax revenues depending on how much liberalized in terms of trade a country is (export, import) whether there are barriers (quotas, tariffs, etc.). Foreign aid is significant in improving the tax revenues in a country if the aid is used productively towards particular causes.

In the case of Kosovo, foreign aid is expected to play a positive role since many donor organizations are involved in the design and the implementation of fiscal decentralization in general, and the property tax system in particular. Some of these organizations are USAID (United States Agency for International Development), GIZ (German Society for International Cooperation), SDC (Swiss Agency for Development and Cooperation), and SIDA (Swedish International Development Cooperation Agency). SIDA has directed aid specifically towards the

property tax system since 2006. The Swedish Tax Authority has assisted the Kosovo institutions in increasing the property tax collection ever since. Their involvement was comprehensively organized into five processes, namely, taxation, surveillance, appraisal, collection, and supporting processes (SIDA, 2014).

### Current Research on Property Tax in Kosovo

Asllani provides an analysis of the property tax system until 2006 (2010). The author finds that the contribution of the overall collected property tax in the GDP in the period of 2003-2006 is respectively, 0.15%, 0.24%, 0.3%, and 0.33%. He, moreover, considers that the implementation of the property tax faced challenges in terms of lack of updated field information from the cadastre, unclear addresses, insufficient employees, and difficulties of finding a method to calculate amortization.

Additionally, Lëvizja FOL (Eng: SPEAK Movement) has published a report on the success of property tax collection in Kosovo for 2012 (2014). Property tax, on average, made up for 3.94% of the municipal budget in 2012. It is concluded in this report that the management and collection of property tax are unfavorable which necessitates more commitment by the municipalities. The analysis estimated that the tax collection level is around 40% for all the 22 municipalities considered. The authors raised concerns about increasing debts due to the accumulation of unpaid dues and inadequate management of the property tax system.

Asllani and Grima give another overview of the Property Tax system in Kosovo until 2019 (Asllani & Grima, 2019). They outline that the tax rate for residencies is low while it is considerably higher for commercial or industrial activities. Additionally, the authors discuss the property tax administration and they consider that costs incurred by the property tax system are relatively high considering the low collected revenues and the low number of employees.

## Methodology

This analysis is conducted through a triangular method. Firstly, the legal framework pertaining to property tax is reviewed. Then, an analysis of property tax compliance rates is conducted through descriptive statistics. Lastly, the sources of low collection rates are discussed through qualitative data collected through semi-structured interviews.



The legal overview examines the prior and existing laws that have affected the property tax collection rates in Kosovo. Firstly, the local government competences are discussed. Afterward, the UNMIK (United Nations Interim Administration in Kosovo) regulations that were the foundation of the system of Immovable Property Tax in Kosovo, with an elaboration of its background and rationale, is presented. Subsequently, the *Law No. 03/L-204 on Immovable Property Tax* of 2010 (LIPT of 2010) is put forward. Then, the impact of the *Law No. 05/L-043 on Public Debt Forgiveness* (LPDF) is elaborated from the perspective of property tax. Lastly, the *Law No. 06/L-005 on Immovable Property Tax* of 2018 (LIPT of 2018) is explained.

Once the local government competences regarding Property Tax are elaborated, a quantitative analysis using primary data on property tax collection is conducted. This descriptive statistical analysis examined the rates of taxation, trends of property tax collection, the composition of the collected property tax, and the impact of debt forgiveness on property tax collection. The analysis is conducted for each municipality in Kosovo from 2015 through 2018 that levies property taxation. The raw data for this analysis has been made available from the Property Tax Department of the Ministry of Finance of the Republic of Kosovo. The data for each municipality was made available, except for the data for four Serb-majority municipalities located in the northern part of Kosovo, which was not available neither to the Ministry.

Subsequently, a qualitative analysis is conducted to provide context as to the level of Property Tax collection in Kosovo. The data has been gathered through a round of semi-structured individual interviews and group discussions with municipal officials working in the Property Tax Department. A purposive sample of three municipalities, selected according to the size and ethnic composition criteria, has been used when conducting individual interviews. The first selected municipality was *Gjakova*, representing an Albanian-majority and a big municipality. The second municipality was *Istog*, representing an Albanian-majority and a middle-sized municipality. The third municipality was *Ranilug*, representing a Serbian-majority and a small municipality. The table below depicts the area and population composition of these municipalities:

Table 1. Sample municipalities profile

|   | <i>Municipality</i> | <i>Area (km<sup>2</sup>)</i> | <i>Total population</i> | <i>Albanian</i> | <i>Serb</i> |
|---|---------------------|------------------------------|-------------------------|-----------------|-------------|
| 1 | <i>Gjakova</i>      | 586                          | 94,556                  | 87,672          | 17          |
| 2 | <i>Istog</i>        | 454                          | 39,289                  | 36,154          | 194         |
| 3 | <i>Ranilug</i>      | 77.62                        | 3,866                   | 164             | 3,692       |

*Source: OSCE Municipal Profile 2018*

During October 2019, group discussions have taken place as part of Property Tax capacity building training delivered by the DEMOS (Decentralization and Municipal Support) project, implemented by Helvetas Swiss Intercooperation in Kosovo. Five municipalities were present in this group discussion, namely, Gjakova, Suhareka, Prizren, Peje, and Istog. The information from these interviews is presented in the discussion section.

The triangular method provides a comprehensive approach in discussing the level of property tax collection. Since the theory behind taxation encompasses various determinants in explaining the level of tax collection, it is considered that such an approach is necessary to answer some key questions on the municipality performance in property tax collection in Kosovo. The legal review offers the background on *what* the municipalities can do and the mechanisms on which the municipalities can operate, the descriptive statistics offers insight as to *how* municipalities have been performing, and the information collected through in-depth interviews and discussions with local officials provides an understanding as to *why* such performance. In so doing, this analysis provides a holistic view of various factors that have been affecting the tax collection performance of Kosovo municipalities. Furthermore, these types of academic analyses on property tax and local governance in Kosovo are scarce, thus, this paper will provide insightful information for future research.

## Local Government Competences in Kosovo

According to Chapter X, Article 123 of the Constitution of the Republic of Kosovo “the right to local self-government is guaranteed and regulated by law” (The Constitution of the Republic of Kosovo). Municipalities are the units of local self-government in Kosovo, thus, to ensure better services for the citizens, various competencies are transferred from the central government to the municipalities (Law No. 03/L-040 on Local Self Government). Consequently, municipalities exercise own competencies, delegated competencies, and enhanced competencies.

Own competencies refer to the exclusive powers of the municipality to practices that concern their local interests in line with the standards and legislations in power. These competencies include areas, such as:

- Local economic development
- Local environmental protection
- Local emergency response
- Provision of education up to secondary education
- Provision of primary healthcare
- Provision of social welfare services
- Tourism
- Cultural activities

Delegated competencies refer to responsibilities that are passed on from the central authority to the local one (Law No. 03/ L-049 on Local Government Finance; Law No. 03/L-040 on Local Self Government). For the fulfillment of these competencies, the government shall provide the municipalities with the necessary funding. These competencies include:

- Cadastral records
- Civil registries
- Registration of the voters
- Registration and licensing of businesses
- Distribution of social assistance payments
- Forestry protection

Enhanced municipal competencies refer to certain municipalities in Kosovo having greater competencies in the areas of education, health, cultural activities, and selection of the local police. The exercise of these responsibilities is monitored by the central government. The municipalities of North Mitrovica, Graçanica, and Shtërpcë, are given enhanced competences in secondary healthcare. The municipality of North Mitrovica is given enhanced competencies in university education, whereas all the Serb majority municipalities are given competencies in exercising their cultural affairs and in participating in the selection of the local policy commanders (Law No. 03/L-040 on Local Self Government, Art. 19-23).

To accomplish their competencies, municipalities are entitled to financial autonomy (Law No. 03/L-040 on Local Self Government, Art. 2). The sources of revenue for the municipalities are:

- Own source revenues
- Operating grants
- Enhanced competences grants
- Delegated competences grants
- Financial assistance coming from the Republic of Serbia
- Municipal borrowing

Own source revenues include:

- Municipal taxes and fees
- Rents on municipal property
- Revenues from selling municipal assets
- Revenues from activities owned wholly or partly by the municipality
- Interest on municipal deposits
- Grants or donations from foreign governments or organizations (except from the Republic of Serbia)
- Other categories of revenues designated as own source

Thus, municipalities have the authority to tax, however, this authority is limited on immovable property. According to UNMIK Regulation 2003/29 and the Law on Local Government Finances, municipalities have the authority to collect taxes on immovable properties within its municipal borders.

## Property Tax under UNMIK Regulation 2003/29

UNMIK was responsible for setting up democratic institutions and systems in place in post-war Kosovo. The property tax system was one of them, which was set-up through two UNMIK Regulations, specifically, regulations 2001/23 and 2003/29.

The initiative of setting up the property tax institution started as a pilot project in November 2001, with the purpose of enhancing economic development at the municipal level in Kosovo through supporting municipal budgets (UNMIK Reg. 2001/23, Preamble). Prior to these regulations and projects by UNMIK, two different authorities had imposed taxes related to property. One was the Yugoslav tax administered by Belgrade and the other by the ‘parallel’ system set-up by Albanians during the 90s. The Yugoslav tax base was oriented on assigned property value and family composition, which was billed and collected by Belgrade. On the other hand, the tax executed by the parallel system was a flat-rate payment for every household and business collected house-to-house (Powers, 2004).

The new structure to be implemented with UNMIK considered the historical, political, and institutional systems in place. Various questions had to be answered during this process, namely, what to tax, the tax base weight, the tax level, the tax administration, the competences of included levels of government, and the implementation strategy. To answer the question of what to tax, the administration needed to consider the situation in Kosovo, namely the high number of displaced people, the relocation of cadastral records to Serbia after the war, the occupation of properties and unregistered ownership, and, the existence of socially owned enterprises (Powers, 2004).

Since market value as a tax base was institutionalized in Kosovo during Yugoslavia, the same was applied during the UNMIK administration. The tax level depended on the valuation parameters and was decided based on a set of property classifications. This methodology of valuation was approved in the newly formed municipal assemblies, whereas other aspects, such as family size, were disregarded. Moreover, the valuation of the property was set to be a municipal responsibility. The property was valued depending on the proximity to the center (UNMIK Reg. 2003/29, 2003; 2001/23, Sec. 5).

Tax billing was a responsibility of municipalities, whereas tax collection used to be a responsibility of the central level (UNMIK Reg. 2003/29; 2001/23). UNMIK recognized the complications that might arise with property tax compliance. The collective memory of Kosovars in regard to tax collection was one of non-transparency and oppression. There was also a gap during the period of the war and its aftermath when the citizens of Kosovo did not pay taxes. UNMIK tried to tackle this issue by raising awareness.

Hence, the administration, collection, and the revenues flowing from property tax remained with the municipalities, while the central level (Ministry of Finance) was responsible for overseeing the process and determining the overall tax policy. The support and supervision of the Ministry of Finance were deemed by UNMIK policymakers as a crucial institution in property tax implementation. The final regulation enforced by UNMIK in 2003 remained the basis of the institution of property tax in Kosovo until it was translated into the 2010 Law on Immovable Property (adopted by the Assembly of the Republic of Kosovo).

## Property Tax Under the Law No. 03/L-204 on Immovable Property Tax of 2010

Similarly, the LIPT sets the taxpayer to be the owner or the user of the property. The basis for taxation is the market value of the property. Municipalities can apply tax rates from 0.05% to 1% of the market value of the property (Art. 7). Tax rates depend on the category of the property, which can be:

- *Residential* – property that serves essential habitation needs.
- *Inhabited* – non-commercial property that is used for human habitants.
- *Commercial* – property used for business purposes.
- *Industrial* – property used for manufacturing, production, processing, or storage of goods.
- *Agricultural* – property used for agricultural purposes.
- *Abandoned or uninhabited* property.

Although each municipality has the authority to set the tax rate between the limits of 0.05-1%, the law sets forward that commercial and industrial property shall not be taxed more than 2.5 times the rate of the inhabited property (Law No. 03/L-204 on Immovable Property Tax, Art. 7, par. 3). Exemption from property tax is granted for properties utilized for or by:

- The government of the Republic of Kosovo
- UNMIK
- EU (European Union),
- KFOR (Kosovo Force from the NATO – North Atlantic Treaty Organization Mission)
- ICO (International Civilian Office)

- EULEX (European Union Rule of Law Mission in Kosovo)
- Embassies and consulates
- NGOs (Non-Governmental Organizations)
- Religious institutions
- Protected historical and cultural property.

The exemption is void if the designated property is used for commercial purposes or if there is some type of revenue involved whatsoever (Law No. 03/L-204 on Immovable Property Tax, Art. 8).

While administering the property tax, municipalities are responsible for managing the tax information and registering the data, valuating the property, collecting, enforcing collection, addressing administrative appeals, and tax billing (Law No. 03/L-204 on Immovable Property Tax, Art. 11). Moreover, they are obliged to follow the market value or other changes concerning properties every three to five years (Art. 13). In accordance with this valuation, the billing process is carried out until 31<sup>st</sup> March of each year (Art. 15).

To ensure compliance with the property tax, municipalities can take various measures according to this law. Firstly, no new property registration can occur without proving that the owner does comply with their property tax dues. Secondly, they can hold a lien on a property for which tax is not paid (Law No. 03/L-204 on Immovable Property Tax, Art. 17). Thirdly, they are able to enforce the tax by levy (Art. 18). Fourthly, they are capable of forfeiting a property for which tax is not paid (Art. 19). Fifthly, municipalities can also impose penalties and interest (Art. 20, 21). In the event there is an error or a violation of the rights of the taxpayer, by the municipalities, the law also empowers the taxpayers by giving them the right of administrative appeal (Art. 22).

The mechanism of guidance from the central level, foreseen by the UNMIK administration, is still in place with this law. Municipalities need to be authorized for tax billing by the Ministry of Finance and will be inspected accordingly. The responsibility of enacting other regulations and bylaws, in addition to this law, rests with this ministry too. The fact that this guiding and oversight mechanism between the central and local governments is still existent (Law No. 03/L-204 on Immovable Property Tax, Art. 23, 24), exemplifies that little improvement has been made. Seven

years later municipalities still need guidance from the central level to ensure proper implementation of immovable property taxation.

## Property Tax Under the Law No. 05/L-043 on Public Debt Forgiveness of 2015

Since the tax on immovable property is collected by the government (on the local level) then the accrued debt of not paying this tax is characterized as public debt – debt owed to the government. Thus, the Law No. 05/L-043 on Public Debt Forgiveness adapted in September 2015 applies to outstanding debt from Immoveable Property Tax, as well.

The main objective of this law was the creation of a momentum to fulfill public obligations (Explanatory Memorandum on Draft Law on Public Debt Forgiveness, 2015). Through a policy of debt forgiveness, the government intended to tackle issues related to social welfare, namely, benefiting groups with unstable income. Moreover, another goal of this policy was triggering an overall discipline in carrying out public obligations for both natural and legal persons. Lastly, this law was expected to positively impact government revenues on collecting liabilities that might have not otherwise been collected.

Every citizen of the Republic of Kosovo that had any outstanding debt towards public institutions and enterprises was eligible for debt forgiveness. The debt forgiven pursuant to this law was one corresponding to the period of up to 1 January 2009, given that obligations of the period 1 January 2009 until 31 December 2014 are fully paid (Law No. 05/L-043 on Public Debt Forgiveness, Art. 4, Par. 1.1). The obligation corresponding to the 2009-2014 period was free of penalties, interest, and fines, meaning that the citizens paid only for the accrued principal of this period. This process was legally initiated by an agreement between the citizen and the public entity. After the agreement becomes valid, the payment of the debt had to be carried out within two years for legal persons (entities with legal rights according to the law (Cambridge Dictionary, n.d.)), and within three years for natural persons (living human beings (Merriam-Webster Dictionary, n.d.)). Failure to comply with these terms, also put forward in the agreement, implicated possible legal action towards the person party of the agreement (Art. 4, Par. 1.2).

