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LOCAL ADMINISTRATION REFORM  
PROJECT (LAR III)

## Developing a Comparative Assessment on Effective Collection of Municipal Accounts Receivable

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<b>Component</b>	C.1. Effective Provision of Local Services
<b>Activity</b>	A.1.1.7. Developing a comparative assessment with EU countries on effective collection of municipal accounts receivable
<b>Output</b>	Comparative Assessment Report on Effective Collection of Municipal Accounts Receivable

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## Glossary

<b>Tax assessment</b>	Tax assessment is the administrative procedure whereby the amount of tax receivable is calculated by the tax office according to the tax base and rates indicated in law.
<b>Notification</b>	Notification is the written communication of taxation-related matters and provisions by competent authorities to the taxpayer or the subject of sanction.
<b>Tax accrual</b>	Tax accrual is the establishment of the liability or obligation to pay the tax once the tax is levied and notified.
<b>Tax collection</b>	Tax collection is the payment of taxes in accordance with the law.

## EXECUTIVE SUMMARY

### **A. Project Objectives**

- Endeavoring to ensure that local administration reforms in Turkey are on par with international principles and standards, this project seeks to assist respective bodies in the provision of active, effective, efficient, inclusive, transparent, accountable and participatory local services, befitting local governance.
- The primary objective of the project is to ensure that the local administration model resulting from structural reforms and transformations that have been carried out in Turkey in recent years, can be put in practice effectively and in line with principles of democratic governance.
- More specifically, the main scope of this study has been to develop a comparative assessment on effective collection of municipal accounts receivable which is a relatively lesser known area in the municipal financial management system in Turkey. Within this framework, the study analyzes the problems encountered by municipalities in the collection of own revenues i.e. taxes, charges and other receivables and explores possible solutions. The analysis was carried out by evaluating the legislative provisions and by conducting interviews to comparatively assess the daily practices of municipalities of different sizes both in Turkey and other countries.
- Within this framework, the project also seeks to improve respective administrative capacities of the Ministry of Interior and the Ministry of Environment and Urbanization as well as to strengthen cooperation between these agencies.

### **B. Project Scope and Methodology**

- The first section of the study, which is otherwise composed of three main sections, briefly introduces the primary revenues of municipalities in Turkey, followed by a summary of legislation and practices concerning the collection of Municipal Revenues. Lastly, the underlying reasons behind the problems encountered by municipalities in the collection of revenues are investigated.
- The research for the first section of the study included conducting interviews with municipal officials from 12 different Municipalities at the provincial, district and metropolitan levels located in different regions of Turkey. The third section of the report includes a detailed account of the evaluations and recommendations developed as a result of these interviews. In addition, the audit reports prepared by the Turkish Court of Accounts – TCA (“Court of Accounts”) were also utilized while drafting the first section.
- The second section of the study entailed interviewing more than a dozen local authorities in foreign countries, reviewing the reports of state audit institutions in various countries regarding the municipal local tax/fee management and analyzing previous research and policy documents with the aim of determining recommendations that could contribute to improving local tax collection practices of Turkish municipalities. The relevant reports containing the findings obtained through comprehensive analyses and literature reviews were sent to the municipal officials from respective foreign municipalities to receive their approval. The third section of the study also includes a detailed review of the evaluations and recommendations developed through these interviews and analyses.

### C. Situation Analysis

- The own revenue sources of Municipalities mainly consist of taxes (taxes and charges as stipulated in the Law No. 2464 and the property tax), enterprise and ownership revenues and capital revenues.
- When we analyze the share of these different revenue sources within total revenues, we can see that the share of revenues from tax collection has been declining over the years.
- As can be clearly seen in the table below, the share of tax revenues in total municipal revenues has dropped from 14.80% to 12.95% between 2014 and 2018.

	2014	2015	2016	2017	2018
Total Tax Revenues	9,267.69	10,820.72	12,203.76	13,192.45	14,459.40
Total Revenues	62,587.12	72,270.38	81,798.90	97,809.28	111,670.47
Share of Tax Revenues in Total Revenues (%)	14.80	14.97	14.91	13.48	12.95
Tax to GDP Ratio (%)	0.45	0.46	0.47	0.42	0.39

- The fact that tax revenues of Municipalities are low in proportion to total revenues demonstrates that the taxes allocated to Municipalities remain insufficient. There are multiple factors contributing to this situation, including structural issues such as outdated legislation or limited municipal authority over own revenues, as well as inadequate collection capacity of Municipalities and problems encountered in the collection process.
- In addition to the interviews conducted with municipal officials within the scope of this study, reports prepared by the Court of Accounts (TCA) concerning a total of 24 Metropolitan Municipalities, Metropolitan District Municipalities and City Municipalities were examined and the collection rates criticized by TCA experts for being low were analyzed on the basis of individual own revenue items. The findings demonstrate that in selected municipalities, the collection rates for the Building, Land and Plot taxes, which together constitute the Property Tax were 30 to 40 percent on average while the collection rates for Sanitation Tax and Announcement and Advertisement Tax, which constitute important revenue items for municipalities were 30 percent on average.
- Similarly, the extremely low collection rates recorded in administrative fines and tax penalties indicate that municipalities experience significant problems in the collection of receivables in this category.
- In TCA reports, low collection rates are criticized by stating that this situation points to a *“failure in the follow-up and collection of municipal accounts receivable, which could constitute a financial liability if the statute of limitations expires”* and Municipalities are urged to take the necessary measures to increase the collection rates.
- Based on the interviews conducted with municipal financial authorities, the main problems encountered in the collection of municipal receivables are identified as follows:
  - Collection Problems Due to Lack of Municipal Authority in Taxpayer Identification and Tax Auditing
  - Collection Problems Due to Staff Shortage
  - Collection Problems Due to Insufficient Information Exchange between Municipalities and Other Public Institutions

