

Taxation of Real Estate as a Tool for Economic and Social Policy Objective

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Abstract

This article was written at a time when in Albania a new territorial division of the country is sanctioned, and one of its main objectives among others, is also the well-administration and further decentralization of the local government. The implementation of public and social policies by central and local government under these conditions is closely linked to the budget problems, and a budget which is necessary for these policies implementation fund. The main source through which the appropriate funds for this purpose are provided is the fiscal system through taxes and taxation. These ways of taxation or tax have an impact on the economy recession or its development, the opening of new jobs, the implementation of public policy and in general on the economic growth of a country and also on the improvement of the lives of its citizens. In this context I think that specific special taxes, such as that on real estate, which include taxation of buildings, agricultural land but also the specific elements that will be discussed below, are more appropriate and of a more sensitive connection between taxpayers and beneficiaries of the relevant service to improve the infrastructure and other social elements. The goal: The increase of the efficiency use of tax on real estate in the country's economic development and implementation of social policies. The method used is the method of comparison and of quantitative and qualitative analysis. The conclusions and recommendations of this study must be taken into account by the policy-makers at central and local levels to improve the system of taxation of real estate in the future".

Keywords

Tax on Real Estate, Buildings, Farmland, Social Policy, the Central Government and the Local Government

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1. Introduction

Under conditions when finding ways and possibilities for further development of the economy, its restructuring, making it more attractive, increasing the quality of life through the expansion and quality of services offered to the community, is a constant priority not only of the policymakers but also the scientific research organizations of any particular country.

Finding resources and increased revenues in the budget which then will be used in the service of social development policies, remains one of the primary tasks of the central and

local government. In this viewpoint, the property tax is regarded as probably the most popular among tax instruments to provide better income to the economy and lead to a rapid and sustainable development, partly because it is conspicuous and difficult to avoid, and partly due to the following qualities such as the efficiencies that come mainly from the low cost of administration and collection, good effect on revenue growth, and justice.

This tax, in general appears to be supported by the majority of developed countries and developing. This paper undertakes to argue the need and use of real estate property tax as a tool for economic and social policy objective, and the

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necessity of reforming the tax system successful real estate in Albania

Periodic property taxes also offer the advantage of a high stability to tax revenue, which facilitates budget planning.

Property taxes are widely regarded as efficient and fair means to increase revenue, but with potential revenue which is largely not used in many countries.

According to data sources available, property taxes are far from being a pillar in the system of income in developed countries, in developing and transition ones. There is strong interest now though, towards the renewal of taxation on property around the globe. This is clearly manifested in numerous reform initiatives recently adopted in different countries, but there is a rich recent literature that focuses not only on developed economies but also the emerging ones to reform the tax system.

Interest and motivations of this reform may be different in different groups of countries, for example, the transfer of fiscal powers to strengthen local democracy through decentralization as a driving force in some economies in transition, whereas in many developing countries motivations lead in revenue mobilization and provide incentives for better use of land.

This article consists of five parts.

In the first part it is dealt with the nature of taxation of real estate in different countries.

In the second the economic rationale for increasing the use of real estate tax is presented.

In the third part the political and administrative obstacles are being treated, the policymakers are facing with to reform the tax on immovable property.

The fourth section presents the plan of action for implementing the reform of the real estate tax and the use of such tax in social policy assistance.

The fifth part considers the conclusions and recommendations.

2. The Nature of Real Estate Taxation in Different Countries

"Property taxes" in practice include a variety of taxes on the use, possession, and transfer of property. These are taxes with very different objectives. According to the international standard classifications tax, property taxes¹ include periodic taxes on real estate, periodic fees on net property, taxes on

property inheritance and donation; capital and financial transaction taxes on the issue or transfer of securities and checks, or sale of real estate; and other periodic or non-periodic fees on property. Periodic taxes on real estate property are the main focus of this paper.²

Below there are examples of reform of tax systems in some countries.

Namibia has recently introduced a land tax of the central government for the value of agricultural land (with a base rate of 0.75% of the land) to meet current municipal taxing on urban property, with the primary aim to encourage the efficient use of agricultural land.

Cambodia introduced a new property tax in 2011, which is based on the principle of assessing the market value of land and buildings.

China has decided to introduce tax on residential properties starting in 2011, partly aimed at curbing speculation and strong price appreciation in the property sector, and partly to address the extension of taxed real estate space to secure local governments a significant source of income.