According to GAP Institute, 568 million euros was the amount of forgiven debt that was present before 2008 and forgiven in 2015 (2018). Regarding the success of this law, they estimated



around 56% of all debts up to 2008 were forgiven, and around 30% in the 2009-2014 period. 10% of the debt to be forgiven from 2000 through 2008 in the Republic of Kosovo was debt owed to the municipalities (a major part of this value was likely debt concerning Property Tax). As to the popularity of this law, GAP conducted a survey from which it resulted that 77% of respondents have assessed it as fair, and 8% as unfair. The main justification behind people deeming it as unfair was that regularly paying citizens were discouraged by the initiative. Nevertheless, 57% of the respondents have considered to not have benefited from forgiveness, while 43% have responded to have.

## Property Tax Under the Law No.06/L-005 on Immovable Property Tax of 2018

The UNMIK Reg. 2003/29 transformed into the 2010 Law on Immovable Property, thus, the content of these two laws was very similar. Many changes needed to be made to the property tax system since these laws were written in 2003, thus, the Ministry of Finance deemed it necessary for a new law to be enacted. Resultingly, the assembly passed the *Law No.06/L-005 on Immovable Property Tax* as of November 2018, to be enforced starting from January 2019.

The government deemed it necessary to reform the property tax system since it considered it is economically and practically reasonable to do so in strengthening the municipalities into financially stable units (Explanatory Memorandum on Draft Law on Immovable Property Tax, 2018). Besides upgrading the legal framework, the government also intended to modernize the collection system of property taxes. In this regard, the government and the municipalities have been assisted by many international entities, such as the SIDA (Swedish International Development Cooperation Agency) supporting the property tax system directly through the ‘Pro Tax 2’ project, USAID (US Agency for International Development) supporting it indirectly through the ‘TEAM’ project, and the SDC (Swiss Agency for Development and Cooperation) through the ‘DEMOS’ project.

Among the goals of the Ministry in upgrading this system were: defining new coercive mechanisms for collecting taxes and protection of the rights and interests of the taxpayers and vulnerable groups (Explanatory Memorandum on Draft Law on Immovable Property Tax, 2018). Resultingly, the 2018 law is considerably more enriched in terms of authorities, procedures, and

measures. For conciseness purposes, only the provisions which are relevant in the aspect of collecting or enforcing the property tax will be elaborated.

Initially, this law clearly defines the responsibilities of payment of the tax. Article 6 of the 2018 Law on Immovable Property specifically assigns the responsibility of carrying out the payment of tax obligations under various cases. For instance, cases of death, co-ownership, co-possession, joint ownership, transferal, or cease of the existence of the legal person. These new provisions have considerably reduced confusion and doubt in terms of the obligations and responsibilities of taxpayers.

In addition, this law has improved the classification criteria. While the 2010 law was vague in terms of property classification, this law establishes various rules and criteria for property classification in various cases. Depending on the practical use of the property, they are classified into agricultural, forest, residential, commercial, industrial, or public property (Law No.06/L-005 on Immovable Property Tax, Art. 8). Depending on the category of the property and the rate scales set forward by this law, the municipalities are able to set their local property tax rates accordingly (Art. 9). The rates per category under this law are as follows:

- For *agricultural property*, tax rates may vary at a scale from 0.15% to 0.5%
- For *forest property*, tax rates may vary at a scale from 0.15% to 0.3%
- For *residential property*, tax rates may vary at a scale from 0.15% to 1%
- For *commercial property*, tax rates may vary at a scale from 0.15% to 1%
- For *industrial property*, tax rates may vary at a scale from 0.15% to 0.8%

The law has been drafted on a citizen-oriented approach, making the information easily accessible. It obliges the Ministry of Finance to publish property taxation related information on its website. Namely, the number of the property, its value, tax value of the current year, unpaid tax obligations, property assessment information, municipality collection performance information (Law No.06/L-005 on Immovable Property Tax, Art. 13, 16). Resultingly, the citizens are kept updated on their obligations and its background process.

Furthermore, this law has introduced new enforcement mechanisms to municipalities. Under Article 30 of this law, following the compulsory payment of the property tax, municipalities and the Ministry of Finance are provided the right to engage enforcement authorities (bailiff

services, executors) to ensure that outstanding liabilities are complied with. This is a powerful tool in the hands of public authorities to ensure compliance with taxes.

Furthermore, taxpayers are fined for failing to meet property tax obligations following this law. In the event the taxpayer does not pay its obligations up to the last day of payment, then they are liable to a fine which is equal to 10% of the unpaid tax (Art. 35). On the other hand, the municipality is obliged to adjust to the requirements of the citizens on the mean of communication of information concerning their obligations, namely, notify them by mail or electronically (Art. 36).

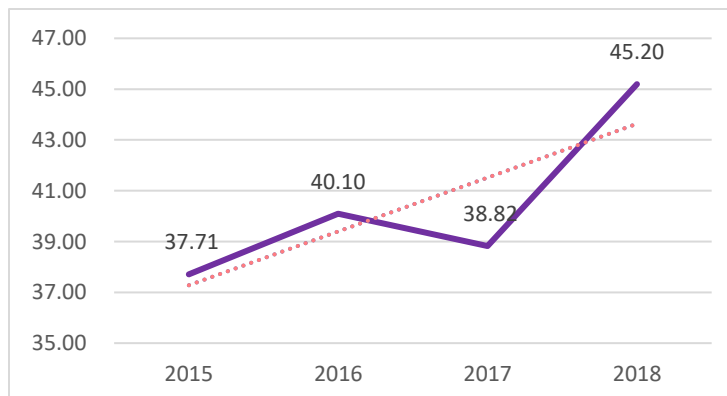
As to the implementation of this law and the financial impact on the municipal budget, this law did not incur other additional costs (Explanatory Memorandum on Draft Law on Immovable Property Tax, 2018). Various platforms and projects were utilized in functionalizing this reformed system, namely, restructuring property tax departments at the central and local level, informing the officers on the new legal procedures and practical mechanisms, and so on.

## Property Tax Collection in Kosovo

The analysis covers the period of 2015-2018, while the 2010 Law on Immovable Property was being enforced. The analysis covers 34 municipalities in Kosovo for which the Property Tax Department of the Ministry of Finance has registered data. In addition, the study includes an analysis of the 2015 Law on Debt Forgiveness, particularly on how this law has affected the overall rate of collection.

The average collection rate has increased by 7.49 percentage points within four years (2015-2018). This percentage corresponds to the ability of municipalities to collect only the current-year invoiced property tax excluding penalties and interest. This improvement of an average of 8.7% has resulted from municipalities incrementally increasing the collection from year to year.

*Figure 2. Average Property Tax Collection Rate 2015-2018*



To begin with, an analysis of comparison between the invoiced and collected property tax shows that the top three performing municipalities are Obiliq, Graçanica, and Junik, while the bottom three are Partesh, Shtërpce, and Malishevë; referring to the table below which is sorted based on the 2018 performance. This method of analysis is used by the institutions in Kosovo, namely, the Ministry of Finance and the National Audit Office, while the municipalities use a simpler method of comparing the overall revenue (collected tax including penalties and interest) with the invoiced values.

*Table 2 Property tax collection rates 2015-2018*

| <i>Municipality</i> | <i>Collection rate<br/>2015 (%)</i> | <i>Collection Rate<br/>2016 (%)</i> | <i>Collection rate<br/>2017 (%)</i> | <i>Collection rate 2018<br/>(%)</i> |
|---------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <i>Partesh</i>      | 18.92                               | 46.05                               | 34.39                               | 23.07                               |
| <i>Shterpce</i>     | 17.82                               | 21.13                               | 19.03                               | 23.5                                |
| <i>Malisheve</i>    | 20.77                               | 24.32                               | 23.67                               | 29.9                                |
| <i>Mitrovice</i>    | 25.56                               | 30.11                               | 28.83                               | 31.59                               |
| <i>Mamushe</i>      | 38.19                               | 26.65                               | 24.67                               | 33.37                               |
| <i>Deçan</i>        | 31.80                               | 30.35                               | 32.22                               | 35.34                               |
| <i>Podujeve</i>     | 29.23                               | 30.07                               | 30.37                               | 35.59                               |
| <i>Dragash</i>      | 34.44                               | 34.14                               | 34.03                               | 36.41                               |
| <i>Novoberde</i>    | 30.15                               | 43.24                               | 35.65                               | 36.56                               |
| <i>Ranillug</i>     | 40.75                               | 45.15                               | 37.84                               | 39.3                                |
| <i>Viti</i>         | 39.82                               | 39.02                               | 37.62                               | 39.36                               |
| <i>Fushe Kosove</i> | 45.81                               | 41.81                               | 43.56                               | 40.28                               |
| <i>Peje</i>         | 39.08                               | 37.58                               | 36.89                               | 41.09                               |
| <i>Kllokot</i>      | 14.60                               | 27.70                               | 25.69                               | 41.73                               |
| <i>Glllogoc</i>     | 36.57                               | 31.62                               | 36.65                               | 42.55                               |
| <i>Kacanik</i>      | 37.60                               | 40.02                               | 38.74                               | 42.82                               |
| <i>Gjilan</i>       | 36.10                               | 39.39                               | 41.20                               | 42.97                               |
| <i>Kline</i>        | 38.82                               | 37.85                               | 38.68                               | 42.99                               |
| <i>Skenderaj</i>    | 32.30                               | 36.29                               | 36.25                               | 43.56                               |
| <i>Rahovec</i>      | 40.70                               | 40.49                               | 38.17                               | 45.15                               |
| <i>Shtime</i>       | 45.38                               | 44.83                               | 35.01                               | 47.11                               |
| <i>Suhareke</i>     | 45.38                               | 48.06                               | 43.63                               | 47.84                               |
| <i>Prizren</i>      | 44.16                               | 41.03                               | 43.20                               | 48.23                               |
| <i>Kamenice</i>     | 39.20                               | 39.88                               | 40.77                               | 48.27                               |
| <i>Gjakove</i>      | 41.80                               | 43.81                               | 43.52                               | 48.44                               |
| <i>Ferizaj</i>      | n/a                                 | 44.67                               | 42.87                               | 48.51                               |
| <i>Prishtine</i>    | 43.36                               | 44.30                               | 46.32                               | 49.32                               |
| <i>Istog</i>        | 51.91                               | 50.82                               | 47.42                               | 51.3                                |
| <i>Vushtrri</i>     | 39.94                               | 42.29                               | 47.65                               | 52.06                               |

|                      |       |       |       |       |
|----------------------|-------|-------|-------|-------|
| <i>Lipjan</i>        | 48.00 | 49.28 | 50.56 | 54.93 |
| <i>Hani I Elezit</i> | 33.94 | 48.93 | n/a   | 55.34 |
| <i>Junik</i>         | 42.87 | 46.55 | 45.40 | 57.35 |
| <i>Graçanice</i>     | 52.74 | 51.73 | 55.23 | 58.08 |
| <i>Obiliq</i>        | 66.64 | 64.16 | 65.45 | 68.82 |

Further, an analysis of the composition of the property tax revenues, reveals that the majority of the municipalities mostly earn their property tax revenues from collecting the residential property tax.<sup>2</sup> A look into the composition of the collected taxes highlights that these revenues come from the tax levied on households. The second category from which the most revenue is collected is commercial property, for which the rates are usually slightly higher. The third category is industrial property, nevertheless, the revenues from this type of property are limited and not present in all municipalities. This due to the considerable absence of industrial activity in the economy of Kosovo.

In this regard, interesting lines can be drawn between municipalities that are top performers and their tax composition. For these municipalities, the highest revenues from property tax are collected from either industrial or commercial categories. Consequently, an ‘*enforcement tax effect*’ was encountered by the owners of property used for industrial or commercial purposes. This because, as suggested in the literature, tax officers tend to go after fewer entities with relatively high portions of the tax.

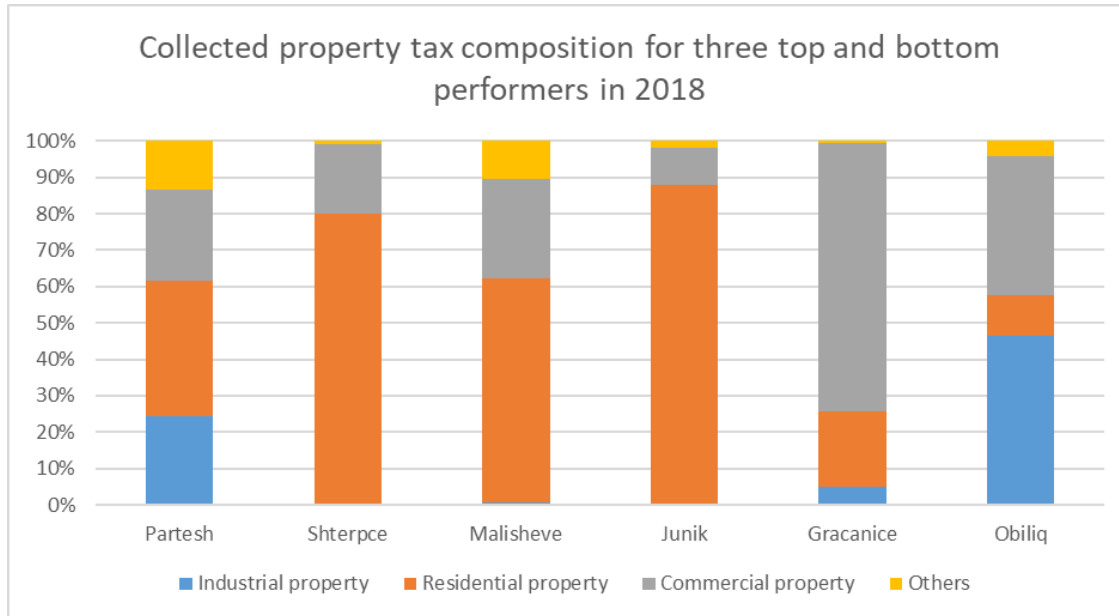
To illustrate, Obiliq is the top performer within Kosovo and its main share of revenue comes from the tax on industrial property. This is the case because the heavy industry of Kosovo is concentrated in the municipality of Obiliq, under whose territory Kosovo’s power plants and mines are located. Subsequently, Graçanica is the second-best performer and its main source of revenue is commercial property. This is another example of an ‘*enforcement tax effect*’ since Graçanica is a neighboring municipality to the capital of Kosovo – Prishtina. A part of the industrial/commercial zone of Prishtina falls under the municipal boundaries of Graçanica, thus, the high rate of collection in commercial properties. However, in Junik almost 90% of the collection comes from households. Although it does not resemble a pure case of enforcement tax effect, Junik

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<sup>2</sup> More information on the specific tax collection composition for each year can be found in the Appendices.

is a small municipality with only around 6000 inhabitants (OSCE, 2018). Thus, it is relatively easy for tax officers to target the households and tax them. Figure 3 below graphically depicts the property tax revenue composition.