- Collection Problems Due to the Uncertainties Surrounding the Collection Authority
- Collection Problems Due to the Existence of Many Different Types of Taxes and Charges
- Collection Problems Due to the Restructuring of Public Receivables and Tax Amnesties
- Collection Problems Due to the Underutilization of E-Enforcement and E-Notification Procedures
- Collection Problems Due to Reluctance by Municipalities to Conduct Tax Audits and Collections for Political Reasons
- Collections Problems Due to Lack of Audits Targeting Municipal Tax Management Systems

#### **D. Evaluations and Recommendations**

- As per our reviews of local tax legislation and local collection practices in Turkey and in various countries, we have outlined a number of potential measures and actions Turkish municipalities can take to improve the collection of local taxes and charges.
- The measures that are recommended should be implemented through improved policy making, planning, management and enforcement of the local taxes with the aim of increasing collection and delivering visible improvement results to the lives of citizens.
- Within this framework, the recommendations for improving the effective collection of local receivables within the local tax management system of Turkish municipalities are summarized under the following headings:

##### **Increasing Staff Numbers, Improving Audit Capacity and Raising Taxpayer Awareness**

- For effective collection of municipal taxes, it is first necessary to support municipalities in terms of management capacity and qualified personnel. Within this framework, qualified personnel such as tax experts and auditors should be trained to be employed in municipal collection units, these units should primarily employ trained and qualified personnel, and development of existing personnel should be ensured through trainings and sharing of good practices.
- Legal changes should be made to grant municipalities with extended authority in conducting tax reviews and audits in certain areas. However, with these legal changes, it will be essential to make the necessary arrangements designating how and by whom the said authority will be exercised and to train the personnel who will take on the reviewing and auditing tasks.
- Local taxpayer awareness should be reinforced through efforts such as citizens' budget and tax brochures to be prepared in the layman's terms for the purpose of revealing the relationship between local taxes collected by municipalities and municipal services. Accordingly, it is recommended to develop systems that will enable municipalities to quickly adjust through in-service trainings if and when there are amendments to the local tax management legislation in Turkey. These trainings should be supported by experts from the Ministry of Treasury and Finance through interagency protocols.

##### **Increasing Coordination between Municipalities and Other Public Institutions and Improving the Technological Infrastructure**

- Municipalities have limited access to certain portals (TAKBİS, MERNİS, POLNET etc.) operated and used by other public institutions. The lack of access to or underutilization of these portals

results in a constant need for correspondence, which not only leads to a waste of resources (time, labor, money) both for municipalities and the relevant institutions but also causes delays in the collection and follow-up procedures for municipal accounts receivable.

- The use of e-municipality applications and technologies in tax management should become a standard practice. Methods such as e-notification, e-payment, e-audit and e-enforcement (through taxpayers' bank records) would not only facilitate the declaration and payment of taxes by the taxpayers but also give easy access to taxpayer records, thus expediting tax audits and follow-up procedures for unpaid taxes.

### **Auditing and Collection Performance Tracking**

- External (primarily by the Turkish Court of Accounts) and internal audit systems should be improved, and external auditing should become a standard practice applied to all municipalities with a systematic approach in order to ensure compliance of municipal procedures with the legislation, to prevent errors and to improve municipal practices. The personnel performing internal and external audits within the municipalities should be trained on municipal legislation and tax legislation, and the audit system should be transformed in a way to enable municipalities to identify learning and improvement opportunities.
- To be able to improve the collection of local taxes and charges, the Municipalities should use regularly updated information and analysis and should create a systematic approach to track the collection performance.
- The main objective would be improving the oversight of the tax/fiscal affairs departments of the municipalities by regularly monitoring collection levels throughout the year.

### **Increasing the Tax Compliance Among Citizens**

- It is a necessity to take a pro-active approach to encouraging taxpayers to pay their local tax on time, including all or a proportion of accumulated debts.
- To this end, an enforcement official, or another municipal official in charge of enforcement, should begin to get in contact with taxpayers to ask for payments once the deadline has passed. This should be followed up with a personally delivered first warning notice if no payment has been received after the payment deadline.
- Municipalities should publicly announce the intention to enforce tax collection through press releases on their websites as well as through public service announcements on local radio/TV.
- As per the property tax, municipal tax officers are expected to start inquiries on properties for which the tax has not been paid, and financial and employment information of the property owner is recorded in the database. They are then expected to inform the taxpayer of legal actions that will be taken in case of non-payment.

### **Ensuring Regular Updates to the Taxpayer Registry**

- Considering that in Turkey, much of the economy is made up of "informal" and small-scale businesses, and tax authorities lack the external controls, it can be difficult to maintain an accurate central taxpayer registry.
- To counteract this, registration should be made more rigorous and feedback systems introduced to ensure that taxpayers regularly update their information. Additionally, quick

and simple control mechanisms can be put in place to raise the alarm if taxpayers fail to comply with their obligations.

- In Turkey, mobile and Internet penetration are comparatively high. Municipalities can therefore introduce electronic channels such as Internet portals, mobile-payment options, and ATMs.
- By using these channels for simple taxpayer transactions (such as declarations and payments), a municipality can increase the level of voluntary payments while conveying a strong sense of its public purpose. Such approaches reduce the length of queues at municipality cash desks while also removing a barrier to compliance.