Hong Kong has introduced in early 2013 a new special tax of transfer of ownership to 15% of the transaction price that covers non-local buyers and all corporate buyers, aimed at curbing speculation of pricey property evaluation.

Vietnam has adopted in June 2010 a new tax on non-agricultural land based on the surface (excluding housing) and is considering further reform in this area.

Croatia is under way to introduce a new property tax based on the value of a uniform tax rate of 1.5%, to replace the existing service and second homes tax.

Greece has adopted in late 2011 a new tax per square meter with special rates, changeable ones, collected over the payment of electricity bills. The reform has been part of a broader package of anti-crisis.

Ireland abolished the residential property tax in 1997 (leaving the "norms" local commercial property as the only current property tax). A new tax on property based on market rate was expected to enter into force in mid-2013 to replace the annual household charge of € 100 imposed in the country on 1 January 2012 as part of a broader fiscal package.

Serbia plans a deep modernization of its tax system to replace property tax system based on property rights together with a planned reform of land privatization.

Slovenia is replacing the current system of property taxation with a uniform and modern system of real estate property

¹Taxing Immovable Property Revenue Potential and Implementation Challenges
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taxation based massively on the market value appreciation and new records of real estate.³

In Albania by law 181/2013 changes were made in the law 9632 dated 30.10.2006 "On taxation procedures in the Republic of Albania" according to which all normal or legal persons, domestic or foreign owners of the above real estate in the Republic of Albania, regardless of the level of utilization of these assets, are subject of the Real Property Tax. The group of taxes on immovable property includes:

- a) Tax on buildings.
- b) Tax on agricultural land.

The tax on building is calculated on the building site area in square meters or its part, below or above the ground and for every floor. *The tax on agricultural land* is calculated on its area in hectares owned by the tax payer. This tax is set in Leke per square meter. The due for this tax is calculated by multiplying the level tax with the taxed base. The revenue from the building taxation belongs to the Commune or Municipality at 100%. All taxpayers pay this tax in accordance with annex 1 of this law.

3. Economic Rationale for Increasing the Use of Real Estate Tax

Periodic property taxes provide the advantage of a higher stability of tax revenue, which facilitates budget planning. Considering that property taxes are relatively low in many countries, there is room for growth. On average in the EU countries, property taxes generate 3.6% of the total income tax (2010). Property taxes are the highest in the UK (11.9% of total taxes), France (8.1%), Belgium (7.1%), Spain (6.7%) and Ireland (5.6%). They are lower in Estonia (1.0%), Austria (1.2%) and the Czech Republic (1.3%)⁴.

Some countries emphasize on providing a sustainable and significant source of revenue for local governments through tax on immovable property, while others have as their priority the growth of total revenues (using mainly transfer taxes, or relying on taxes in net wealth or inheritance and donations). In some countries such as New Zealand, Poland, and the United States (along with the United Kingdom, Japan and Canada) the tax on immovable property is of more weight in property taxes, while Germany uses a variety of sources including inheritance taxes and capital transfer, in Greece, the property transfer tax makes the largest share of property taxes (as do Italy, Korea, and the Netherlands.) In contrast, Luxembourg (together with Switzerland and

Norway) is among the few other OECD countries that continue to collect significant revenue from taxes of the net property. In developing countries and countries in transition, often immovable property tax is the only source of property tax in countries such as Azerbaijan, Jordan, Georgia, Mongolia, and Ukraine⁵ According to data sources available, property taxes are far from being a pillar in the system of income in developed countries, in developing and transition ones, too.

Key determinants of the level of use of periodic property taxes are:

3.1. The Effective Consideration in Favor of Property Taxation

Property taxes in the form of periodic tax levied on land and buildings are generally considered to be more effective than other types of taxes, in which their impact on resource allocation in the economy is more vulnerable. The immobility argument should be clarified, though, in the sense that only the earth is indeed stationary, while the capital invested in the structure (or "improvements"), and in particular non-resident structures is truly portable, and a higher fee property may be thought to compel capital be moved to an area with lower jurisdictions property taxation.

Property taxes do not affect the rate of return on investment and therefore considered neutral in their behavior. This behavior stems from the fact that the property tax, set to the extent that the wealth is accumulated, does not change the future behavior. International evidence shows that taxes on real estate assets can be better than other tax instruments in connection with its effect on long-term growth.