*Figure 3. Property tax revenues composition for three top and bottom performers in 2018*



Considering the ‘enforcement tax effect’ is in play, the municipal officials of these municipalities have targeted entities in the industrial or commercial sector in increasing their property tax revenues. This is revealed by analyzing the property tax rates set by the municipalities. To begin with, the rate of the property tax according to the law is to be set by the municipalities on the range of 0.15% - 1%. While most municipalities have kept the industrial and commercial rates slightly higher than the residential rates, municipalities of Obiliq and Graçanica have kept their commercial and industrial property tax rates considerably higher than most municipalities. An incentive behind this decision is the fact that the identified legal persons falling under these categories are already on the radar of the property tax workers. In so doing, they are obliged to comply with the property tax no matter the tax rates. Thus, increasing the rates is directly going to result in increased revenues and meeting the set targets. Below is the table with the property tax rates corresponding to Kosovo municipalities in 2018. The tax rates of preceding years tend to be the same as, or very close, to 2018 rates.

Table 3. 2018 property tax rates for each municipality

| <b>Municipality</b>  | <b>Residential</b> | <b>Commercial</b> | <b>Industrial</b> |
|----------------------|--------------------|-------------------|-------------------|
| <i>Decan</i>         | 0.15%              | 0.20%             | 0.20%             |
| <i>Dragash</i>       | 0.15%              | 0.20%             | 0.20%             |
| <i>Ferizaj</i>       | 0.15%              | 0.20%             | 0.16%             |
| <i>Fushe Kosove</i>  | 0.15%              | 0.22%             | 0.15%             |
| <i>Gjakova</i>       | 0.15%              | 0.20%             | 0.17%             |
| <i>Gjilan</i>        | 0.15%              | 0.17%             | 0.15%             |
| <i>Glllogoc</i>      | 0.15%              | 0.16%             | 0.20%             |
| <i>Gracanice</i>     | 0.15%              | 0.21%             | 0.17%             |
| <i>Hani I Elezit</i> | 0.15%              | 0.20%             | 0.20%             |
| <i>Istog</i>         | 0.15%              | 0.20%             | 0.20%             |
| <i>Junik</i>         | 0.15%              | 0.17%             | 0.15%             |
| <i>Kacanik</i>       | 0.15%              | 0.18%             | 0.18%             |
| <i>Kamenica</i>      | 0.15%              | 0.20%             | 0.18%             |
| <i>Kline</i>         | 0.20%              | 0.20%             | 0.15%             |
| <i>Klllokot</i>      | 0.15%              | 0.17%             | 0.15%             |
| <i>Lipjan</i>        | 0.15%              | 0.30%             | 0.20%             |
| <i>Malisheve</i>     | 0.15%              | 0.15%             | 0.15%             |
| <i>Mamushe</i>       | 0.16%              | 0.18%             | 0.13%             |
| <i>Mitrovice</i>     | 0.15%              | 0.18%             | 0.15%             |
| <i>Novoberde</i>     | 0.15%              | 0.22%             | 0.18%             |
| <i>Obiliq</i>        | 0.15%              | 0.25%             | 0.30%             |
| <i>Partesh</i>       | 0.15%              | 0.18%             | 0.22%             |
| <i>Peje</i>          | 0.15%              | 0.17%             | 0.17%             |
| <i>Podujeve</i>      | 0.15%              | 0.20%             | 0.20%             |
| <i>Prishtine</i>     | 0.15%              | 0.17%             | 0.17%             |
| <i>Prizren</i>       | 0.15%              | 0.18%             | 0.16%             |
| <i>Rahovec</i>       | 0.15%              | 0.17%             | 0.16%             |
| <i>Ranillug</i>      | 0.15%              | 0.16%             | 0.18%             |
| <i>Shterpce</i>      | 0.15%              | 0.25%             | 0.20%             |
| <i>Shtime</i>        | 0.15%              | 0.18%             | 0.15%             |
| <i>Skenderaj</i>     | 0.15%              | 0.19%             | 0.18%             |
| <i>Suhareke</i>      | 0.15%              | 0.20%             | 0.18%             |
| <i>Viti</i>          | 0.15%              | 0.17%             | 0.15%             |
| <i>Vushtrri</i>      | 0.15%              | 0.21%             | 0.18%             |

The composition of the collected property tax reveals the correlation between local economic development and the property tax compliance rate. A higher industrial or business activity within a municipality is manifested, both directly and indirectly, with a higher level of

collection. A higher concentration of industrial or commercial activity within the borders of a municipality, directly translates into higher collection rates for those municipalities, as has been illustrated by the case of Obiliq and Graçanica. On the other hand, higher industrial and commercial activity within a municipality also means more jobs and employment, which corresponds to a higher level of income within households. More income per family means that the households are more likely to comply with the property tax corresponding to their residence. Thus, higher industrial and business activity are prone to indirectly affect the level of property tax collection through residential property tax collection.

Moreover, a look into the population number of the municipalities and the nominal value of collection shows that big municipalities in Kosovo have been performing relatively better than their smaller counterparts. Municipal officials are often inclined to set unrealistic invoicing targets (lower than the real number), so they appear to perform better in this instance relative to other municipalities. This comes as a result of the competitiveness of the municipalities in earning higher ‘performance grants’ given by the central level as a reward for good performance. This ultimately incentivizes the municipal officials in setting these unrealistic targets to earn higher grants and appear publicly as performing their duties satisfactorily. Thus, to overcome the possibility of unrealistic invoicing targets that the municipal officials are inclined to set, we analyze the level of collection relative to the population number and the number of households.

Table 2 reflects the property tax collection rate as a result of comparing the collected and the invoiced values, while table 4 reflects the comparison between the level of collection and the population number. When analyzed from this point of view we can see that the top three performing municipalities, sorted based on the 2018 performance, are Graçanica, Prishtina, and Obiliq. In addition, big municipalities such as Peja, Fushe Kosova, Mitrovica, and Gjilan, and two small municipalities, namely, Shterpce, and Klllokot, are performing better than as shown in table 2.

*Table 4. Property tax collection rate in terms of the population number*

| <i>Municipality</i> | <i>Population<br/>(2019)</i> | <i>2015</i> | <i>2016</i> | <i>2017</i> | <i>2018</i> |
|---------------------|------------------------------|-------------|-------------|-------------|-------------|
| <i>Malisheve</i>    | 58,246                       | 1.01        | 1.21        | 1.23        | 1.52        |
| <i>Mamushe</i>      | 5,972                        | 1.89        | 1.4         | 1.32        | 1.66        |
| <i>Partesh</i>      | 1,732                        | 0.88        | 2.88        | 2.57        | 1.8         |



|                      |         |       |       |       |       |
|----------------------|---------|-------|-------|-------|-------|
| <i>Skenderaj</i>     | 52,953  | 1.07  | 1.25  | 1.56  | 1.86  |
| <i>Decan</i>         | 42,339  | 2.03  | 1.92  | 2.06  | 2.14  |
| <i>Podujeve</i>      | 83,536  | 1.78  | 1.9   | 1.94  | 2.18  |
| <i>Dragash</i>       | 34,395  | 2.16  | 2.18  | 2.25  | 2.26  |
| <i>Shtime</i>        | 27,662  | 2.35  | 2.39  | 1.96  | 2.78  |
| <i>Rahovec</i>       | 58,542  | 2.43  | 2.53  | 2.52  | 2.93  |
| <i>Viti</i>          | 48,123  | 2.95  | 2.94  | 2.98  | 3.22  |
| <i>Glllogoc</i>      | 61,572  | 2.46  | 2.21  | 2.6   | 3.27  |
| <i>Ranillug</i>      | 3,788   | 4.02  | 4.41  | 3.75  | 3.44  |
| <i>Kacanik</i>       | 34,627  | 3.09  | 3.33  | 3.18  | 3.52  |
| <i>Kline</i>         | 40,614  | 3.12  | 3.09  | 3.3   | 3.85  |
| <i>Mitrovice</i>     | 69,956  | 3.31  | 3.64  | 3.63  | 4.07  |
| <i>Istog</i>         | 40,961  | 4.2   | 4.27  | 4.18  | 4.58  |
| <i>Novoberde</i>     | 7,175   | 3.28  | 5.3   | 4.7   | 4.69  |
| <i>Kamenice</i>      | 29,546  | 3.95  | 4.03  | 4.27  | 4.97  |
| <i>Junik</i>         | 6,398   | 3.1   | 3.81  | 3.78  | 5.26  |
| <i>Hani I Elezit</i> | 10,063  | 3.37  | 4.81  | n/a   | 5.71  |
| <i>Vushtrri</i>      | 64,123  | 3.72  | 4.09  | 5.01  | 5.89  |
| <i>Suhareke</i>      | 59,649  | 5.43  | 5.91  | 5.62  | 5.97  |
| <i>Prizren</i>       | 194,331 | 5.05  | 4.82  | 5.16  | 5.99  |
| <i>Peje</i>          | 99,701  | 7.43  | 7.55  | 7.69  | 8.27  |
| <i>Gjakove</i>       | 95,475  | 6.78  | 7.22  | 7.38  | 8.54  |
| <i>Gjilan</i>        | 79,382  | 7.14  | 7.96  | 8.68  | 9.16  |
| <i>Fushe Kosove</i>  | 39,642  | 7.34  | 7.07  | 7.97  | 9.16  |
| <i>Lipjan</i>        | 58,247  | 7.06  | 7.3   | 7.75  | 9.19  |
| <i>Ferizaj</i>       | 105,403 | n/a   | 7.98  | 8.01  | 9.26  |
| <i>Shterpce</i>      | 6,710   | 6.32  | 8.12  | 8.18  | 10.91 |
| <i>Klllokot</i>      | 2,707   | 3.1   | 7.58  | 7.29  | 11.94 |
| <i>Obiliq</i>        | 18,847  | 11.35 | 11.59 | 13.52 | 13.94 |
| <i>Prishtine</i>     | 216,823 | 11.65 | 15.03 | 17.78 | 18.43 |
| <i>Gracanice</i>     | 12,139  | 23.17 | 24.73 | 28.2  | 32.91 |

A comparison between these two tables highlights the administrative issues that the municipalities in Kosovo have. For some medium and small municipalities, the incentives pushing for unrealistic invoicing targets, as explained above, were real. On the other hand, big municipalities have set realistic invoicing targets and they appeared to perform worse when comparing the nominal invoiced and collected values (as the institutions in Kosovo do). The set of realistic targets only by some municipalities in this type of system, in effect, punishes them for performing genuinely and adequately. This demonstrates an administrative issue within the

municipalities, which further contributes to the low property tax collection levels in Kosovo. As suggested in the literature, a weak administration is one where the authorities have little experience, insufficient information and control systems, and do inadequate accounting. In the context of Kosovo, this can be the result of the big municipalities having better administrative capabilities relative to medium and small municipalities, which were only set-up later with the decentralization process.

Moreover, the main property tax revenue is collected from the residential property category, thus, analyzing the revenues coming from residential properties, in relation to the household number per municipality, is an indicator of which municipalities have adopted better administrative capabilities in tax collection. The analysis is carried out with the number of families as registered in the 2011 census, assuming that at least one residential property corresponds to a family. From table 5 we can see that Prishtina is the best performer with a compliance rate of 50%. Whereas, Obiliq, which came out as the best performer in previous analyses, has a very low compliance rate of approximately 8% in residential property, exemplifying the ‘enforcement tax effect’ discussed previously. Nevertheless, Graçanica, which also was one of the best performers in previous analyses, does perform better than most municipalities in collecting the residential property tax, as well. In this case, Graçanica does not resemble the ‘enforcement tax effect’ because its compliance rate rank does not drastically change from one analysis to another. In addition, the previous attribution of Junik’s performance to its low population number also proves to be the case from this analysis.

*Table 5. Residential property tax collection rates in terms of the household number*

| <i>Municipality</i> | <i>Family no. (2011)</i> | <i>2015 (%)</i> | <i>2016 (%)</i> | <i>2017 (%)</i> | <i>2018 (%)</i> |
|---------------------|--------------------------|-----------------|-----------------|-----------------|-----------------|
| <i>Partesh</i>      | 418                      | 1.51            | 3.57            | 2.65            | 2.77            |
| <i>Ranillug</i>     | 956                      | 7.90            | 7.59            | 7.25            | 5.76            |
| <i>Kllokot</i>      | 510                      | 7.71            | 6.87            | 4.23            | 7.36            |
| <i>Obiliq</i>       | 3,852                    | 5.19            | 5.95            | 6.38            | 7.82            |
| <i>Malisheve</i>    | 6,879                    | 5.83            | 6.55            | 6.89            | 7.97            |
| <i>Skenderaj</i>    | 7,682                    | 4.56            | 5.37            | 7.16            | 8.39            |
| <i>Podujeve</i>     | 13,440                   | 7.12            | 7.80            | 8.11            | 8.51            |
| <i>Dragash</i>      | 6,215                    | 9.56            | 9.78            | 10.06           | 9.69            |
| <i>Glllogoc</i>     | 8,786                    | 8.09            | 7.68            | 8.15            | 10.13           |
| <i>Shtime</i>       | 4,158                    | 9.02            | 9.21            | 7.80            | 10.67           |

|                      |        |       |       |       |       |
|----------------------|--------|-------|-------|-------|-------|
| <i>Rahovec</i>       | 8,221  | 10.68 | 10.94 | 10.83 | 10.80 |
| <i>Mamushe</i>       | 566    | 11.38 | 8.96  | 8.64  | 10.83 |
| <i>Decan</i>         | 5,887  | 11.34 | 10.71 | 11.65 | 11.78 |
| <i>Viti</i>          | 7,520  | 12.08 | 11.91 | 11.83 | 12.36 |
| <i>Mitrovice</i>     | 13,173 | 11.69 | 12.33 | 12.50 | 14.10 |
| <i>Istog</i>         | 6,741  | 12.16 | 12.95 | 13.53 | 14.32 |
| <i>Kacanik</i>       | 5,547  | 12.36 | 13.43 | 13.40 | 14.39 |
| <i>Lipjan</i>        | 9,497  | 26.36 | 13.75 | 14.02 | 15.31 |
| <i>Kamenice</i>      | 6,419  | 12.36 | 12.68 | 13.96 | 15.68 |
| <i>Ferizaj</i>       | 18,359 | 1.15  | 15.23 | 14.71 | 16.36 |
| <i>Kline</i>         | 5,843  | 14.02 | 13.87 | 14.95 | 16.84 |
| <i>Novoberde</i>     | 1,449  | 12.68 | 17.47 | 18.07 | 16.88 |
| <i>Prizren</i>       | 29,625 | 17.51 | 16.97 | 16.65 | 18.91 |
| <i>Vushtrri</i>      | 11,866 | 11.53 | 13.03 | 15.71 | 19.12 |
| <i>Hani I Elezit</i> | 1,452  | 14.23 | 14.41 | n/a   | 20.66 |
| <i>Fushe Kosove</i>  | 6,580  | 17.37 | 18.17 | 20.77 | 23.85 |
| <i>Suhareke</i>      | 9,145  | 24.82 | 25.94 | 24.86 | 25.44 |
| <i>Peje</i>          | 17,682 | 23.46 | 24.25 | 24.94 | 25.92 |
| <i>Gjilan</i>        | 17,115 | 21.36 | 22.65 | 24.98 | 26.22 |
| <i>Gjakove</i>       | 16,303 | 24.84 | 25.66 | 26.75 | 30.22 |
| <i>Gracanice</i>     | 2,421  | 25.48 | 33.66 | 32.89 | 34.37 |
| <i>Junik</i>         | 770    | 22.79 | 28.40 | 27.61 | 38.48 |
| <i>Shterpce</i>      | 1,485  | 23.96 | 29.24 | 29.73 | 39.39 |
| <i>Prishtine</i>     | 40,528 | 26.64 | 40.40 | 46.12 | 50.45 |

Lastly, the property tax compliance rate is generally low in Kosovo. The average compliance rate in 2018 in terms of the invoiced property tax is 43.6%. The average compliance rate in terms of the population number is 6.6%, while the average in terms of residential property tax collection and the household number is 17.7%. Whichever lens we are considering in terms of property tax compliance rate shows that the collection level is low in Kosovo, as compared to the 100% target.