### **Dispute Resolution and Creating External Checks That Enforce Compliance**

- In most of the countries we have analyzed, the citizens have many options (settlement, negotiation etc.) after a penalty/fine due to municipal receivables. Similar measures are possible as per the legislation in Turkey. However most of the time the citizens are not aware of these legislative possibilities and the municipalities do not inform the citizens properly about the actions they may take after a tax assessment/penalty.
- Therefore, it would be recommended to utilize these procedures more frequently to increase the rate of tax collection.
- Often, informal businesses that don't pay taxes nevertheless interact with government agencies as part of normal operations. Municipalities can work with these agencies to verify the tax status of businesses. Such checks need not be overly intrusive but can still effectively encourage formalization.

### **Centralization of Collection**

- In principle, local government authorities should be likely to collect local taxes more efficiently than central governments because they can more easily oversee local residents, have better information about their assets, and monitor their compliance.
- However, various studies show that poor administrative capacity, corruption and political interference in tax enforcement were seen to be the main obstacles for collection of local taxes. Elected local councilors may intervene in tax collection and in the recruitment of revenue collectors. Accordingly, enforcement of the property tax legislation became exceedingly difficult.
- As a matter of fact, in almost all of the countries under the scope of this study, it has been observed that there is a tendency towards centralization of tax collection.
- Accordingly, the collection task of local taxes have been transferred to central fiscal authorities in various countries. The minor local fees and charges continue to be imposed and collected by the local authorities.

### **Recommendations That Require Changes in the Legislation**

One can find below our recommendations regarding changes in the local taxation legislation in Turkey so as to increase the management and collection of local taxes.

- The provisions regarding the collection of municipal receivables stipulated in the Law on Municipal Revenues should be revised and the tax subjects and tariffs should be adjusted to today's conditions.
- Making the necessary legislative amendments to grant municipalities the authority to make adjustments to local tax tariffs within the minimum and maximum thresholds set by the Law would enable municipalities to attain a more financially autonomous and more accountable structure.
- In addition, the amendments foreseen in both the content and the application of the Law No. 6183 would increase the collection capacity of municipalities. For example, revising the minimum threshold for the cancellation of uncollectible receivables and giving municipalities broader discretion in determining the receivables they choose to follow up within the limitations prescribed in the law would not only prevent the waste of time from the perspective of municipal staff but also avoid the general waste of municipal resources as well.
- The conciliation mechanism, which is defined in the Tax Procedure Law and is applicable to Municipal Taxes, has a very limited application area since it is not well-known by the taxpayers and since municipal officials tend not to offer the citizens the option of conciliation. Extending municipalities broader discretion with regard to the application of these two mechanisms provided in the legislation would significantly increase the municipal tax collection capacity.
- As seen in many developed countries including Sweden, Denmark and Germany, tax rules should be clear and simple to understand, so that taxpayers know where they stand. A simple tax system makes it easier for individuals and businesses to understand their obligations and entitlements. As a result, businesses are more likely to make optimal decisions and respond to intended policy choices.
- Curbing exemptions can also reduce the tax system's complexity while boosting revenue by broadening the tax base. Many countries incur a sizable loss of revenue through ill-designed exemptions, such as costly tax holidays and other incentives that fail to attract investment. Additionally discretionary granting of exemptions provides opportunities for corruption.
- A risk-based audit, which links the likelihood and nature of an audit to the taxpayer's inherent risks, is the most effective type in terms of encouraging compliance. In almost all of the countries where the municipalities directly collect the local taxes, the legislation enables the municipalities to carry out audit of local taxes. Therefore it is also crucial to authorize the Turkish municipalities in terms of local tax audit and provide trained personnel for that purpose.
- In some countries, small sized municipalities can get the local tax management services from the central tax administration. For example in Greece, the municipalities whose population is under 10.000 can get collection service from the central government. This should be a reliable alternative for the small-sized Turkish municipalities as well especially for the ones with low tax collection capacity. Additionally, in Greece the most important mechanism for collection of local taxes is through the Electricity Company bills. This should be a reliable alternative for the Turkish municipalities where the use of illegal electricity is minimal.
- In most of the countries analyzed in this report, there is a reasonable and adequate threshold for the collection of municipal taxes and following up these receivables are left to the discretion of the municipal officers. A similar threshold can be provided to the Turkish municipalities in order to avoid the following up of immaterial (i.e. insignificant receivables not worthy of a follow-up procedure) receivables.
- In Spain and Italy the management and collection of the local taxes, charges, fees and local levies can be carried out by the Municipality itself, by delegation to the Provincial Council or

by outsourcing the service directly. Currently there is no outsourcing of municipal receivables in Turkey however outsourcing can be a viable option for the Turkish municipalities as well especially for the ones with a low tax collection capacity.

- In Spain and Italy, direct debit method is commonly used for payments and it has many advantages both for municipalities and for the citizens.
- In most of the countries we have analyzed, by examining the reasons of the taxpayers and the economic and social circumstances individually, the Municipalities can provide more favorable payment terms and payment in installments.
- It is recommended to increase the number of secondary legislation (communiqués, by-laws, advance rulings etc.) available for providing guidance in the enforcement of laws with the aim of ensuring uniformity in tax procedures carried out by municipalities.

In conclusion, with the recommended improvements discussed above, municipalities would not only attain a more financially autonomous, accountable, transparent and citizen-oriented structure but also experience positive developments in terms of management capacity, staff competency and scope of authority. It is envisaged that these steps would increase tax compliance and municipal performance, thus improving municipal tax collection.

The measures that are recommended should be implemented through improved policy making, planning, management and enforcement of the local taxes with the aim of increasing collection and delivering visible improvement results to the lives of citizens.