Property taxes, apart from its considerable potential income (as discussed above), is generally regarded as an ideal source for local governments considering the fact that they are paid by the residents with limited spread (locals). One should also note that the value of the property to some degree reflects the services that are offered by local governments, it strengthens the argument that it is reasonable that this base tax should be imposed to finance the local activities. It is also considered to be a sustainable and foreseen source of income (see section C below). Moreover, the nature of its immovable base, which can be particularly attractive at a time when other tax bases become more changeable, makes the property tax particularly useful as a beneficial taxation at the local level Also, through political accountability that promotes its transparency, property taxes can improve the quality of the overall system of public finance. In short, property tax fits very well with the criteria for a good local tax.⁶

³Source :Bahl, Martinez-Vasquez, and Youngman (2008) and (2010).)

⁴Source tax policies according to the European perspective of Martin Hutsebaut)

⁵(Source: Statistics of OECD income for the period 2010-2012

⁶(Bahl, 2009).

But the use of business property tax raises problem and requires special attention. Taxation is an important factor of production in the event that the principle of tax benefit does not respect strictly the increased cost disproportionately in businesses that use relatively more property as an input factor. This explains to some extent the fact that many countries have applied special facilities for agriculture, through full or partial exclusion from tax, or low tax rates.

Property taxes can promote efficient use of land by stimulating further development and growth. Imposing a "tax cost" on land ownership or use, which to some extent can be independent of the actual use of the land (especially if the evaluation is applied on market price), property taxes are often considered as an incentive important for property and property owners to ensure a more efficient use of land and buildings. Property taxes are also considered as potentially effective in the fight against speculative boom and volatility in house prices housing. Examples of countries that use property taxation (including transaction fees) in this regard are China and Singapore⁷. However, it remains an open empirical question whether property taxes represent an effective tool in this regard.

3.2. Justice on Property Tax Determines the Level of Use of This Tax

Perhaps somewhat surprisingly for the old-taxed property taxation, its implication for justice is a long-standing and this discussion does not remain the same. The case of extensive use of real property as a basis for property taxation is based on the idea that taxation in general is considered to be progressive, an assumption that is not yet supported by a clear consensus.

Property tax is a compensated tax of an equal benefit as a result of benefits received by the public services funded by the property tax. Taxation on property in this way acts as a price for local public goods provided, and individuals will choose countries that offer the best services in accordance with their preferences. Being basically a payment for users of local public services there is an inherent fairness property tax based on the principle of profitability. It also explains the balance between property value and the benefits derived, and so a tax on value represents a fair deal for sharing the tax fiscal burden. Considering the tax as *some sort of price for the services received*, in terms of profitability there are important implications that real estate taxes be tax-efficient and that do not interfere in decisions about saving, investment, and decisions of supplying individuals and companies with workforce.

Finally, it has often been proved that the use of market value as the tax base maximizes fairness in property taxation. This is especially so to the extent that the market value broadly reflects capitalized benefits offered by local services that are funded by taxation. In contrast, alternative approaches such as fee-based surface (for example, specific taxes per square meter) are not related to current property values (or tied just so imperfect) usually bring variations in effective tax rates.

3.3. Revenue Cyclical Flexibility from Property Tax

While property taxes can be an efficient and fair tax, high cyclical volatility may make it less suitable as a local tax. Deep recession of 2008-2010 and the extended period that preceded this brought about a unique background for the study of cyclical sensitivity on property taxes because of the crucial role of housing construction market in this recession.

This low protective power of real estate during the period of very rapid assessment of asset prices from the early 2000s up to mid 2000s at first glance looks surprising. But recent empirical studies for the US have shed more light on the important issue of cyclical volatility of property tax.⁸

Like in many other countries and states, local government revenues in the US fell steadily after a severe contraction of the housing market after the Great Depression: for example, income from state and local taxes fell by about 5.5 % in 2009, making this the second year (after 2002) since the great depression that income from state taxes and local government had declined in nominal terms. However, the decline was driven by sharp declines in receipts from personal income tax and sales tax (respectively 17% and 7.5%), whereas, in sharp contrast, revenues from property taxes have maintained good growth on more than 5% in 2008 and 2009, serving as an important buffer for the decline of other tax sources, although property tax revenues have stopped increasing in subsequent years.⁹

Moreover, changes in house prices have an effect on property taxation only after a delay of about three years, reflecting the three basic features of taxation:

evaluations are conducted in a way backward, seeking current year taxes are based on assessed property value in the past year; (2) Estimated values often lag behind market values, in some cases by design or legal mandate, and in some other cases, because the administration "weak" (which may be intentional, particularly in jurisdictions which choose their assessor); and (3) most states have a cap or a limit on the growth of income or taxable assessments. This

⁷Taxing Immovable Property Revenue Potential and Implementation Challenges
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⁸See in particular Lutz, Molloy, and Shan (2010) and Lutz (2008).