### The Impact of the Law on Debt Forgiveness

The Law on Debt Forgiveness has been introduced with the purpose of collecting the previous debt that would not otherwise be collected and to incentivize the citizens to have a fresh start with tax compliance. This amnesty has resulted in increasing the municipal revenues in collecting the previous debt to some extent. Table 6 below shows the nominal figures of total revenues from property tax as a result of the amnesty of public debt.

Table 6. Property tax revenues coming from debt forgiveness 2015-2018

| <b>Year</b>                                   | <b>2015</b>  | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|---|--------------|-------------|-------------|-------------|
| <i>Current Year Collection (mln €)</i>        | 9.1          | 10.9        | 11.8        | 13.1        |
| <i>Collection from Previous Years (mln €)</i> | 121.5        | 44.1        | 26.7        | 10.8        |
| <i>Total value collected (mln €)</i>          | <b>130.6</b> | <b>55</b>   | <b>38.5</b> | <b>23.9</b> |

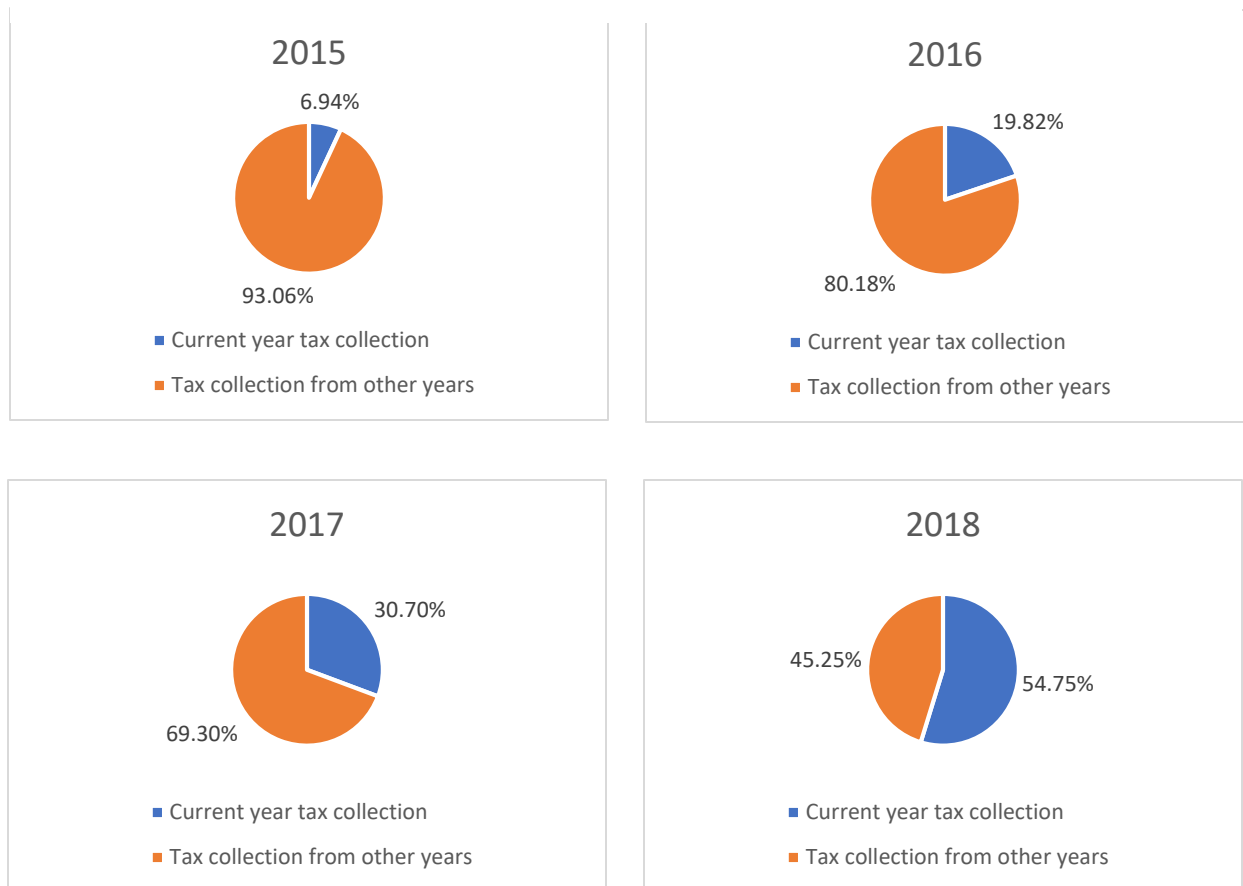
Nonetheless, the overall act had a negative impact on the current year property tax collection rates. Although the municipalities were presumed to collect more as a result of the debt forgiveness, the law has resulted in dropping the current year tax collection rates in 2015 for 9 municipalities and in 2016 for 20 municipalities. This change varied from 2% to 21%. Municipalities that were mostly affected by this law were small and middle-size municipalities. Whereas, of big municipalities, the current year property tax collection rate, has declined only for Mitrovica, Peja, and Ferizaj. Below is table 7 that reflects the relative change in property tax collection from 2015-2018. The grey highlighted cells reflect municipalities that have recorded a negative rate of change in property tax collection.

Table 7 The relative change in property tax collection from 2015-2018

| <i>Municipality</i>  | <i>2015(%)</i> | <i>Rate of change (%)</i> | <i>2016(%)</i> | <i>Rate of change (%)</i> | <i>2017(%)</i> | <i>Rate of change (%)</i> | <i>2018 (%)</i> |
|----------------------|----------------|---------------------------|----------------|---------------------------|----------------|---------------------------|-----------------|
| <i>Shterpce</i>      | 17.82          | 18.57                     | 21.13          | (9.94)                    | 19.03          | 23.49                     | 23.5            |
| <i>Malisheve</i>     | 20.77          | 17.09                     | 24.32          | (2.67)                    | 23.67          | 26.32                     | 29.9            |
| <i>Mamushe</i>       | 38.19          | (30.22)                   | 26.65          | (7.43)                    | 24.67          | 35.27                     | 33.37           |
| <i>Klllokot</i>      | 14.60          | 89.73                     | 27.70          | (7.26)                    | 25.69          | 62.44                     | 41.73           |
| <i>Mitrovice</i>     | 25.56          | 17.80                     | 30.11          | (4.25)                    | 28.83          | 9.57                      | 31.59           |
| <i>Podujeve</i>      | 29.23          | 2.87                      | 30.07          | 1.00                      | 30.37          | 17.19                     | 35.59           |
| <i>Decan</i>         | 31.80          | (4.56)                    | 30.35          | 6.16                      | 32.22          | 9.68                      | 35.34           |
| <i>Dragash</i>       | 34.44          | (0.87)                    | 34.14          | (0.32)                    | 34.03          | 165.38                    | 90.31           |
| <i>Partesh</i>       | 18.92          | 143.39                    | 46.05          | (25.32)                   | 34.39          | (32.92)                   | 23.07           |
| <i>Shtime</i>        | 45.38          | (1.21)                    | 44.83          | (21.90)                   | 35.01          | 34.56                     | 47.11           |
| <i>Novoberde</i>     | 30.15          | 43.42                     | 43.24          | (17.55)                   | 35.65          | 2.55                      | 36.56           |
| <i>Skenderaj</i>     | 32.30          | 12.35                     | 36.29          | (0.11)                    | 36.25          | 20.17                     | 43.56           |
| <i>Glllogoc</i>      | 36.57          | (13.54)                   | 31.62          | 15.91                     | 36.65          | 16.10                     | 42.55           |
| <i>Peje</i>          | 39.08          | (3.84)                    | 37.58          | (1.84)                    | 36.89          | 11.39                     | 41.09           |
| <i>Viti</i>          | 39.82          | (2.01)                    | 39.02          | (3.59)                    | 37.62          | 4.63                      | 39.36           |
| <i>Ranillug</i>      | 40.75          | 10.80                     | 45.15          | (16.19)                   | 37.84          | 3.86                      | 39.3            |
| <i>Rahovec</i>       | 40.70          | (0.52)                    | 40.49          | (5.73)                    | 38.17          | 18.29                     | 45.15           |
| <i>Kline</i>         | 38.82          | (2.50)                    | 37.85          | 2.19                      | 38.68          | 11.14                     | 42.99           |
| <i>Kacanik</i>       | 37.60          | 6.44                      | 40.02          | (3.20)                    | 38.74          | 10.53                     | 42.82           |
| <i>Kamenice</i>      | 39.20          | 1.73                      | 39.88          | 2.23                      | 40.77          | 18.40                     | 48.27           |
| <i>Gjilan</i>        | 36.10          | 9.11                      | 39.39          | 4.60                      | 41.20          | 4.30                      | 42.97           |
| <i>Ferizaj</i>       | n/a            | n/a                       | 44.67          | (4.03)                    | 42.87          | 13.16                     | 48.51           |
| <i>Prizren</i>       | 44.16          | (7.09)                    | 41.03          | 5.29                      | 43.20          | 11.64                     | 48.23           |
| <i>Gjakove</i>       | 41.80          | 4.81                      | 43.81          | (0.66)                    | 43.52          | 11.31                     | 48.44           |
| <i>Fushe Kosove</i>  | 45.81          | (8.73)                    | 41.81          | 4.19                      | 43.56          | (7.53)                    | 40.28           |
| <i>Suhareke</i>      | 45.38          | 5.91                      | 48.06          | (9.22)                    | 43.63          | 9.65                      | 47.84           |
| <i>Junik</i>         | 42.87          | 8.58                      | 46.55          | (2.47)                    | 45.40          | 26.32                     | 57.35           |
| <i>Prishtine</i>     | 43.36          | 2.17                      | 44.30          | 4.56                      | 46.32          | 6.48                      | 49.32           |
| <i>Istog</i>         | 51.91          | (2.10)                    | 50.82          | (6.69)                    | 47.42          | 8.18                      | 51.3            |
| <i>Vushtrri</i>      | 39.94          | 5.88                      | 42.29          | 12.67                     | 47.65          | 9.25                      | 52.06           |
| <i>Lipjan</i>        | 48.00          | 2.67                      | 49.28          | 2.60                      | 50.56          | 8.64                      | 54.93           |
| <i>Gracanice</i>     | 52.74          | (1.92)                    | 51.73          | 6.77                      | 55.23          | 5.16                      | 58.08           |
| <i>Obiliq</i>        | 66.64          | (3.72)                    | 64.16          | 2.01                      | 65.45          | 5.15                      | 68.82           |
| <i>Hani I Elezit</i> | 33.94          | 44.17                     | 48.93          | n/a                       | n/a            | n/a                       | 55.34           |

The amnesty has resulted in disincentivizing the owners in complying with the property tax. In the case of Kosovo, the debt forgiveness has resulted in decreasing the current year tax collection. For three consecutive years after the law has been adopted, the majority of collected taxes were coming from other years rather than the current fiscal year. This effect can be noted in the pie charts below, where in 2018 this effect was finally reverted to current year collection being higher than the revenues from previous years.

*Figure 4. The effect of debt forgiveness in property tax collection*



## Sources of Low Collection Rates in Kosovo

This section brings together the information from the previous analysis and the information gathered from conducted interviews and discussions. Three semi-structured interviews were conducted with municipal officials serving within the Property Tax Department, coming from the municipalities of Gjakova, Istog, and Ranilug. The interviewees were chosen because of their

experience and civil servant roles within their municipalities. The interviews were semi-structured, and the interview questionnaire consisted of 7 open-ended questions. In addition, the group discussion was conducted with the representatives of five municipalities, namely, Gjakova, Suhareka, Prizren, Peja, and Istog. A total of 15 participants were present in this group discussion, with three representatives per municipality. The three representatives per municipality had positions such as Manager of the Property Tax Department, Property Tax Collection Officer, and Cadastral Officer.

The municipal officials consider that the law on debt forgiveness has been inappropriately designed. Property tax officers within municipalities consider that debt forgiveness should target particularly impoverished communities instead. The debt forgiveness as implemented in Kosovo was essentially a late payment of tax liabilities, without paying for penalties nor interest. Thus, owners who live under social assistance and can barely make a living due to tough economic conditions were not served well under this law – since they still were required to pay the previous debt and could not afford it. Although the law was intended to have a social welfare dimension, the law did not achieve its goal. It has targeted each citizen and organization similarly, namely, forgiving the debt for every owner who is willing to be engaged in a contractual obligation with the municipality. By these means, it has not resulted in protecting groups with an unstable income, since they still were not able to cover the reduced obligations.

Another negative impact was disincentivizing the citizens in paying the taxes. The interviewees consider that the debt amnesty has considerably impacted the tax morale of the owners. As a result of the forgiveness, now the owners are inclined to evade taxes since they consider that they will be subject to debt forgiveness again eventually. Moreover, the amnesty has had a pervert effect of discouraging the citizens who pay taxes regularly, since they are being subject to both an enforcement tax effect and a public good effect. Consequently, regular taxpayers interpreted this as a penalization for respecting the law and their obligations as owners.

According to the officials, the lack of institutional capacity is one of the main issues in hindering collection. Property tax departments are usually understaffed, which hampers the performance of this department in general. Consequently, the taxpayer to tax-worker ratio is high which results in incurring the enforcement tax effect, as discussed previously. Moreover, these departments also do not have the adequate tools in performing their tasks efficiently.

Based on the interviews, the institutional capacity is further stalled by the inadequacy of politically appointed directors of budget and finance. These directors are politically appointed by the Mayor (who is elected) and they are usually uninformed on the dynamics of the property tax. These directors have a four-year mandate, thus, right when they get around to gaining experience on this matter, they are replaced by another individual. Consequently, this is an ongoing cycle in the administration of municipalities. For municipal officials in these departments who usually are skilled and qualified, it means that they will be subject to limitations by their supervisors (directors) in improving the conditions. There are times when these limitations and obstructions are a result of ignorance and at times it is a result of political motives.

As suggested in the literature, the municipal officials consider property tax to be a political problem to some extent. Thus, political motives have been identified as a factor that impedes the level of property tax collection, as well. In the case of Kosovo, the Mayor is elected through direct votes of the citizens and their staff is appointed by the Mayor. This implies that local politics in Kosovo is considerably influenced by interest groups. Correspondingly, while taxes are not popular among the citizens and the business community, politicians and officials usually avoid imposing taxes and enforcing them. In the context of Kosovo, as explained by the interviewed officials, property taxes are never brought into political discussions or campaigns, unless there is some political leverage. Thus, once the momentum of pre-electoral campaigning has passed, this matter goes out of the issue-attention cycle until another election.

Additionally, politics interferes with the allocation of revenues coming from property tax, according to the interviewees. For political leverage purposes, mayors and executive officers usually are inclined in investing in areas where their voters are concentrated, although the citizens in the area might not be regular taxpayers. Consequently, this raises the cycle of reciprocity issue on the side of citizens. The ones who are not from the areas where the investments are carried-out are going to act reciprocally to the government since they sense that their contributions to government revenues are not being returned to them. Alternatively, the evading owners from the areas where investment has been made, are going to act reciprocally to the society, since they sense that everyone is evading taxes.

The reciprocity cycle combined with inadequate policies evolves into an issue of lack of awareness on the benefits of paying the property tax and other taxes. Since the citizens witness



various negative political phenomena such as favoritism, clientelism, nepotism, corruption, etc., they are inclined to be unconvinced by the campaigning that has taken place in explaining these benefits. Moreover, neither the citizens nor the civil society are able to hold these stakeholders accountable due to no transparency on investment information coming from property tax revenues.