## INTRODUCTION

This study has been prepared within the scope of the LAR III (Local Administration Reform) Project. The project is an extension of Phases I and II of the same project, which has been implemented between 2003-2013. Endeavoring to ensure that local administration reforms in Turkey are on par with international principles and standards, this project seeks to assist respective bodies in the provision of active, effective, efficient, inclusive, transparent, accountable and participatory local services, befitting local governance.

The project, which qualifies as a program, is composed of three components. This report has been prepared as an output of Component One entitled 'Effective Provision of Local Services'. Within the scope of 'Effective Provision of Local Services', this component seeks to support the Ministry of Interior and the Ministry of Environment and Urbanization especially on financial management-related areas, including legislative processes.

The specific objective of the project is, then, to ensure that the local administration model resulting from structural reforms and transformations that have been carried out in Turkey in recent years, can be put in practice effectively and in line with principles of democratic governance. Within this framework, the project also seeks to improve respective capacities of the Ministry of Interior and the Ministry of Environment and Urbanization as well as to strengthen cooperation between these agencies.

According to the theory of fiscal federalism, the only good taxes for local governments are those that are easy to administer locally, are imposed mainly on local residents and do not raise problems of harmonization or competition between local or regional governments or between local/regional governments and national governments. Accordingly, the main scope of this assignment has been to develop a comparative assessment on effective collection of municipal accounts receivable which is a relatively lesser known area in the municipal financial management system in Turkey.

This report has been prepared under the scope of the Activity A.1.1.7. "Developing a comparative assessment on effective collection of municipal accounts receivable" whose aim is to carry out a comparative study between municipalities in EU member states and Turkey on "Overdue revenues of the municipalities and revenue collection mechanisms".

Within this framework, the primary objective of this study is to analyze the problems encountered by municipalities in the collection of own revenues i.e. taxes, charges and other receivables and to explore possible solutions. The analysis was carried out by evaluating the legislative provisions and by conducting interviews to comparatively assess the daily practices of municipalities of different sizes both in Turkey and other countries.

The first section of the study briefly introduces the primary revenues of municipalities in Turkey, followed by a summary of legislation and practices concerning the collection of municipal revenues. Lastly, the underlying reasons behind the problems encountered by municipalities in the collection of revenues were investigated.

The second section of the study entailed interviewing more than a dozen local authorities in foreign countries, reviewing the reports of state audit institutions in various countries regarding the municipal local tax/fee management and analyzing previous research and policy documents with the aim of determining recommendations that could contribute to improving local tax collection practices of Turkish municipalities.

## **A. ANALYSIS OF LEGISLATION AND MUNICIPAL REVENUE COLLECTION PROCEDURES IN TURKEY**

### **1. Municipal Revenues in Turkey (Own Revenues)**

Among local administration bodies in Turkey, municipal administrations take on the most crucial position both in terms of the tasks undertaken and the ability to engage in direct communication with citizens. The duties and responsibilities of local administrations in Turkey, their resource structures as well as their relations with the national government were reorganized in early 2000s with a series of legal reforms and the administrative structure of local governments and their relations with the national government were reformed within the constitutional framework.

Currently, Turkish Municipalities fulfill numerous duties and functions as prescribed in various laws and regulations, primarily the Municipality Law No. 5393 and the Law No. 5216 on Metropolitan Municipalities.

Anyone who lives under municipal jurisdiction benefits, on a daily basis, from services offered by municipalities, including but not limited to economic services, healthcare, social services, land development, public works, sanitation, local police and education services. Moreover, with the increase in urban population, the expectations of citizens with regard to the services provided by local authorities have started to change and transform.

However, the lack of financial resources to fulfill their diversified and increasing public duties prevents municipalities from providing services in a timely and complete manner. In this regard, the amount and sustainability of municipal revenues are crucial as they determine the capacity of municipalities in rendering services.

The legal bases of municipal revenues are the Law No. 2464 on Municipal Revenues, the Municipality Law No. 5393, the Law No. 5216 on Metropolitan Municipalities, the Property Tax Law No. 1319 and the Law No. 5779 on the Allocation of Shares from Central Government Tax Proceeds to Special Provincial Administrations and to Municipalities.

In this context, in accordance with the current legal framework and respective practices in Turkey, municipal revenues can be analyzed in three main groups, which are: own-revenues composed of certain revenue transfers and revenues from activities; tax revenue-sharing with the central government at the national level per locality; and budget transfers mainly from the national budget.

Article 59 of the Municipality Law No. 5393 of 03.07.2005 establishes the final classification of municipal revenues. Accordingly, the municipal revenues are:

- Statutory municipal taxes, duties, charges and contributions
- Municipal shares from national budget tax revenues
- Payments made by authorities funded under the general and special budgets
- Revenues obtained from lease, sale and other uses of movable and immovable property
- Fees to be collected for services provided, according to the fee tariffs determined by the Municipal Council
- Revenues from interest and fines
- Donations

- Revenues obtained through enterprises, shareholdings and activities of all sorts and other revenues

The report titled “A.1.1.3 Increasing the revenues of local administrations in line with the experiences of other countries and developing recommendations in view of designing a draft legislation” contains detailed descriptions regarding each type of revenue.

Since the subject matter of this report is effective collection of municipal accounts receivable and own-revenues, the focus is on the collection of own-revenues.

Below you may find an outline of the characteristics of own-revenues collected by the Turkish municipalities.