⁹Source: Bureau of the Census, Summary quarter revenues from taxes and local and central government in the US since 1990-2009

will prevent revenue from the increase at the same rate as market values during periods of rapid growth of housing prices, and may cause a "stock" of untaxed evaluation.

4. The Barriers to Reform the Tax on Immovable Property

Some aspects of the policy and administrative challenges explain the productivity of unsatisfactory revenue from taxes on real estate in many countries. There are basically two policy variables and three administrative variables that determine the yield of any property tax which is reflected in the basic equation of income which also provides a good framework for discussion.

$$R = B \times t \times C \times V \times E$$

The equation expresses the proceeds (R) as the product of: tax base legally defined with the current prices (B), the average rate of taxation (t), report the properties actually covered by tax law against all legally defined property (C), the ratio of the value of the properties listed with the current value of the property (V), and the level of implementation measured by the ratio of the actual collection versus the defined obligations (E). Factors C, D, and E being that in the reports of an ideal world may take the value one, but rarely (if this ever happens in practice) the revenues in this event remain the product of (B) and (t).¹⁰

Two of the first variables (B) and (t) are the political variables, other variables are administrative. Let us argue with the upper row factors:

Factor (B) - There are multiple ways to define and measure the tax base of real estate. Approaches can be broadly classified into three basic dimensions. The first is the different methods that can be applied in determining the value of property, which can be grouped: a) methods based on the market price, which includes evaluation based on the rental value or the market value of equity; b) methods based on the surface. The second important dimension has to do with the components of property included in the tax base including: only land, but buildings (or other improvements), or combinations of both; and:

The third dimension is a final key difference and has to do with the use of the property, as different uses can be treated in different ways for tax purposes, such as residential property particularly against property for business or urban land versus agricultural land.

Similarly it is being justified the factor (t) knowing that there are different ways of structuring the rate of taxation. If the

value of capital is tax base, a flat or progressive rate can be implemented smoothly. A fixed fee typically applies if the tax base is the value of the lease, and if the tax is based on the surface, the rate is a specific rate for apartments or for certain land per unit of area (square meters or hectares).

Levels and structures of tax rates (including various types of property) also differ substantially across countries (and within countries in jurisdictions). Namibia implemented a central government tax on agricultural land at a base rate of 0.75% in value, while urban municipalities apply more modest rate on real estate assets 0.42%. Serbia uses a progressive rate structure set by local governments starting at 0.4% up to a maximum of 3% of the value, while Cambodia is considering a uniform tax of 0.1%. In Kyrgyzstan, a dual rate system (0.35 and 1.0 percent) is applied depending on the type of property.

Local governments serve as the authority to set tax rates in many countries, often within a very narrow interval or below a ceiling set by law. In Uganda, for example, rates are set by the municipalities, but with a maximum of 2% of the assessable value foreseen by the law. In other countries the rates are set by the central government.¹¹

A simple structure, transparent, fair, uniform norm which has decisive advantages, it minimizes complexity in administration and risk of tax avoidance or evasion through misclassification of property.

It also minimizes the risk of splitting different tax rates in different cities. The use of reduced tax rates for residential properties may be politically convenient, but it provides an incentive that can lead to overinvestment's in this kind of property, and it can reduce the responsibility of locally elected officials (and especially in developing countries, where the country of residence is often the same as the place of business, administratively it can be difficult to set different rates).

This will obviously have a detrimental impact on revenue yield. If the main reason for lower rates is to protect the poor, a better solution would be to use a basic threshold for residential property taxation. In practice, many countries tend to taxation of business properties with high rates (sometimes much higher) rates than residential and agricultural property.