The municipal officials also note dubiety on the effectiveness of foreign aid on the property tax sector. Various international entities (Swedish, American, Swiss, German, etc.) have been involved in this matter in the context of Kosovo. Each of these countries has different cultural values and norms which are reflected in their relatively well-set taxation system. Since the property tax systems prove to be efficient in these developed countries, various projects have a goal of transferring the same systems to Kosovo. The officials have noticed major discrepancies between the cultural and social norms in Kosovo and the policies that have been carried out in regard to the institution of property tax. Consequently, the officials consider that importing foreign property tax measures in Kosovo does not seem to be as effective as they are in their originating countries.

As to the legislation that ensues these policies, the interviewed municipal officials consider that the 2018 Law on Immovable Property can hardly ensure higher collection. Although the law grants greater enforcement mechanisms for tax collection, the municipal officials are concerned that it is not socially acceptable to impose such strict mechanisms. That is why, it is likely the newly introduced enforcement mechanisms are not going to be employed at all, since the officials consider that the law itself is not the problem. According to them, the problem is rather of an economic, social, and political nature. Therefore, these concerns are a typical example of systems, policies, and legislation not being reflective of the society in which they operate.

Overall, the literature and the information gathered from the interviews suggest that the impediments to the property tax system are ones caused by other root problems in the overall economy, politics, and public administration in Kosovo.

## Recommendations

Following the holistic analysis of property tax collection in Kosovo, the recommendations following from this analysis are ones that merely contend with the system itself and its root problems, rather than the property tax system itself. The recommended acts are as follows:

**Increase the number of professionals in Property Tax Departments.** One of the main problems identified by the analysis is the presence of an ‘enforcement tax effect’ which is usually caused by overworked employees. Thus, increasing the number of educated and experienced employees in the Property Tax Departments is going to ease the burden of the currently employed staff.

**Social-welfare oriented policies.** Considering the economic and human development of Kosovo, there is a need for policies that require more government action. The laws, that the Government and the Assembly pass, need to be designed in such a way that it protects the disadvantaged communities. Acts such as the Law on Debt Forgiveness or the Law on Immovable Property need to incorporate factual information about the society in Kosovo and ensure that functioning protection is granted to the communities that need it.

**Enhanced accountability and transparency.** Various negative factors (favoritism, clientelism, corruption, nepotism, etc.) have an excessive impact on the cultural understanding of public institutions. These factors are supplemental to the historical insecurity that the communities in Kosovo have had towards public institutions. Thus, better performing local and central governments in terms of accountability and transparency are crucial in tackling these systemic challenges. Enhanced accountability and transparency are going to tackle the demand factor (citizens, civil society, business sector) issues as well, by making them more engaged and active in public policy matters.

**Dispersed investment combined with adequate campaigning.** Issues resulting from the cycle of reciprocity are treated by making every citizen feel like the government is doing something for them. That is, local governments need to be closer to the citizens and prioritize investment in areas and communities that have an immediate need. These citizen-oriented policies of local governance, when combined with proper campaigning, are going to be beneficial for both parties (citizens and campaigning politicians) since they ultimately have mutual interests.

**Adequately channeled foreign aid resources.** Kosovo is a country where considerable amounts of foreign aid resources have been directed to. These resources are going to be effective in strengthening the institutions of Kosovo if they address the real issues that the government of Kosovo and its citizens are confronting. A means of identifying the real problems is incorporating

citizen participation in decision-making. A combination of the expertise of foreign professionals, the institutional capacity of government workers, and the insights coming from the citizens are going to provide a better problem-solving platform. In so doing, the incoming resources will be used to treat the problems of the citizens and the government of Kosovo effectively and adequately.

## Conclusion

Decentralization in Kosovo delegates the municipalities in Kosovo the responsibility of collecting the Tax on Immovable Property. Besides the central government grants, the revenue from property tax takes a considerable share of the municipal budget. Since these resources are expected to be used to offer better services to the citizens, failure of the citizens to comply with it impedes these services. Additionally, the economic determinants in Kosovo suggest that it is difficult for the society in Kosovo to comply with various taxes due to low income, high unemployment, the presence of poverty, etc. Thus, considering the importance of property tax revenues, this thesis focuses on identifying the challenges of property tax collection in Kosovo.

The literature suggests that there are various factors at play in determining tax collection in developing countries. Initially, the issue itself can be regarded from an economic, political economy, and administrative perspective. From an economic point of view, factors such as production, income, and growth, play an important role in the compliance rate. The political economy perspective regards taxes as a political problem, thus, suggests that they are not famous among citizens and politicians. Research suggests that a precondition for high tax collection is a legitimate and responsive government. The administrative perspective emphasizes the institutional capacity of the governments and the issues that a lack of capacities can cause in tax collection. Research finds that the ‘enforcement tax effect’ which is a result of a lack of administrative capacity has a big impact on tax collection. On the other hand, from the citizen perspective, the tax morale is a key aspect of tax compliance. In addition, property tax research in Kosovo suggests that there is a lack of institutional capacity on the local level and that more needs to be done by the municipalities in enforcing property tax collection.

A triangular method of legal, quantitative, and qualitative analyses is used to draw the discussion of this thesis. This method provides a holistic approach to the issue of low property tax collection in Kosovo. The analysis has been conducted by looking at what the municipalities can do, through a legal analysis; how they have been performing, through a quantitative analysis of

primary data gathered from the Ministry of Finance; and why they have been performing so, through analysis of qualitative primary data gathered from in-depth interviews and group discussions with municipal officials.

The legislation in Kosovo has gone through some changes, starting from UNMIK regulations, to the 2010 Law on Immovable Property, and lastly the 2018 Law on Immovable Property. The implementation of these laws has resulted in a slowly increasing trend of property tax collection in Kosovo, from 37.71% in 2015 to 45.2% in 2018. The analysis uncovers that most revenues come from taxing households on residential properties. Nevertheless, this is not the case for top-performing municipalities in Kosovo, which earn more from industrial or commercial properties. These top-performing municipalities have also levied higher tax rates for industrial and commercial properties, than the rest of the municipalities. This exemplifies an ‘enforcement tax effect’ being in play in property tax collection in Kosovo. It also reveals the high correlation between local economic development and property tax compliance rates, where higher economic development leads to higher property tax collection.

In regard to institutional capacities, bigger municipalities have performed better than their smaller counterparts. This performance is usually not reflected by common analyses that the institutions in Kosovo conduct, due to some municipalities setting unrealistic invoicing targets. These administrative issues have been hindering property tax collection.

The overall compliance rates resulting from the analyses show that there is a low collection rate in comparison to the 100% target. The 2018 average compliance rate of invoiced and collected property tax (excluding penalties and interest) is 43.6%. The average compliance rate of the collected property tax (excluding penalties and interest) in comparison to the population number is 6.6%. While the average compliance rate of residential property tax (excluding penalties and interest) in relation to the household number per municipality is 17.7%.

The Law on Debt Forgiveness has had a considerably negative impact on the tax morale of the citizens. Although it has enabled the municipalities to collect the debt that would not otherwise be collected, it has resulted in disincentivizing the owners in complying with their obligations. The effect of this law which was implemented in 2015 has been lingering until 2018 when the current-year tax collection finally exceeded the previous-year tax collection.

The interviews and group discussions conducted with municipal officials find that there are various systemic issues in relation to the low property tax collection in Kosovo. Firstly, they consider that *the laws are improperly designed*. The Law on Debt Forgiveness instead of incentivizing the citizens has resulted in disincentivizing them in complying with taxes. This law also did not meet its social welfare objective, because it has ended up not protecting the impoverished communities by treating every group equally, despite the obvious disadvantages to some of them. In addition, the municipal officials also have considered the 2018 Law on Immovable Property as not effective in increasing the property tax collection. This is because the tax workers do not consider the newly added enforcement measures as adequate for our society and culture.

Secondly, the interviews have also indicated *a lack of institutional capacities* in the local administration. The ‘enforcement tax effect’ discussed previously, is likely caused by the understaffed property tax departments where the tax-worker to tax-payer ratio is high. The workers also need better equipment to perform better while carrying out their duties. Furthermore, the issue of setting unrealistic targets also infers to a lack of institutional capacity, which has led to some municipalities appearing as they have been performing better than in reality.

Thirdly, the interviewees have considered *the interference of politics* to be a source of low collection rates. The Budget and Finance directors running the municipal property tax departments are appointed politically by an elected Mayor, thus, most of the time they are not familiar with the dynamics of property tax collection and become a source of hindrance. There are times when this is unintentional and a result of inexperience, but there are also times when they impede the process deliberately as a result of the impact that interest groups have in policymaking. In addition, the interviewees also noted the interference of political motivations in directing resources coming from property tax collection.

This interference of politics causes the fourth source of the low collection rate, which is *the decreasing citizen tax morale*. The negative political phenomena (favoritism, clientelism, nepotism, corruption) encountered while directing property tax revenues, witnessed by the citizens, has negatively impacted the tax morale of the citizens. Moreover, the non-transparency that accompanies the investments flowing from the revenues of property tax collection further contributes to the problem. Thus, when the citizens encounter such negative phenomena and non-

transparent governments, they become discouraged from complying with property tax and other obligations.

Lastly, municipal officials have risen doubts about the effectiveness of foreign aid in improving the property tax system. They consider that the imported property tax system from foreign developed countries might not be as effective in increasing collection. In other words, the officials noticed a discrepancy between the social norms in Kosovo and those of other developed countries which's system we have adapted.

The systemic recommendations following the analysis are:

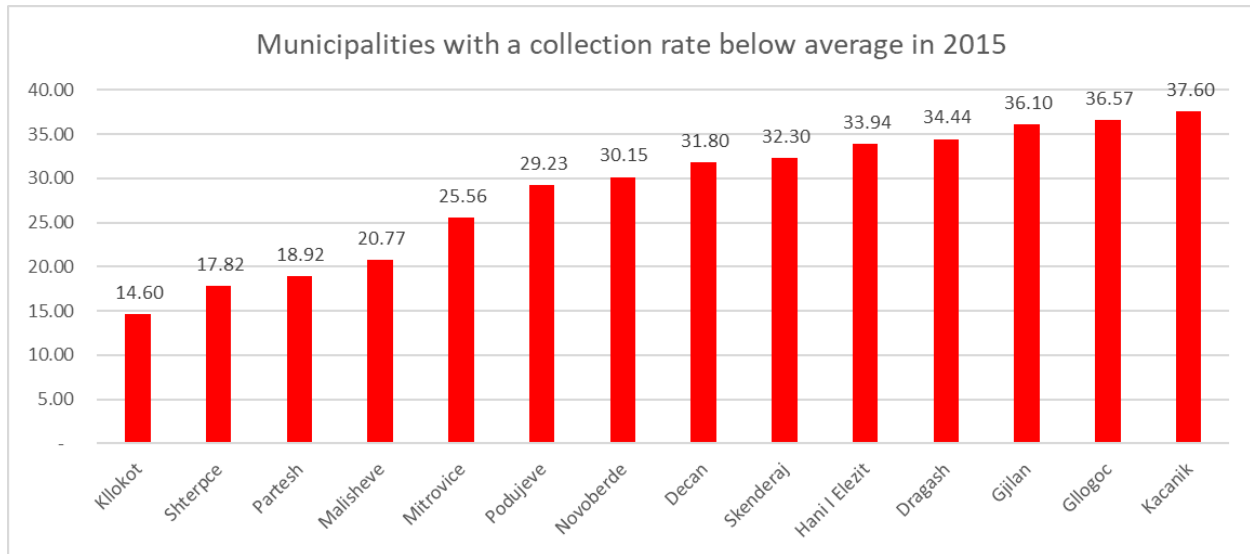
- *Increase the number of professionals in Property Tax Departments*
- *Social-welfare oriented policies*
- *Enhanced accountability and transparency*
- *Dispersed investment combined with adequate campaigning*
- *Adequately channeled foreign aid resources*

## Appendices:

### Appendix 1: Property Tax Collection for each municipality in 2015

The average compliance rate for the property tax in Kosovo in 2015 was 37.71%. 14 municipalities have performed below this average in 2015, while 19 have performed above.

*Figure 5. Municipalities with the lowest collection rate in 2015*



*Figure 6. Municipalities with the highest collection rate in 2015*

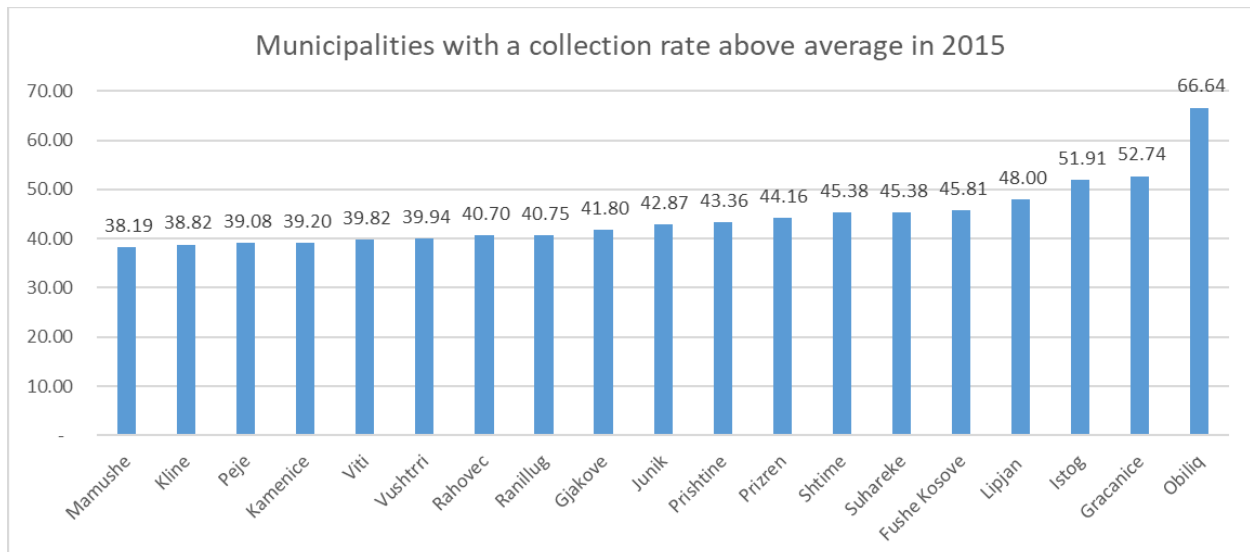


Figure 7. The property tax revenue composition of the lowest-performing municipalities in 2015