## 1.1. Municipal Taxes

Municipal taxes are sources of revenue levied and collected by municipalities within their territorial jurisdiction and included in the municipal budget. In accordance with the Law No. 2464 on Municipal Revenues, the municipal taxes are: Announcement and Advertisement Tax, Entertainment Tax, Communication Tax, Electricity and Coal Gas Consumption Tax, Fire Insurance Tax and Sanitation Tax. In addition to these taxes, the Property Tax collected as per the Property Tax Law No. 1319 is also considered a municipal tax.

Below table summarizes the main taxes collected by municipalities in Turkey:

Tax Type	Tax Subject and Taxpayers	Tax Collection Authority
<b>Property Tax</b>	<p>Property tax is composed of two elements, namely the building tax and the land tax. The tax is levied annually by municipalities either by making an assessment every four years to determine the tax value of buildings, lands and plots subject to taxation or based on the taxpayer’s declaration upon any change in the tax value.</p> <p>Taxpayer is the owner of the building, land and plot subject to taxation, the beneficial owner (if any), or those who enjoy the right of disposition in the absence of the first two. The joint owners of the building, land or plot subject to taxation are liable in proportion to their shares.</p>	<p>Property Tax is collected by district municipalities in Metropolitan provinces and by City, District and County Municipalities in non-metropolitan provinces.</p>

<p><b>Announcement and Advertisement Tax</b></p>	<p>Announcement and Advertisement Tax is levied on all announcements and advertisements made within municipal borders and in municipal adjacent areas. The taxpayer is the individuals or legal persons who, on their own behalf, make or have the announcement and advertisement made.</p> <p>The imposition of the announcement and advertisement tax is regulated in Article 16 of the Law on Municipal Revenues. Accordingly, the tax is levied based on a declaration to be submitted by taxpayers. The declaration is submitted by those who perform the announcement and advertisement work as a customary occupation until the twentieth of the following month. The tax is paid within the declaration submission period. In certain situations, municipal councils reserve the right to collect the tax in two instalments.</p>	<p>As per Article 23(f) of the Law No. 5216, the authority to collect the taxes applicable to all kinds of announcements and advertisements posted on squares, boulevards, streets and avenues as well as on buildings with façades overlooking the aforementioned spots and the applicable posting, allocation and maintenance fees has been given to metropolitan municipalities.</p> <p>In this context, Announcement and Advertisement Tax is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.</p>
<p><b>Entertainment Tax</b></p>	<p>Entertainment tax is levied on the operations of venues requiring ticketed entry, mutual betting or entertainment venues not requiring ticketed entry within municipal borders and in municipal adjacent areas. Taxpayers are individuals or legal persons operating such entertainment venues. There are three different methods for the assessment of the Entertainment Tax.</p>	<p>Entertainment Tax is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities. However, a great portion of the revenue goes to Metropolitan Municipalities and Metropolitan District Municipalities.</p>
<p><b>Communication Tax</b></p>	<p>Telephone, telex, facsimile and data fees collected by the Post – Telegraph – Telephone Administration within the border of the municipality and adjacent areas are subject to Communication Tax. Taxpayer of the Communication Tax is the PTT</p>	<p>Authority to collect communication tax is directly held by district municipalities and metropolitan municipalities do not have the authority to collect the said tax. However, the communication tax calculated on the basis of telephone, telex, facsimile and data fees collected</p>

	Administration. The assessment of the tax is based on declaration. Communication Tax is reported to the relevant municipality by the end of the month following the collection via a declaration and paid before the same deadline (Art. 13 of the Law on Municipal Revenues).	on tools of communication used in social and cultural facilities, sports, entertainment and recreational venues operated by the metropolitan municipality must be declared and paid to the metropolitan municipality via a declaration pursuant to Law No. 5216.
<b>Electricity and Coal Gas Consumption Tax</b>	Electricity and coal gas consumption within municipal borders and adjacent areas is subject to Electricity and Coal Gas Consumption Tax. Taxpayers are individuals and legal persons consuming electricity and coal gas and organizations supplying electricity or distributing coal gas. The assessment of the tax is based on declaration. Organizations supplying electricity or distributing coal gas are to notify the relevant municipality of the tax they have collected before the evening of the 20 <sup>th</sup> day of the month following the date of collection via a declaration and pay the tax in question by the same deadline (Art. 39 of the Law on Municipal Revenues).	District municipalities are authorized to collect the electricity and coal gas consumption tax. However, the electricity and coal gas consumption tax, calculated on the basis of the electricity and coal gas consumed by the social and cultural facilities, sports, entertainment and recreational venues as well as green areas operated by the metropolitan municipality must be declared and paid to the metropolitan municipality via a declaration pursuant to Law No. 5216.
<b>Fire Insurance Tax</b>	Premiums collected on the basis of fire insurance policies for movable and immovable assets within municipal borders and in adjacent areas are subject to fire insurance tax. Taxpayers are the insurance companies. Taxpayers are required to report their taxable proceedings within one month to the municipality under which they operate by the evening of the 20 <sup>th</sup> day of the following month via a declaration and to pay the calculated tax by the same deadline. (Art. 44 of the Law on Municipal Revenue).	The Law No. 5216 on Metropolitan Municipalities has no stipulation regarding the collection of or shares to be obtained from the fire insurance tax; yet, given that the fire insurance tax is related to fire department services and that fire department services are delivered by metropolitan municipalities, the authority to collect the fire insurance tax lies with metropolitan municipalities in metropolitan provinces .