Factor (C) - Any practices of the tax administration should ensure that in the tax records are to be involved with an efficient method nearly all the improvements that have been made to any properties across the country up to that date. An important administrative problem especially in developing countries and transition economies is the low coverage of fields or property in the tax records. For example in Serbia,

¹⁰Taxing Immovable Property Revenue Potential and Implementation Challenges
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¹¹Bird dhe Slack (2008).

according to some estimates, between 40% and 50% of real estate previously were not on the property records, although the situation appears to have improved significantly after the transfer of administration of government property taxation local 2007¹². The possible reasons for these administrative weaknesses in Serbia include lack of offices and effective ground control, lack of enforcement of sanctions in connection with failure to appear, and maybe even the fact that a large number of properties fall below the threshold value taxation of property. In Latvia, on the other hand, according to a survey, more than 98 percent of properties are included in the tax register, although this measure may be somewhat distorted because of the privatization process. Besides the obvious consequences of direct income low coverage can have a significant impact indirectly adversely affecting the perception of justice and thereby respecting the taxation on property.¹³

Factor (V) - Assessment is a major problem especially administrative, in many countries, not only in transition economies but also developing countries, and there are a number of reasons for this:

a) The lack of educated assessors; b) a generally poor administration, and c) a market "fragile" or undeveloped property tax that generates enough transactions to ensure a constant flow contribution system (often combined with a lack of reliable data on sales of property values that are exchanged).

A key issue in this regard is the relative merits of decentralization versus central evaluation systems. While it seems that there is broad consensus that the establishment of a legal framework for property taxation should be uniform and centralized, there are arguments to be made against the current assessment or local central office. A frequent argument emphasizes the usefulness of local knowledge about the nature of property markets and conditions of sale, as well as the need to provide a strong incentive to the local administration to keep the values achieved to date. In many countries (such as Vietnam), local councils are tasked to keep lists of assessment, and in some Latin American countries, where property tax is a local source of income (e.g. Guatemala and Mexico), there has been a gradual shift of these administrative responsibilities to local governments, e.g. in Brazil only the local governments have responsibility for the administration of property taxes.

Against this, the lack of qualified local assessors and the fact that local officers evaluation are often subjected to political pressures to delay or minimize new assessments would favor a centralized evaluation system based on a critical mass to

technical expertise (such as those that apply for example, in Denmark, Lithuania, Latvia, and Uruguay). In many countries there is a shared responsibility between central and local government and in some other payment system assessments and services at all levels of government. Local responsibility is stronger when the property tax is an important source of local income. These evaluation problems often lead to estimates of value for tax purposes that are much lower than the market value.

Evaluation problems exist not by being limited to developing countries and transition economies, but also pose significant challenges in developing countries, such as for example, in the case of Germany, although evaluation mechanisms in OECD countries in general are quite advanced. Once an assessment system put in place, it is essential to regularly and continually update it. (In the judgment in June 2010, the Federal Fiscal Court of Germany decided that the continuing failure to perform a general reassessment of real property violates the principle of equality of the German constitution, is required a reassessment of property values. The problem is that the German system of property valuation is based on assessments dating back to 1964 in the case of the former West Germany and in 1935 in the case of former East Germany. The court decided to apply the revaluation of properties across the country).¹⁴

(E) - Implementation of property tax is often very poor and results in collection of modest reports. Various studies have revealed indicators of poor collection (current collection as a percentage of liability or bills) in a number of countries (for example, 50% in the Philippines, 60% in Kenya, 70% in Croatia and 15% in Macedonia), while in Latin America collection reports are 75% or above, are generally higher.¹⁵

A low ratio of the collection may be in some cases where the taxes collected by local authorities can have a political interest and the collection is not effective, but also by the very low level of expected fines. Moreover, in cases where transfers from the center cover a large part of the local costs, they may create an adverse effect on incentives for efficient implementation of local taxes.

These administrative complexities (C, D, and E) should be addressed in a reform of taxation on property, whether real property tax is to give very high incomes. A fundamental problem is that in contrast to income taxes or VAT on property taxes, presents difficulties in the evaluation process because it cannot be valued by property owners.¹⁶ This brings a relatively high administrative cost, costs due to the demand and need for information and registration canceled and the

¹²USAID (2010), p. 114.,

¹³.(International tax data, 2010, p.652).

¹⁴(Bahl, 2009, p. 17).

¹⁵Bahl 2009, p.19).

¹⁶Bahl and the Martinez-Vasquez (2008).

need for an effective system of administrative assessment. The administrative flaws, if not treated properly, can reinforce each other resulting in a high ratio of cost to income from property tax. It is easily visible from the upper equation of income, that a combination of low coverage, assessment, and collection reports will exacerbate each other thus reinforcing their negative impact on the yield of tax.