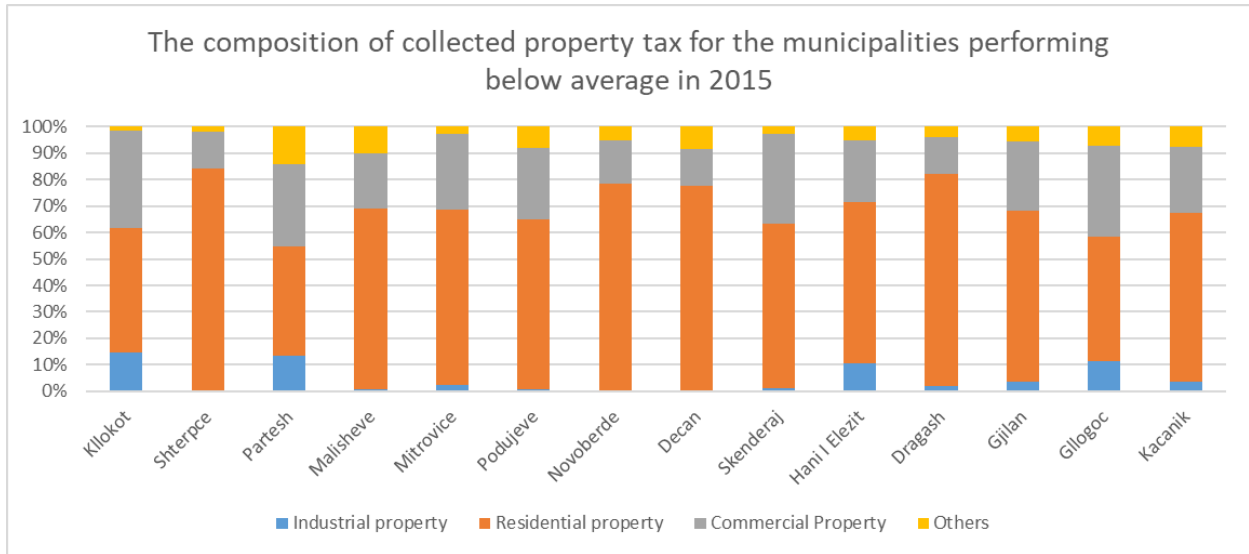
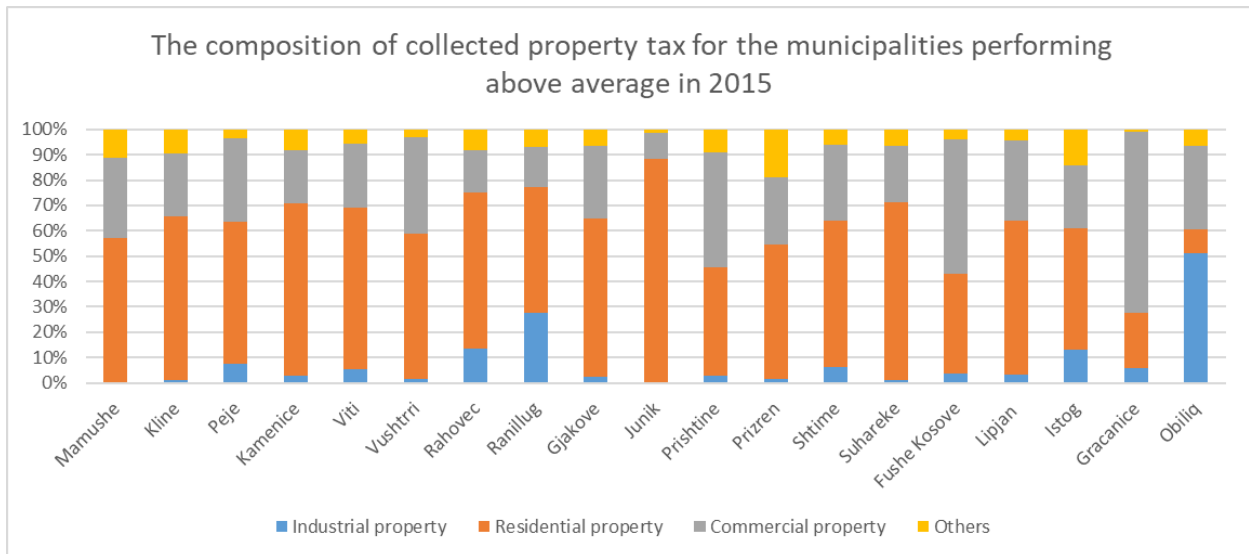


Figure 8. The property tax revenue composition of the highest performing municipalities in 2015





Property tax values for 2015:

| <i>Municipality</i>  | <i>Population</i> | <i>Billed 2015<br/>(€)</i> | <i>Collected<br/>2015 (€)</i> | <i>Collection rate<br/>(%)</i> |
|----------------------|-------------------|----------------------------|-------------------------------|--------------------------------|
| <i>Decan</i>         | 41808             | 270387.35                  | 85976.86                      | 31.8                           |
| <i>Dragash</i>       | 34316             | 215611.04                  | 74256.15                      | 34.44                          |
| <i>Ferizaj</i>       | 103003            | n/a                        | n/a                           | n/a                            |
| <i>Fushe Kosove</i>  | 38607             | 635141.69                  | 290990                        | 45.81                          |
| <i>Gjakove</i>       | 95340             | 1548296.99                 | 647142.17                     | 41.8                           |
| <i>Gjilan</i>        | 80162             | 1569333.37                 | 566476.34                     | 36.1                           |
| <i>Glllogoc</i>      | 61133             | 413556.74                  | 151225.38                     | 36.57                          |
| <i>Gracanice</i>     | 12091             | 533239.32                  | 281244.34                     | 52.74                          |
| <i>Hani I Elezit</i> | 9998              | 99840.64                   | 33890.82                      | 33.94                          |
| <i>Istog</i>         | 40380             | 331235.4                   | 171953.36                     | 51.91                          |
| <i>Junik</i>         | 6370              | 46203.95                   | 19809.61                      | 42.87                          |
| <i>Kacanik</i>       | 34206             | 284841.27                  | 107093.84                     | 37.6                           |
| <i>Kamenice</i>      | 30750             | 297853.03                  | 116771.1                      | 39.2                           |
| <i>Kline</i>         | 40122             | 326534.53                  | 126774.37                     | 38.82                          |
| <i>Klllokot</i>      | 2753              | 57441.97                   | 8388.34                       | 14.6                           |
| <i>Lipjan</i>        | 57733             | 856719.7                   | 411228.56                     | 48                             |
| <i>Malisheve</i>     | 58269             | 282548.77                  | 58672.99                      | 20.77                          |
| <i>Mamushe</i>       | 5950              | 29502.44                   | 11266.82                      | 38.19                          |
| <i>Mitrovice</i>     | 69346             | 905747.37                  | 231552.32                     | 25.56                          |
| <i>Novoberde</i>     | 7160              | 78058.44                   | 23534.27                      | 30.15                          |
| <i>Obiliq</i>        | 19144             | 321002.79                  | 213930.58                     | 66.64                          |
| <i>Partesh</i>       | 1730              | 8017.29                    | 1517.05                       | 18.92                          |
| <i>Peje</i>          | 99568             | 1895469.01                 | 740705.96                     | 39.08                          |
| <i>Podujeve</i>      | 83445             | 507864.58                  | 148447.54                     | 29.23                          |
| <i>Prishtine</i>     | 211755            | 5827914.87                 | 2527021.42                    | 43.36                          |
| <i>Prizren</i>       | 191565            | 2220736.78                 | 980761.2                      | 44.16                          |
| <i>Rahovec</i>       | 59102             | 349127.41                  | 142108.14                     | 40.7                           |
| <i>Ranillug</i>      | 3810              | 37379.95                   | 15233.05                      | 40.75                          |
| <i>Shterpce</i>      | 6773              | 238117.43                  | 42440.18                      | 17.82                          |
| <i>Shtime</i>        | 27654             | 142997.01                  | 64887.98                      | 45.38                          |
| <i>Skenderaj</i>     | 52343             | 174818.17                  | 56459.84                      | 32.3                           |
| <i>Suhareke</i>      | 60247             | 714165.66                  | 324070.93                     | 45.38                          |
| <i>Viti</i>          | 47615             | 356847.82                  | 142082.81                     | 39.82                          |
| <i>Vushtrri</i>      | 64468             | 597583.57                  | 238650.28                     | 39.94                          |

Appendix 2: Property Tax Collection for each municipality in 2016

The average property tax collection rate for all municipalities in 2016 was 39.83%. 16 municipalities performed below this level, while 18 performed above.

Figure 9. Municipalities with the lowest collection rate in 2016

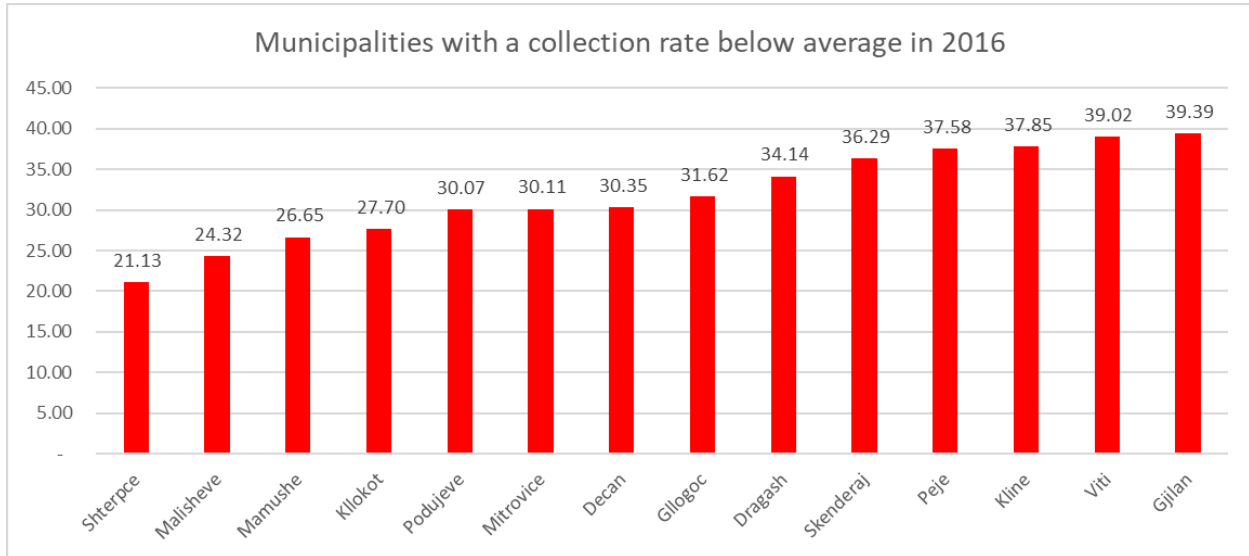


Figure 10. Municipalities with the highest collection rate in 2016

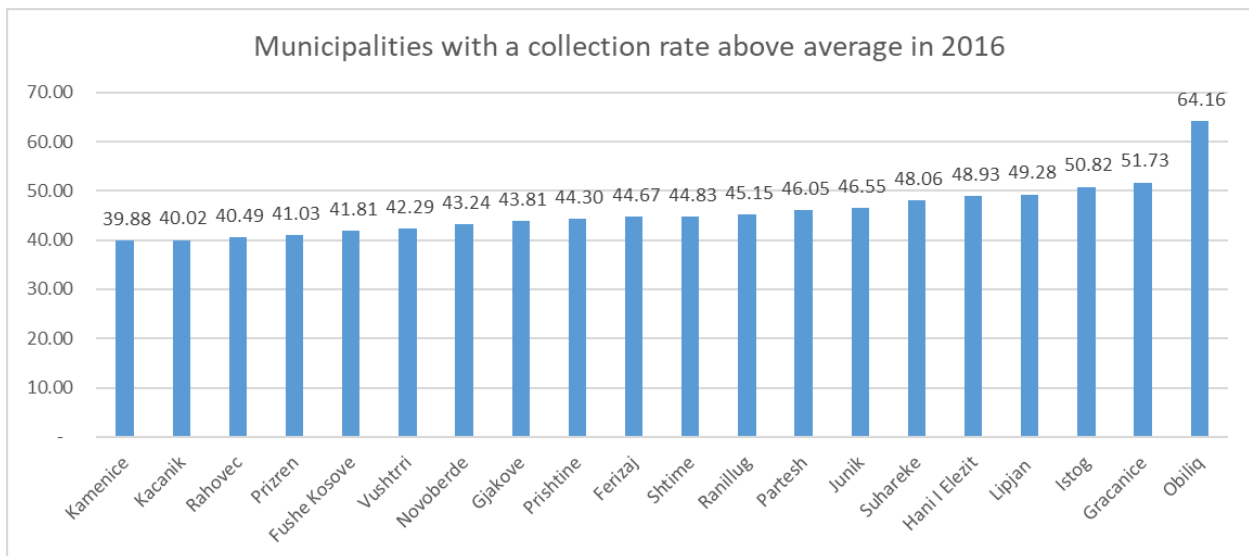


Figure 11. The property tax revenue composition of the lowest-performing municipalities in 2016

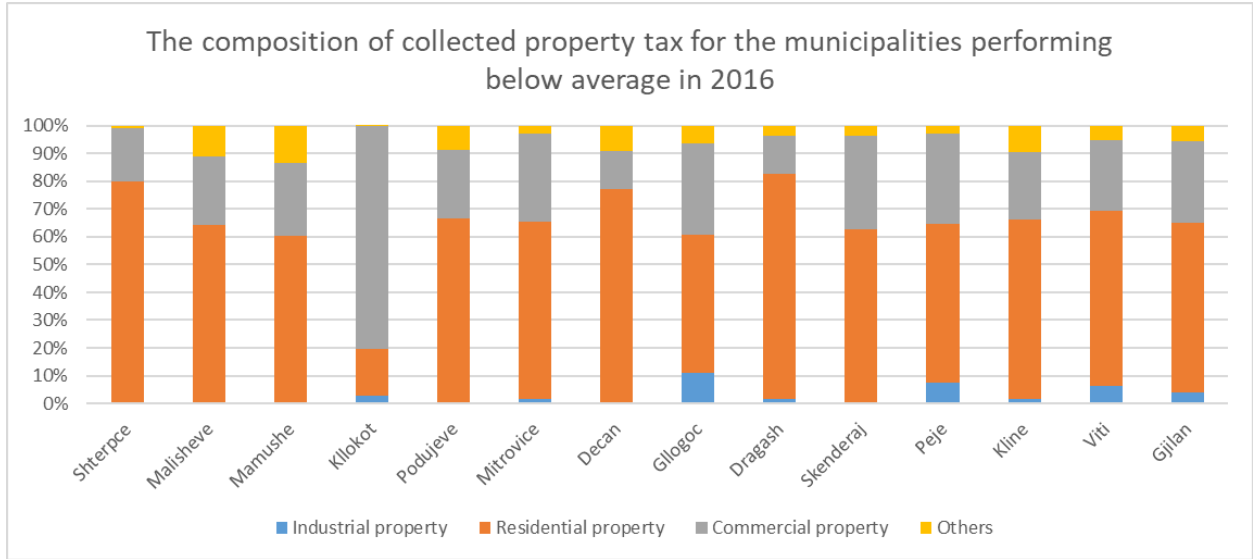
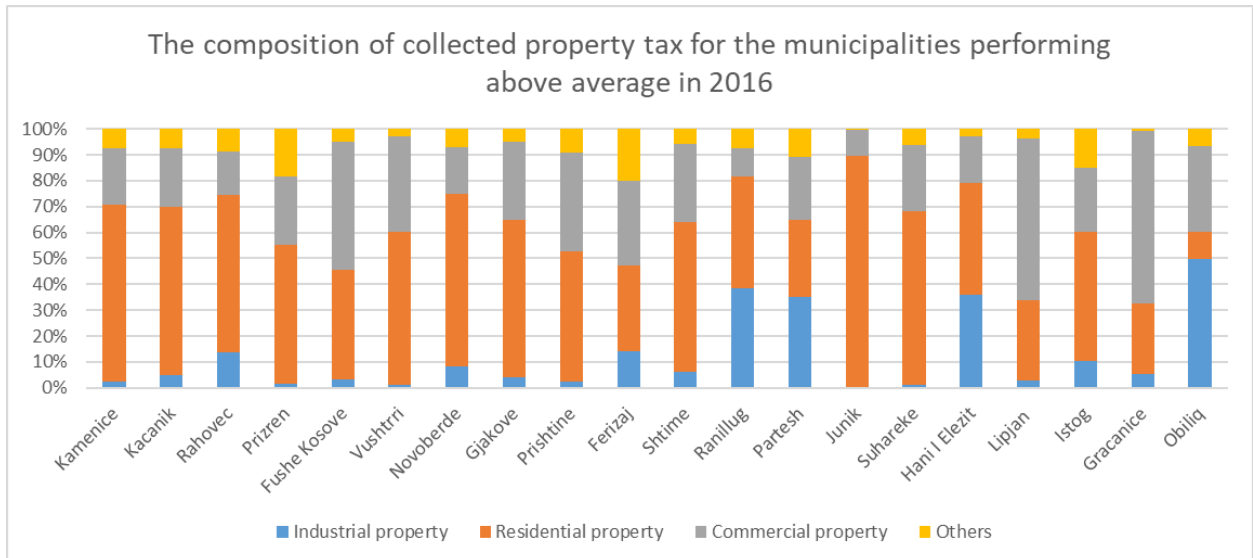