<p><b>Sanitation Tax</b></p>	<p>Houses, businesses, and buildings used in other ways, which are located within municipal borders and adjacent areas and which benefit from the environment and cleaning services provided by municipalities, are subject to Sanitation Tax. Taxpayer is the real or legal persons who use these buildings; tax obligation begins with the use of the building. Vacant buildings are not to be subject to sanitation tax.</p>	<p>Sanitation Tax is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities. 20% of the sanitation tax applicable to businesses and buildings used in other ways and collected by municipalities located within borders of metropolitan municipalities is to be transferred to the metropolitan municipality by the evening of the 20<sup>th</sup> day of the month following the collection, to be exclusively used for the establishment and operation of the waste disposal plants.</p>
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In accordance with the Law on Municipal Revenues, Communication Tax, Electricity and Coal Gas Consumption Tax and Fire Insurance Tax are based on declaration. Since the parties obliged to declare and pay these taxes are the organizations that provide these services, municipalities collect these taxes based on declaration. However, municipalities cannot confirm such declarations as their tax auditing authority is quite limited.

The tariffs for municipal taxes are either stipulated by Law as a fixed amount or determined by the President of the Republic within the framework of the minimum and maximum thresholds prescribed in the Law, for each group of municipality. In addition, the regulation concerning the determination of tariffs by municipal councils within the minimum and maximum thresholds was abrogated upon the Decision No. E:2010/62 and K:2011/175 of the Constitutional Court of 29.12.2011. Accordingly, municipalities have no authority to determine the tariffs for municipal taxes.

## 1.2. Municipal Charges and Fees

While taxes are mandatory and unilateral payments received from all real and legal persons, charges are payments collected from those who benefit from services provided by public institutions in return for these services. In this respect, the main difference between taxes and charges is that charges are paid in return for a service.

Charges and user fees constitute the area where the principle of utility applies the most because in these types of payments, the link between the payment and the service or utility received is self-evident.

According to Law No. 2464 on Municipal Revenues, the municipal charges and fees include the following:

- Occupancy Fee,

- Charge for License to Work on Holidays and Weekends,
- Spring Waters Charge,
- Brokerage Charge,
- Animal Slaughter Inspection and Audit Charge,
- Charge for Inspection of Measuring Instruments and Scales,
- Building Construction Charge,
- Registration and Certified Copy Charge,
- Charges Concerning Zoning,
- Business License Charge,
- Inspection, License and Report Charge,
- Health Certificate Charge,
- Charge for Infrastructure Excavation Permit.

Charge tariffs are determined by the General Communiqué on the Law on Municipal Revenues. The Communiqué classifies municipalities into 5 distinct groups based on their population. Charges are calculated based on the group in which a particular municipality is included.

Depending on their population and level of social and economic development, municipalities are divided into the following groups:

- Municipalities with a population of 100,001 and above form the 1st group,
- Municipalities with populations between 50,001 and 100,000; and central municipalities of provinces even if their population is smaller than 50,001 form the 2nd group,
- Municipalities with populations between 20,001 and 50,000 form the 3rd group,
- Municipalities with populations between 5,001 and 20,000 form the 4th group,
- Municipalities with a population smaller than 5,000 form the 5th group.

Below table presents information on the subject, payer and tariff structure of municipal charges and fees.

Type	Subject	Collection Authority
<b>Occupancy Fee</b>	Occupancy of places within municipal borders, which have been specified below for purposes of sale or other as well as such due occupancy upon permission of authorized offices is subject to occupancy fee: occupancy by any and all vendors of goods and livestock of marketplaces or fairgrounds, squares and other auction sites; occupancy in-part of roads, squares, marketplaces, piers, bridges and public places alike for any purpose whatsoever; occupancy during working hours of sites established by municipalities in city centers for provision of parking space to powered land vehicles upon approval of	Occupancy Fee is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.

	<p>provincial traffic commissions by vehicles. Those who occupy such places are liable to pay such occupancy fee. In cases where such occupancy is without permission, the occupancy liability still applies.</p> <p>In addition, during the drafting of this report, the Committee on Environment of the TGNA passed a bill, which amends the Law on Municipal Revenues and determines the occupancy fee to be collected from shared electric scooters in order to promote the use of electric scooters.</p>	
<b>Charge for License to Work on Holidays and Weekends</b>	The licensing of businesses which need to obtain permission to work on national holidays and weekends is subject to the Charge for License to Work on Holidays and Weekends. The charge is payable for the real or legal persons that receive a permit to work on holidays and weekends.	The Charge for License to Work on Holidays and Weekends is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.
<b>Spring Waters Charge</b>	The inspection by municipalities of the spring waters (including processed waters) that will be filled into special containers and sold and the labeling of the same with a special sign to show to which spring they belong are subject to the Spring Waters Charge. The charge is payable for those who fill spring waters in specially labelled containers for sale.	Spring Waters Charge shall be paid in cash against a receipt during the labeling of containers with a special sign, to the municipality which does the labeling, after the spring waters are filled into containers for sale and Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities are authorized to collect the spring waters charge.
<b>Animal Slaughter Inspection and Audit Charge</b>	The health inspection and audit of the meat which is slaughtered based on the permission granted by municipalities or competent authorities within municipal boundaries and adjacent areas or outside municipal boundaries and adjacent areas but will be sold within municipal boundaries is subject to the Animal	Animal Slaughter Inspection and Audit Charge is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.