Also, improving the administrative infrastructure necessary for an effective property taxation system often requires a comprehensive investment (establishing registration procedures, a cadastre, the introduction of IT systems and training programs etc.) Unfortunately, information on the cost of administering the property tax is generally very low. According to the United States Agency's document, in Albania over 34.1% of the economy is informal. That makes millions of dollars which should go into public coffers; at present remain unfairly in the pockets of private businessmen.

¹⁷From the analysis of revenues that the Ministry of Finance possesses for 2010, it appears that the property tax is more raucous than the other taxes that provide revenue to the state budget. Such a situation recognized by the Ministry of Finance shows for almost a failure in this regard. For 2007, revenues from property taxes reached slightly more than 1.7 billion. Finance experts explain that, in Albania, this tax group accounts for only 0.71%, versus 6%, which is the average of the OSCE countries. Very little is being done from local units to increase performance of the property tax while this source, more and more, increases the "hidden" amount of its potential. This conclusion is based on data collected in local units where it is indicated that none of them uses more than 55% of the potential "known" tax. While operating with partial data, in any case local governments have failed to realize what they themselves plan. All units have planned an expectation of payment from 60-80% of the assets in its jurisdiction. It is a reality today that the gathered of the building tax is in minimum level.

"Sample" taken (only 8/65 local units or 12%) in terms of tax administration is categorized into 3 groups. The level of building tax collection versus its potential estimated / projected by it is presented below:

- The result <35% (10% FusheKruja, Lezha and Durres 28% to 34%)
- The result 40-50% (FierKukes 42% and 45%)
- The result of 50-55% (53% Berat, Shkodra and Korca 53% to 55%)¹⁸

In Albania, as a country in transition, there has not been any

political consensus and cooperation of institutions responsible for solving the problem of property in connection with their formalization and to increase tax revenues that should be applied onto. The government currently seems to be moving in the right direction to solving the above problems ranging inter alia the formalization of property and the establishment of fiscal cadastre. Complete registration and accurate property to complete the full coverage of the property tax base is a cornerstone of successful reforms in property taxation, and in turn is highly dependent on the exchange of data between key players (cadastral agency, property registry, courts, tax authorities, institutes surveying, etc.). (Source: USAID tax on real estate innovative -an instrument for increasing local revenues research study report 2010).

5. Reforming the System of Real Estate Taxation in Support of Social Policy

The diversity of methods used for measuring the tax base of real estate is great. Whichever method is adopted to measure this basis, the tax base is fragile and is often mined by numerous exemptions and discounts.

While ideally the entire property shall be subject to property tax, a particularly urgent issue in many developing countries is the need to better capture the strong base growing urban properties to finance infrastructure. The global demographic predictions show that the world's urban population will grow from 3 billion in 2000 at 6 billion in 2050, and almost all of the growth occurring in developing countries, creating an urgent need for local tax structures that can grow along with the need for taxes on property and infrastructure improvements.¹⁹

The most affected cites by the rapid demographic will grow several fold over the next few decades, and will have to plan the expansion of cities and identify funding opportunities necessary road networks and basic urban infrastructure.

A proposed strategy can work in developing countries with large cities (affected by demographic growth), but it still remains quite agrarian to introduce a combination of evaluation systems taxation on capital value of urban and a surface-based system for rural areas.²⁰

Source: USAID (tax on real estate innovative -an instrument for increasing local revenues research study report, 2010). (Bahl, 2009, p. 12) (Bahl, 2009, p. 14).

Taxes have social implications. One of the most basic

¹⁷ Source: USAID tax on real estate innovative -an instrument for increasing local revenues research study report 2010

¹⁸ Source: USAID (tax on real estate innovative -an instrument for increasing local revenues research study report, 2010)

¹⁹ (Bahl, 2009, p. 12)

²⁰ (Bahl, 2009, p. 14).

considerations in designing or evaluating a tax is its impact on different economic groups. The progressive or regressive nature of a tax is measured by comparing all income groups' total percentage of income that goes over this tax.