Figure 12. The property tax revenue composition of the highest performing municipalities in 2016



Property tax values for 2016:

| <i>Municipality</i>  | <i>Population</i> | <i>Billed 2016<br/>(€)</i> | <i>Collected 2016<br/>(€)</i> | <i>Collection rate<br/>2016 (%)</i> |
|----------------------|-------------------|----------------------------|-------------------------------|-------------------------------------|
| <i>Decan</i>         | 41808             | 268440.55                  | 81481.6                       | 30.35                               |
| <i>Dragash</i>       | 34316             | 219881.45                  | 75060.57                      | 34.14                               |
| <i>Ferizaj</i>       | 103003            | 1882162.26                 | 840802.06                     | 44.67                               |
| <i>Fushe Kosove</i>  | 38607             | 669975.25                  | 280091.86                     | 41.81                               |
| <i>Gjakove</i>       | 95340             | 1573981.86                 | 689619.95                     | 43.81                               |
| <i>Gjilan</i>        | 80162             | 1604512.85                 | 632066.98                     | 39.39                               |
| <i>Glllogoc</i>      | 61133             | 429479.24                  | 135804.94                     | 31.62                               |
| <i>Gracanice</i>     | 12091             | 580398.21                  | 300252.51                     | 51.73                               |
| <i>Hani I Elezit</i> | 9998              | 98885.93                   | 48389.35                      | 48.93                               |
| <i>Istog</i>         | 40380             | 344513.41                  | 175090.58                     | 50.82                               |
| <i>Junik</i>         | 6370              | 52381.19                   | 24384.12                      | 46.55                               |
| <i>Kacanik</i>       | 34206             | 287743.32                  | 115154.77                     | 40.02                               |
| <i>Kamenice</i>      | 30750             | 298709.07                  | 119135.75                     | 39.88                               |
| <i>Kline</i>         | 40122             | 331046                     | 125304.68                     | 37.85                               |
| <i>Klllokot</i>      | 2753              | 74118.47                   | 20530.86                      | 27.7                                |
| <i>Lipjan</i>        | 57733             | 862806.53                  | 425174.32                     | 49.28                               |
| <i>Malisheve</i>     | 58269             | 290141.02                  | 70569.33                      | 24.32                               |
| <i>Mamushe</i>       | 5950              | 31452.5                    | 8381.07                       | 26.65                               |
| <i>Mitrovice</i>     | 69346             | 846302.32                  | 254832.46                     | 30.11                               |
| <i>Novoberde</i>     | 7160              | 87963.55                   | 38032.82                      | 43.24                               |
| <i>Obiliq</i>        | 19144             | 340344.72                  | 218378.01                     | 64.16                               |
| <i>Partesh</i>       | 1730              | 10847.13                   | 4995.49                       | 46.05                               |
| <i>Peje</i>          | 99568             | 2003170.17                 | 752866.6                      | 37.58                               |
| <i>Podujeve</i>      | 83445             | 528191.09                  | 158845.46                     | 30.07                               |
| <i>Prishtine</i>     | 211755            | 7356973.73                 | 3259390.45                    | 44.3                                |
| <i>Prizren</i>       | 191565            | 2284762.16                 | 937513.28                     | 41.03                               |
| <i>Rahovec</i>       | 59102             | 366257.55                  | 148297.54                     | 40.49                               |
| <i>Ranillug</i>      | 3810              | 36965.14                   | 16688.75                      | 45.15                               |
| <i>Shterpce</i>      | 6773              | 257814.21                  | 54479.31                      | 21.13                               |
| <i>Shtime</i>        | 27654             | 147219.7                   | 65993.81                      | 44.83                               |
| <i>Skenderaj</i>     | 52343             | 181761.01                  | 65967.42                      | 36.29                               |
| <i>Suhareke</i>      | 60247             | 733995.91                  | 352727.69                     | 48.06                               |
| <i>Viti</i>          | 47615             | 363049.77                  | 141665.36                     | 39.02                               |
| <i>Vushtrri</i>      | 64468             | 620195.94                  | 262292.73                     | 42.29                               |

### Appendix 3: Property Tax Collection for each municipality in 2017

The average rate of Property Tax collection in Kosovo during 2017 was 38.82%. 19 municipalities performed below this average, whereas 14 municipalities performed above this average.

Figure 13. Municipalities with the lowest collection rate in 2017

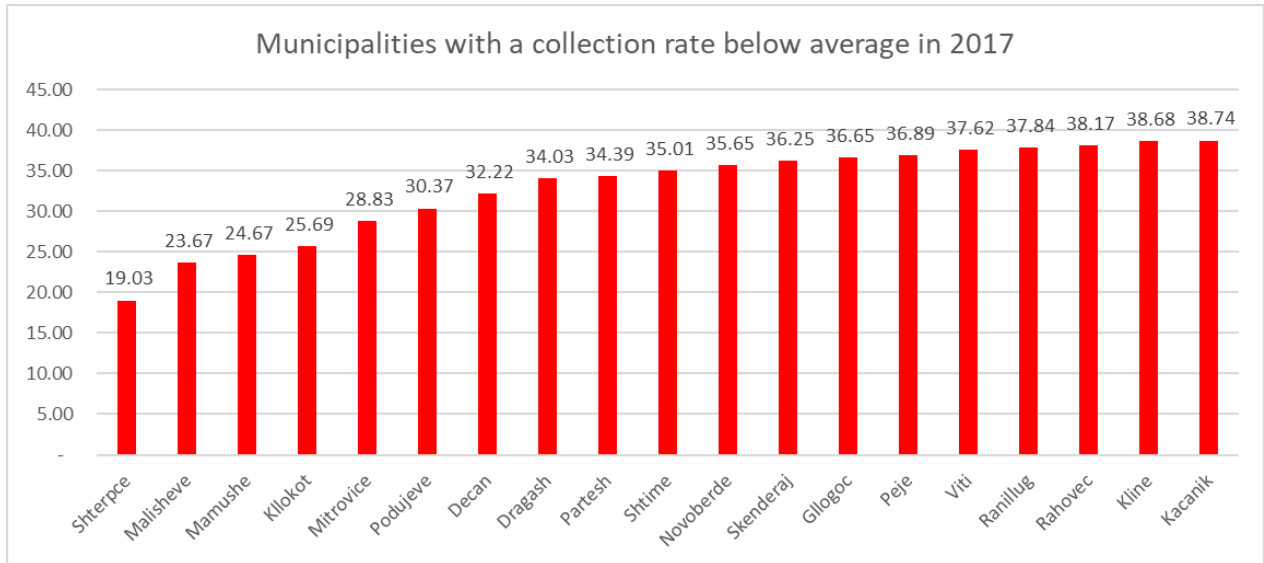


Figure 14. Municipalities with the highest collection rate in 2017

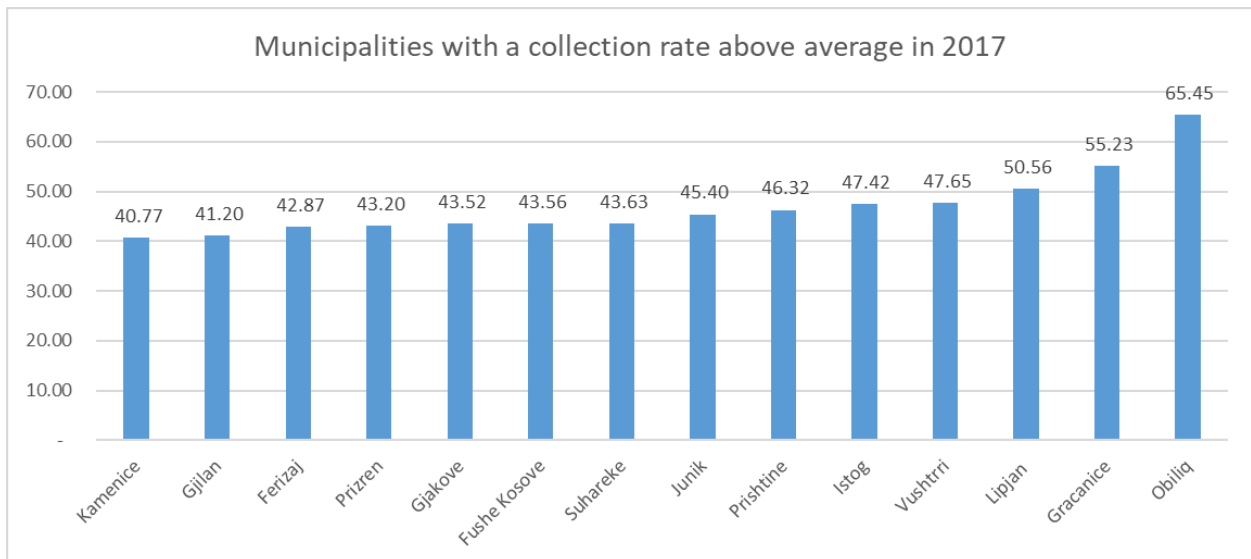


Figure 15. The property tax revenue composition of the lowest-performing municipalities in 2017

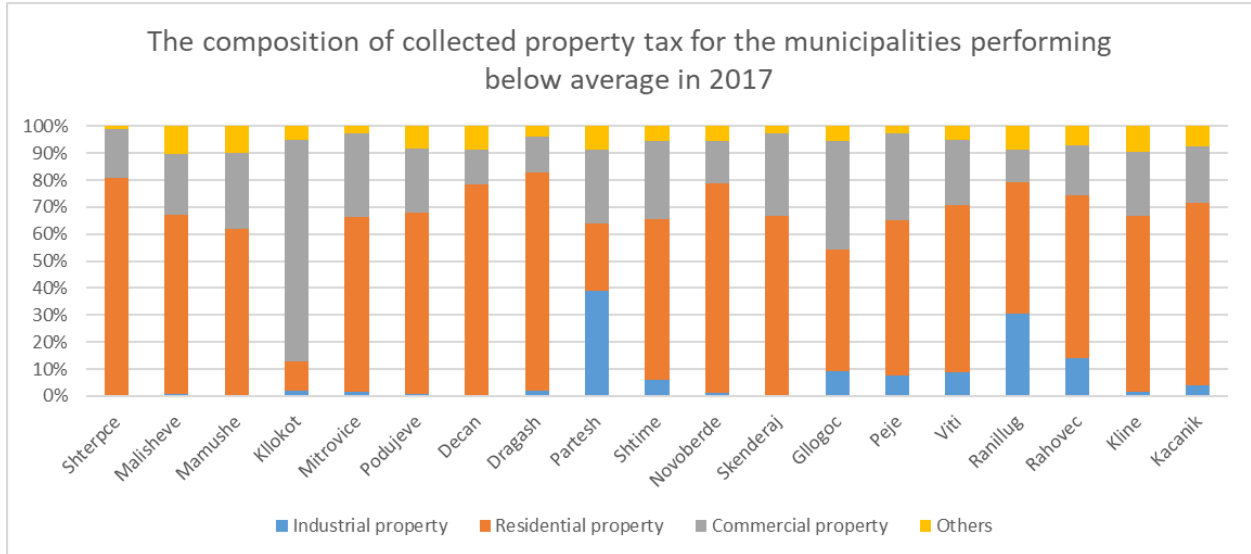
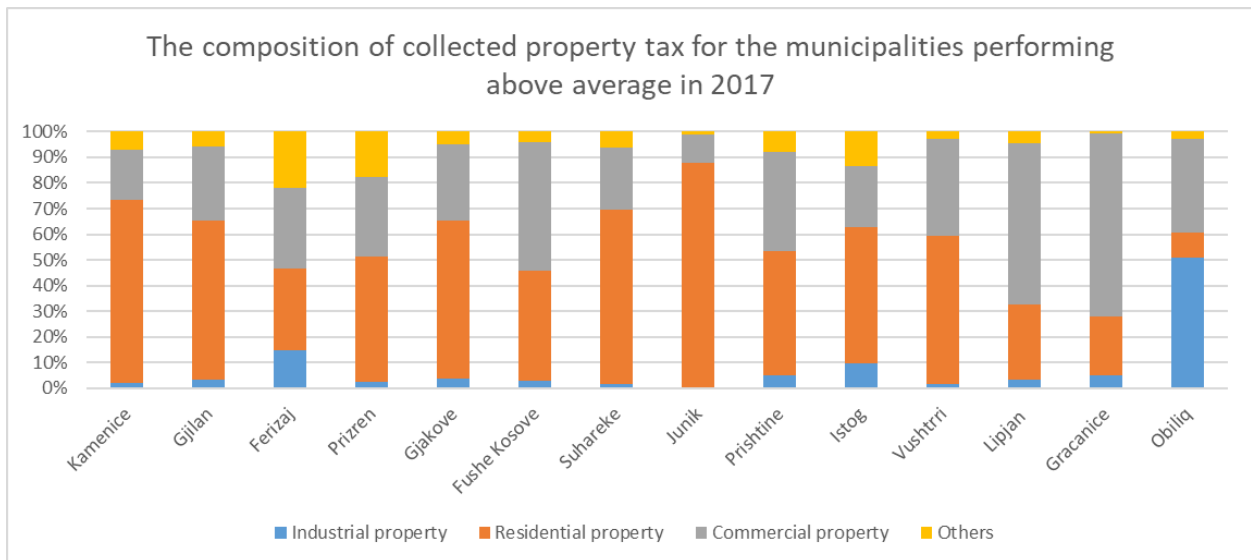


Figure 16. The property tax revenue composition of the highest performing municipalities in 2017