	Slaughter Inspection and Audit Charge. The charge is payable by the owners of the animal or the meat.	
<b>Brokerage Charge</b>	The selling of any movable and immovable goods and products by individuals or legal entities in the marketplaces, fish markets and auction places which belong to the municipality within municipal boundaries and adjacent areas as well as other places where a municipality crier or broker is present upon the request of the person concerned is subject to the brokerage charge under any circumstances. The brokerage charge is payable for those who sell their goods and products.	The brokerage charge is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.
<b>Charge for Inspection of Measuring Instruments and Scales</b>	The tagging of measuring devices and instruments and scales by municipalities in line with the provisions of the relevant laws and regulations is subject to the Charge for Inspection of Measuring Instruments and Scales.	The Charge for Inspection of Measuring Instruments and Scales is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.
<b>Registration and Certified Copy Charge</b>	The issuance of any registration copies as well as the certified copies of real estate maps, plans, projects and sketches requested from municipalities and affiliated institutions is subject to the registration and certified copy charge.	
<b>Business License Charge</b>	Starting a business within municipal boundaries or adjacent areas is subject to the business license charge. The relevant legislation regarding this specific charge is the Law No. 3572 on Business and Operating Licenses. The law stipulates that all workplaces and businesses operating within municipal boundaries and adjacent areas shall pay the Business License Charge to Municipalities and Metropolitan Municipalities.	Business License Charge is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.

<b>Inspection, License and Report Charge</b>	The licenses, reports and documents which are issued by municipalities or affiliated institutions as required by law or upon request for inspections and health-related or technical analyses and which are not subject to a separate charge in the law, are subject to this charge.	Inspection, License and Report Charge is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.
<b>Health Certificate Charge</b>	The issuance of certificates to those who have to obtain a health certificate from municipalities as per special legislation due to the work they perform and the service they provide as well as the renewal of such certificates at certain intervals is subject to the Health Certificate Charge.	Health Certificate Charge is collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.
<b>Charges Concerning Zoning</b>	Subdivision (parceling) Charge, Charge for Infrastructure Excavation Permit, Plotting and Merger Charge, Charge for Approval of Plans and Projects, Charge for Land Excavation License and Soil Removal, Building Use Permit Charge are among the charges concerning zoning.	Depending on the type of charge, charges concerning zoning are collected by Metropolitan Municipalities, Metropolitan District Municipalities, City, District and County Municipalities.

### 1.3. Contributions to Expenditures

The payments collected in accordance with the rates specified in law to cover the cost of a specific service provided by municipalities are referred to as contributions to expenditures.

The Law on Municipal Revenues regulates 3 types of contributions to expenditures, which are:

- Contribution to Expenditures on the Road Network,
- Contribution to Expenditures on the Sewage Network and
- Contribution to Expenditures on Water Facilities.

In this respect, contributions to expenditures are different from taxes and charges as contributions to expenditures are collected to cover projected expenses and not for social purposes, which is the case for taxation.

Contributions to expenditures are accrued only after the service is completed and made available to the public, regardless of the tendering procedure. Within this framework, municipalities prepare accrual tables containing information on the names-surnames and addresses of those who are liable to pay the contribution as well as the corresponding contribution amount to be paid. These accrual tables organized on the basis of neighborhoods, roads and streets are, then, displayed on notice

boards of municipalities to announce the calculated contributions. In addition, those who are liable to pay the contributions are separately notified.

Contributions to expenditures are either collected in four equal instalments within a span of two years from the date of announcement and notification or within one month from the date of accrual in the case of cash payments.

#### 1.4. Other Sources of Own Revenue

In addition to the above-mentioned revenues, other sources include shares in museum entrance fees, mining shares, capital revenues from movable as well as immovable property and revenues from interest and fines. Moreover, collection of receivables, other revenues as well as donations and assistance payments from private persons or institutions are among the other revenue items of municipalities.

It may be claimed that municipalities have greater control and authority over these revenues classified as other revenue items compared to revenues from taxes or charges. However, such other revenue items are not recurring and stable unlike the revenues obtained from charges and contributions to expenditures.

#### 1.5. Own Revenue Collection Rates of Municipalities

Article 38 on the duties and powers of the Mayor of the Municipality Law No. 5393 assigns the mayor such duties as governing the municipal organization as the top administrator of the municipal administration, protecting the rights and interests of the municipality, pursuing and collecting the municipal revenues and receivables and holds the mayor accountable in these matters.

Article 61 titled "Accounting Services and the Authorities and Responsibilities of Accounting Officer" of the Law No. 5018 on Public Financial Management and Control lists the responsibilities of the accounting officer as collecting revenues and receivables, making payments to the payees, receiving, keeping and sending to the concerned authorities the deposits and the pecuniary values, and keeping records of all other financial transactions as well as issuing reports thereon; and stipulates that the accounting officer is responsible for performing these services and keeping accounting records in a regular, transparent and accessible way. Article 38 of the same law also prescribes that those who are authorized for and in charge of the imposition, accrual and collection of public revenues are responsible for the timely and proper performance of the imposition, accrual and collection transactions stipulated in the applicable laws.

Municipal audit reports prepared by the Turkish Court of Accounts - TCA ("Court of Accounts") examines the collection rates of own revenues annually accrued by Municipalities and criticizes the relatively low collection rates.

In addition to the interviews conducted with municipal officials within the scope of this study, reports prepared by the Court of Accounts (TCA) concerning a total of 24 Metropolitan Municipalities,

Metropolitan District Municipalities and City Municipalities were examined and the collection rates criticized by TCA experts for being low were analyzed on the basis of individual own revenue items.

The list of analyzed TCA reports and the summary table created as a result of the analysis are given below.