If groups of low income tend to pay a higher percentage of their income to taxes than do the groups with high income tax is said to be regressive and policymakers may seek to revise tax so as to reduce the burden on the poor. On the other hand, so the same policy makers often seek to increase the burden on the richest individuals in society, arguing that such individuals have greater ability to pay. List of exceptions or special treatment is often long and often very costly in terms of income. Exceptions typically include state property (including roads, railways and pipelines and central government property in local jurisdictions), and used equally well in institutions such as schools, cultural and religious institutions. Many states use tax on property for the purpose of supporting social policy, for this purpose use setting property tax limits to protect the poor by paying a lower fee than other layers. Some sites offer special incentives depending on family structure, in Serbia for example homeowners receive a 40% tax reduction for a certain number of members, and this reduction increases by 10% for each family member plus until you reach ceiling of 70%. This is an overview of regressive taxes on the rest of the population. In Uganda, for example, besides the standard exemption for government-owned properties and properties used for religious purposes, civil servants (police, military), unemployed, peasants, and people living in conditions of inability to earn income minimum living are excluded. In many other countries preferential tax for pensioners are provided (including tax exemption as mentioned earlier).

Agriculture is another example of a segment that generally takes a more appropriate treatment of property taxes or full exemption benefits (partially or completely, as in Nicaragua, Guinea, and Tunisia)²¹ To mitigate the impact of property tax for families with low incomes and to significantly simplify tax administration excluding low value property value tax net, some countries use property tax just over a certain threshold (measured on the surface or value, as in Serbia).

Should government property be taxed?

Usually governmental properties and local government property are exempt from property taxation.

At first glance this seems reasonable. Property tax of land occupied by the public sector would seem to be an unnecessary bureaucratic exercise for taking money from a pocket of the public sector and the introduction in another

pocket. On a closer analysis it can be seen that there are very good reasons that public sector properties are subject to property tax in the normal way.

Such tax is a method of separation of responsibility between different levels of government.

The central government uses local facilities and there is no reason why the central government should not contribute through property taxation in the normal way Taxation of central government property may be very important for the revenue that would create for local governments. In the whole world it is generally the case to mention that the public sector is not a careful user of land and property. Reasons for this include the lack of financial sanctions for those who possess the public purse available to them. There are a number of ways of how the management of public sector property can be improved. The responsibility of public sector property for property tax is a step towards better management because land and property are not cost-free. This is an encouragement to use land and property with much more effectiveness. The public sector is almost always a very large owner and occupier of the property. The collection of this tax and its specific use to alleviate poverty and to stimulate employment will assist in achieving social objectives set by central and local governments.

The social objectives

Taxes on real estate are often used to generate additional revenue for projects or services in a specific area.

Policies aimed at helping particular classes of owners or tenants take several forms:

Agricultural land - One of the most common groups to consider special in the system of Real Estate Taxation is agricultural land. In many cases, agricultural land is simply excluded from Real Property Tax. This approach may seem politically useful, but it often creates significant administrative challenges. The data for the excluded land cannot be held strictly in the same way as other land records which could affect the quality of fiscal cadastre. Furthermore, it is often difficult to define and determine the time of change of land use from agricultural to a more urban use. Rural areas often have it necessary for public investments in roads, electricity and other infrastructure that will greatly improve agricultural lands. Even a very low rate fee of real estate cannot add much to the needed revenues. The best approach is to include all land in fiscal cadastre. If a political decision is to reduce the tax burden on agricultural land, two approaches are common: First, in a taxation system based on land area, a lower rate may be granted. Secondly, the systems based on the market value of equity, valuing agricultural land based on its current use as

²¹(Bird dhe Slack (2008).)

farmland than in its potential to become widely developed. Thailand, for example, calls an agricultural expert panel to assess the productivity of typical categories of agricultural land categories in different parts of the country. Then rating is based on evaluation of soil productivity. The result is that the final burden of the tax on agricultural land is generally much lower than in other land assessed with the concepts of market value.

Other social groups and the poor -Here there are often two reasons for granting the Immovable Property Tax facilitators for families with low incomes. Firstly, even if taxed, revenue collected by the poor cannot exceed the cost of collecting the tax. Secondly, in countries where significant proportions of the population live in extreme poverty, it may seem unfair and irrational to add to their burden through the tax system. Conversely, utilities and urban infrastructure is often the key to improving the living conditions of the poor.