Property tax values for 2017:

| <i>Municipality</i>  | <i>Population</i> | <i>Billed<br/>2017(€)</i> | <i>Collected<br/>2017(€)</i> | <i>Collection rate<br/>2017 (%)</i> |
|----------------------|-------------------|---------------------------|------------------------------|-------------------------------------|
| <i>Decan</i>         | 41808             | 270933.06                 | 87288.16                     | 32.22                               |
| <i>Dragash</i>       | 34316             | 227269.67                 | 77347.16                     | 34.03                               |
| <i>Ferizaj</i>       | 103003            | 1969572.99                | 844417.67                    | 42.87                               |
| <i>Fushe Kosove</i>  | 38607             | 725250.38                 | 315927.05                    | 43.56                               |
| <i>Gjakove</i>       | 95340             | 1618945.37                | 704628.43                    | 43.52                               |
| <i>Gjilan</i>        | 80162             | 1673100.99                | 689386.64                    | 41.2                                |
| <i>Glllogoc</i>      | 61133             | 436024.26                 | 159803.89                    | 36.65                               |
| <i>Gracanice</i>     | 12091             | 619808.71                 | 342306.9                     | 55.23                               |
| <i>Hani I Elezit</i> | 9998              | -                         | -                            | -                                   |
| <i>Istog</i>         | 40380             | 361187.93                 | 171288.54                    | 47.42                               |
| <i>Junik</i>         | 6370              | 53289.77                  | 24193.48                     | 45.4                                |
| <i>Kacanik</i>       | 34206             | 283921.29                 | 109989.82                    | 38.74                               |
| <i>Kamenice</i>      | 30750             | 309335.05                 | 126122.23                    | 40.77                               |
| <i>Kline</i>         | 40122             | 346055.2                  | 133840.38                    | 38.68                               |
| <i>Klllokot</i>      | 2753              | 76868.16                  | 19746.43                     | 25.69                               |
| <i>Lipjan</i>        | 57733             | 892935.34                 | 451424.8                     | 50.56                               |
| <i>Malisheve</i>     | 58269             | 302284.85                 | 71565.52                     | 23.67                               |
| <i>Mamushe</i>       | 5950              | 32023.75                  | 7900.25                      | 24.67                               |
| <i>Mitrovica</i>     | 69346             | 880579.52                 | 253827.06                    | 28.83                               |
| <i>Novoberde</i>     | 7160              | 94672.89                  | 33746.53                     | 35.65                               |
| <i>Obiliq</i>        | 19144             | 389304.51                 | 254816.84                    | 65.45                               |
| <i>Partesh</i>       | 1730              | 12929.59                  | 4446.86                      | 34.39                               |
| <i>Peje</i>          | 99568             | 2077811.64                | 766585.91                    | 36.89                               |
| <i>Podujeve</i>      | 83445             | 534609.73                 | 162374.79                    | 30.37                               |
| <i>Prishtine</i>     | 211755            | 8323443.31                | 3855598.66                   | 46.32                               |
| <i>Prizren</i>       | 191565            | 2323461.84                | 1003658.11                   | 43.2                                |
| <i>Rahovec</i>       | 59102             | 386172.14                 | 147420.02                    | 38.17                               |
| <i>Ranillug</i>      | 3810              | 37574.3                   | 14216.33                     | 37.84                               |
| <i>Shterpce</i>      | 6773              | 288240.8                  | 54857.04                     | 19.03                               |
| <i>Shtime</i>        | 27654             | 155262.29                 | 54353.96                     | 35.01                               |
| <i>Skenderaj</i>     | 52343             | 227788.08                 | 82573.63                     | 36.25                               |
| <i>Suhareke</i>      | 60247             | 768266.89                 | 335223.9                     | 43.63                               |
| <i>Viti</i>          | 47615             | 381578.57                 | 143560.72                    | 37.62                               |
| <i>Vushtrri</i>      | 64468             | 673745.29                 | 321051.29                    | 47.65                               |

Appendix 4: Property Tax Collection for each municipality in 2018

The average rate of Property Tax collection in 2018 was 45.12%. 18 municipalities performed below this average, while 14 performed above.

Figure 17. Municipalities with the lowest collection rate in 2018

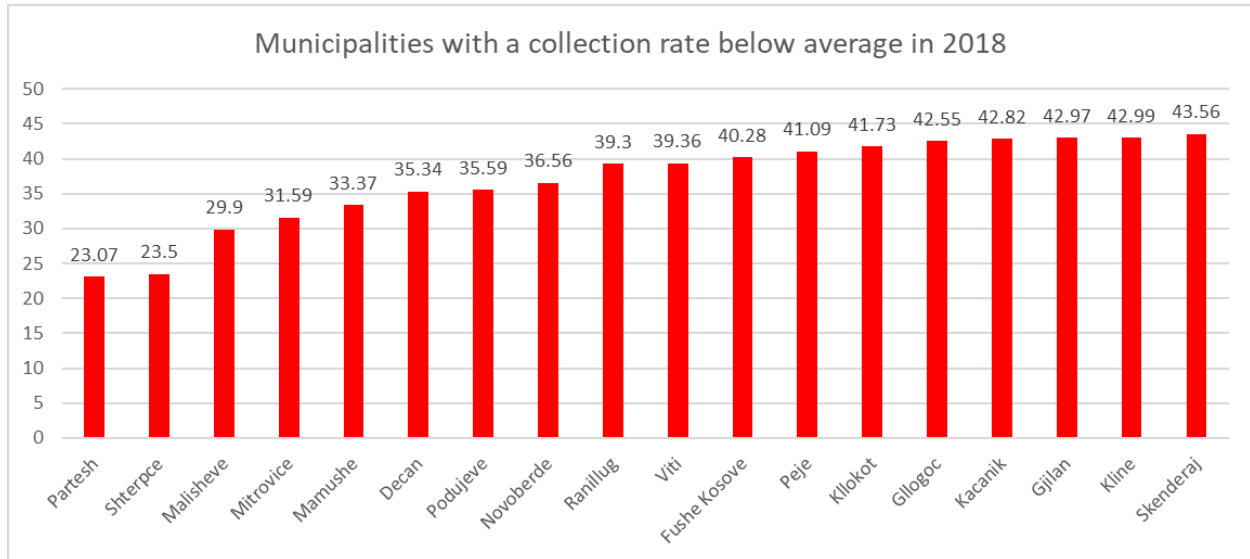


Figure 18. Municipalities with the highest collection rate in 2018

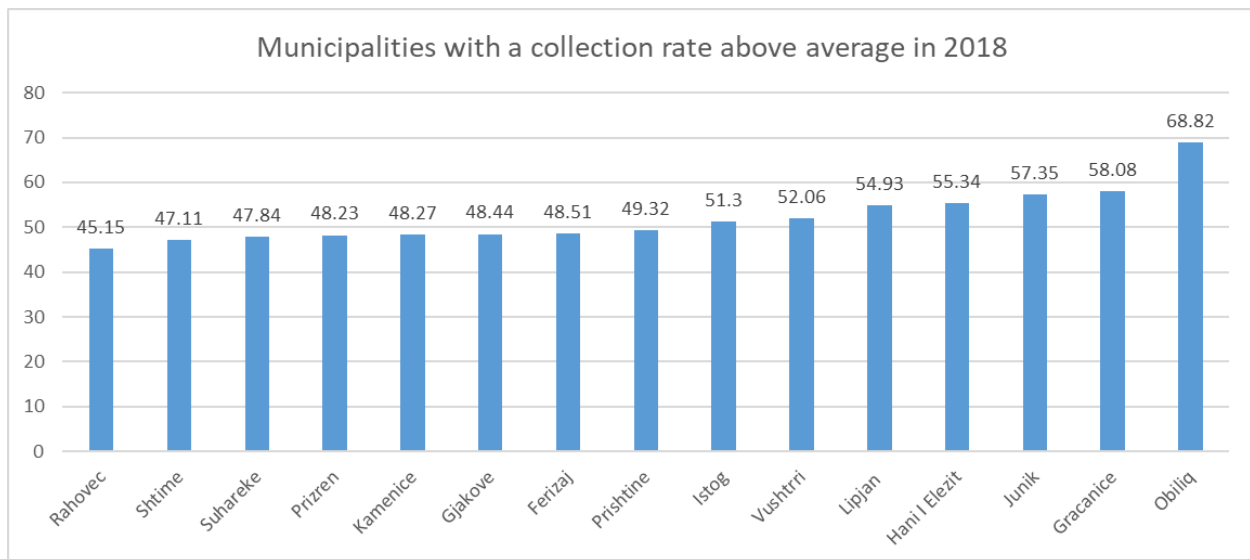




Figure 19. The property tax revenue composition of the lowest-performing municipalities in 2018

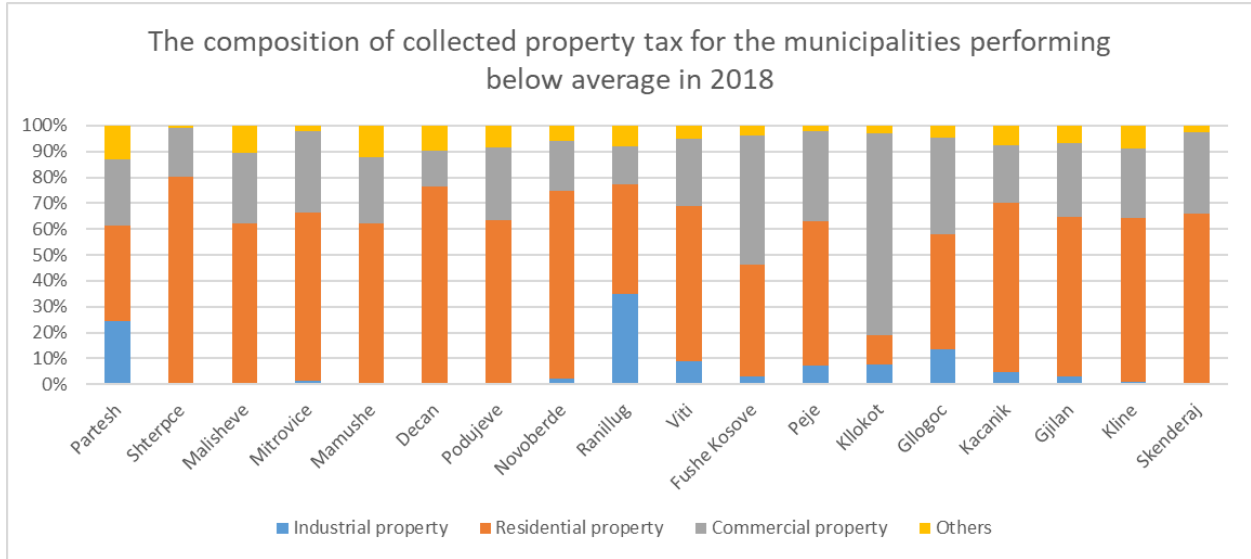
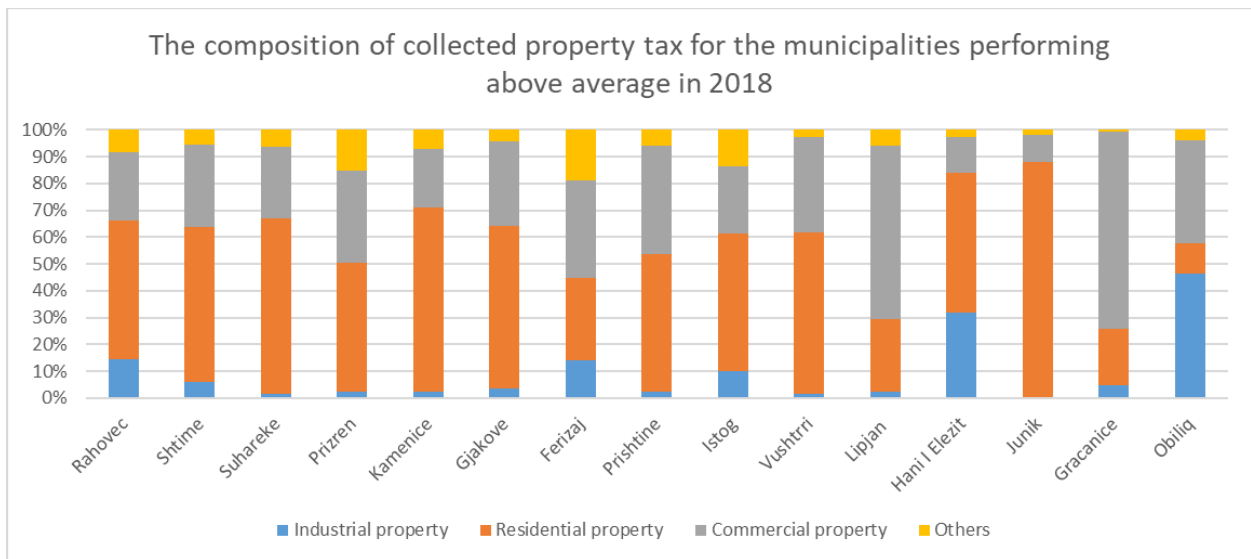


Figure 20. The property tax revenue composition of the highest performing municipalities in 2018



Property tax values for 2018:

| <i>Municipality</i>  | <i>Population</i> | <i>Billed 2018 (€)</i> | <i>Collected 2018 (€)</i> | <i>Collection rate 2018 (%)</i> |
|----------------------|-------------------|------------------------|---------------------------|---------------------------------|
| <i>Decan</i>         | 41,808            | 256,371.37             | 90,592.75                 | 35.34                           |
| <i>Dragash</i>       | 34,316            | 86,095.31              | 77,755.9                  | 90.31                           |
| <i>Ferizaj</i>       | 103,003           | 2,013,110.2            | 976,498.88                | 48.51                           |
| <i>Fushe Kosove</i>  | 38607             | 901,878.91             | 363,317.72                | 40.28                           |
| <i>Gjakove</i>       | 95,340            | 168,2637.13            | 815,065.9                 | 48.44                           |
| <i>Gjilan</i>        | 80,162            | 169,2425.4             | 727,306.94                | 42.97                           |
| <i>Glllogoc</i>      | 61,133            | 473,110.09             | 201,325.68                | 42.55                           |
| <i>Gracanice</i>     | 12,091            | 687,710.29             | 399,436.82                | 58.08                           |
| <i>Hani I Elezit</i> | 9,998             | 103,837.59             | 57,458.96                 | 55.34                           |
| <i>Istog</i>         | 40,380            | 365,450.12             | 187,490.62                | 51.3                            |
| <i>Junik</i>         | 6,370             | 58,679.92              | 33,650.46                 | 57.35                           |
| <i>Kacanik</i>       | 34,206            | 284,950.76             | 122,016.32                | 42.82                           |
| <i>Kamenice</i>      | 30,750            | 304,112.31             | 146,798.05                | 48.27                           |
| <i>Kline</i>         | 40,122            | 363,322.66             | 156,198.28                | 42.99                           |
| <i>Klllokot</i>      | 2,753             | 77,454.22              | 32,320.01                 | 41.73                           |
| <i>Lipjan</i>        | 57,733            | 974,961.52             | 535,529.4                 | 54.93                           |
| <i>Malisheve</i>     | 58,269            | 296,989.92             | 88,793.28                 | 29.9                            |
| <i>Mamushe</i>       | 5,950             | 29,629.45              | 9,888.14                  | 33.37                           |
| <i>Mitrovice</i>     | 69,346            | 901,606.58             | 284,795.39                | 31.59                           |
| <i>Novoberde</i>     | 7,160             | 91,956.99              | 336,19.64                 | 36.56                           |
| <i>Obiliq</i>        | 19,144            | 381,833.2              | 262,771.31                | 68.82                           |
| <i>Partesh</i>       | 1,730             | 13,487.31              | 3,111.65                  | 23.07                           |
| <i>Peje</i>          | 99,568            | 200,6776.4             | 824,617.33                | 41.09                           |
| <i>Podujeve</i>      | 83,445            | 510,738.12             | 181,784.29                | 35.59                           |
| <i>Prishtine</i>     | 211,755           | 8,100,311.75           | 3,995,445.53              | 49.32                           |
| <i>Prizren</i>       | 191,565           | 2,412,333.64           | 1,163,559.9               | 48.23                           |
| <i>Rahovec</i>       | 59,102            | 380,524.57             | 171,810.72                | 45.15                           |
| <i>Ranillug</i>      | 3,810             | 33,193.51              | 13046.39                  | 39.3                            |
| <i>Shterpce</i>      | 6,773             | 311,377.43             | 73180.45                  | 23.5                            |
| <i>Shtime</i>        | 27,654            | 163,051.95             | 76821                     | 47.11                           |
| <i>Skenderaj</i>     | 52,343            | 225,934.92             | 98407.79                  | 43.56                           |
| <i>Suhareke</i>      | 60,247            | 744,672.81             | 356237.44                 | 47.84                           |
| <i>Viti</i>          | 47,615            | 393,740.33             | 154981.17                 | 39.36                           |
| <i>Vushtrri</i>      | 64,468            | 72,5278.98             | 377592.75                 | 52.06                           |

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