In this situation the creation of a culture in which most of the population is actively engaged in local governance can be facilitated if all families are keen to contribute through the tax system. Even modest tax payments tend to encourage a sense of ownership and a desire to get good value from the local government. Thus, a number of countries have established a minimum annual LPT which applies also to the poor. These countries include Jamaica, Argentina, Latvia, some provinces in Canada and some states in the United States. Among those communities that allow exemptions for families with low incomes, the challenge is to balance the complexity and administrative costs to income lost through tax relief program. Approaches that are simple to administer often result in loss of income that are much larger than are thought. Many targeted approaches tend to be more difficult and costly to administer. For example, a common strategy is to exclude or a certain amount of taxable value (in systems based on market value), or a certain amount of built area (in systems based on surface). One option that is often taken and noted on the other side of the issue is to require all property holders to pay tax on the Real Property in full, but then to allow those in need to apply a discount.

This process rebate application allows administrators to study the level of need and issue discount as a condition of the economic situation of the owners of the house. One advantage of this approach is that the requirements to obtain a discount should not be limited to poverty status, but can also be extended to the elderly, disabled, or other target groups for tax relief. South Africa has such a rebate system, and it is not uncommon there to see the 40% discount is given for residential property. The difficulty with discounts or financial aid systems similar to that found in South Africa is that it is much more costly to administer. Besides the self

administration of Immovable Property Tax there should be the administrative infrastructure to process applications in a right time. The setting of the equilibrium between a discount system for low-income people and another one for families with better incomes may have a higher net result far more satisfactory (revenue less cost for administration) rather than simply providing a specific exemption for all major settlements. A slightly different approach than the rebate system that is often used to provide tax relief for groups such as pensioners, veterans and invalids is to create an application and approval process before tax bill is determined or taxes be collected. Here the local government (or other body) sets criteria for granting aid to full or partial Real Property Taxes.

I think that in Albania despite the fact that the taxation system of real estate is fragile and in the transformation process, the involvement of the central government properties occurring in local units, on taxable property and use of these flows with a specific destination to the social service employment policy or environmental improvement will bring a positive impact on the community. The issues raised in this article are a very sound basis for treatment and to be taken into account in the construction and management Taxation System of Real Estate in Albania. Albania is at a pivotal point in the formalization of property and the establishment of a modern and contemporary tax system on immovable property, by using the experience of the developed countries and the specific social and cultural conditions of it. The defining of the tax base as the value of property market and not on the surface taking into account the demand of the IMF would make the tax fairer and would increase revenues to the budgets of local units and the ability to better quality services to the community.

6. Conclusions and Recommendations

6.1. Conclusions

1. The complete and accurate registration of the property in Albania to conclude the full coverage of the property tax base is the cornerstone of successful reforms in property taxation, and it in turn is highly dependent on the exchange of data between key players (cadastral agency, property records, courts, tax authorities, institutes surveying, etc.). 1. Registration complete and accurate property in Albania to complete the full coverage of the property tax base is a cornerstone of successful reforms in property taxation, and in turn is highly dependent on the exchange of data between key players (cadastral agency, property registry, courts, tax authorities, surveying

institutes, etc.)

2. The management of real estate taxation is an important issue that should be considered to increase local power revenues. This problem takes on a special significance in the current economic developments where the economic crisis is present among us.
3. The existence of a political consensus to build a tax real estate system as efficient as it is necessary.
4. The revenues collected by local government bodies from real estate taxes in Albania are very low compared to levels of aggregation in EU countries.
5. The tax rate for apartments is currently very low and regular payment of it must be worth more to the effect of tax morality (awareness of taxpayers) given the fact that 23 years have passed since the process of democratic changes in Albania. Paying taxes from them should be understood as a necessity for the benefit of public services.
6. The sanctions imposed for failure to pay this tax in Albania are non-existent. Sanctions, the imposing way, and their collection should be clearer in the law and applied more.

6.2. Recommendations

The efforts to consolidate and modernize the system of taxation of real estate in Albania I think should go in several stages, where I would highlight:

1. Increase in the efforts and performance of public administration and local government in terms of real estate tax collection predicting a *new report* on this tax collection.
2. Increase interagency cooperation to formalize real estate and creating a fiscal register of real estate and a land register for agricultural land.
3. The transition from the current system of taxation based on the surface, on the tax basis on the *market value of real estate* as a modern way of real estate taxation, and increased tax justice, based on the experience of European Union where we aspire to adhere soon.
4. Establishment on this basis of a national specialized unit that would help formalize the immovable property, which would conduct the assessment, reassessment and updating the values of immovable property and transfer of this information in the fiscal and cadastral records.
5. The taxation of real estate owned by the Central Government and the use of this tax to the destination specified in aid of social policy of employment and the environmental policy by the Local Government.

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