- No.1: Ankara Gölbaşı Municipality TCA Audit Report (2017)
- No.2: Ankara Mamak Municipality TCA Audit Report (2018)
- No.3: Aydın Didim Municipality TCA Audit Report (2018)
- No.4: Aydın Efeler Municipality TCA Audit Report (2016)
- No.5: Balıkesir Ayvalık Municipality TCA Audit Report (2018)
- No.6: Balıkesir Erdek Municipality TCA Audit Report (2018)
- No.7: Denizli Merkez Efendi Municipality TCA Audit Report (2018)
- No.8: Hatay Metropolitan Municipality TCA Audit Report (2018)
- No.9: İstanbul Bakırköy Municipality TCA Audit Report (2016)
- No.10: İstanbul Sarıyer Municipality TCA Audit Report (2018)
- No.11: İstanbul Üsküdar Municipality TCA Audit Report (2018)
- No.12: İstanbul Fatih Municipality TCA Audit Report (2017)
- No.13: İstanbul Zeytinburnu Municipality TCA Audit Report (2018)
- No.14: İzmir Çeşme Municipality TCA Audit Report (2018)
- No.15: Kars Municipality TCA Audit Report (2018)
- No.16: Konya Meram Municipality TCA Audit Report (2018)
- No.17: Kütahya Municipality TCA Audit Report (2018)
- No.18: Malatya Metropolitan Municipality TCA Audit Report (2018)
- No.19: Mersin Akdeniz Municipality TCA Audit Report (2018)
- No.20: Mersin Mezitli Municipality TCA Audit Report (2018)
- No.21: Sakarya Sapanca Municipality TCA Audit Report (2018)
- No.22: Tokat Municipality TCA Audit Report (2015)
- No.23: Sakarya Metropolitan Municipality TCA Audit Report (2018)
- No.24: Zonguldak Kozlu Municipality TCA Audit Report (2018)

***Table 1 Accrual / Collection Rates of Selected Municipalities***

	Accrual / Collection Rate (%)																								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Average
Plot Tax	26.59	39.82	58.00	37.00	39.82		41.72			17.00				14.15	3.91		43.10		28.43	31.65	9.71				30.07
Land Tax				48.00		18.18	68.85	4.65		54.00	70.61	45.73		44.26	10.11		55.64		34.88	59.76	27.28	48.31		28.35	41.24
Building Tax			58.00			19.40	70.83	8.56		67.00	70.19				28.92		62.78		48.54	55.37	37.68	52.43		47.95	43.28
Sanitation Tax	46.56	20.28	48.00	63.00	20.28	18.71	48.48	2.56	25.32	19.00	30.68	18.97	9.09	38.75			65.84		22.06	36.54	18.26	41.97		33.69	31.40
Announcement and Advertisement Tax	32.12	24.26	22.00	31.00	24.26	14.50	40.46		6.63		74.62			17.28	17.35	41.21	36.74	27.02	21.41		10.28	25.03	36.00	53.43	29.24
Entertainment Tax			38.00	25.00		6.69	17.05					35.86				4.01	55.69		19.37	9.93					23.51
Revenues from Rental													34.62						42.36	42.63	30.08	34.25			36.79
Revenues from adequate pay												51.67	11.57	16.28			25.28			37.78					28.52
Occupancy Fee		20.85			20.85		30.39			45.00		33.60		50.48					45.95	75.11			28.00		38.91
Other administrative fines	27.55	26.83			26.83		30.30					5.26	7.32	15.97	5.23	17.71	45.50	10.93		5.37	31.59		28.00		20.31
Other tax fines		17.84			17.84		66.37		6.85					14.15	31.97				6.85	59.72	38.90				28.94

As demonstrated in Table 1, in selected municipalities, the collection rates for the Building, Land and Plot taxes, which together constitute the Property Tax were 30 to 40 percent on average while the collection rates for Sanitation Tax and Announcement and Advertisement Tax, which constitute important revenue items for municipalities were 30 percent on average.

Similarly, the extremely low collection rates recorded in administrative fines and tax fines indicate that municipalities experience significant problems in the collection of receivables in this category.

In TCA reports, low collection rates are criticized by stating that this situation points to a *“failure in the follow-up and collection of municipal accounts receivable, which could constitute a financial liability if the statute of limitations expires”* and Municipalities are urged to take the necessary measures to increase the collection rates.

## **2.Primary Legislation on the Collection of Municipal Revenues**

In the imposition, accrual, notification and collection of taxes, charges and contributions to expenditures, municipalities are obliged to apply the relevant provisions of Tax Procedure Law No. 213 and Law No. 6183 on the Procedure for Collection of Public Receivables.

In paragraph Article 38(f) titled “Duties and Powers of the Mayor” of the Municipality Law No. 5393, the mayor is assigned and authorized to pursue and collect the municipal revenues and receivables.

As defined in the first paragraph of Article 61 of the Law No. 5018 on Public Financial Management and Control, accounting services include “collecting revenues and receivables, making payments to the payees, receiving, keeping and sending to the concerned authorities the deposits and the pecuniary values, and keeping records of all other financial transactions as well as issuing reports thereon.” In the second paragraph of the same article, it is stated that the accounting officer is responsible for performing these services and keeping accounting records in a regular, transparent and accessible way.

In Article 60(e) of the same Law, having the administration’s revenues accrued within the framework of the relevant legislation, carrying out follow-up and collection procedures of revenues and receivables are listed among the duties of the financial services unit.

On the other hand, the “By-law on Assignment, Powers, Audit and Working Procedures and Principles of Accounting Officer Trustees” and the “By-law on Budgeting and Accounting in Local Administrations” contain numerous provisions regarding the collection of revenues.

In Article 37 of the Property Tax Law No. 1319, and in Articles 98 and 102 of the Law No. 2464 on Municipal Revenues, it is stipulated that The Tax Procedure Law No. 213 shall apply in the implementation of taxes, charges and contributions to expenditures and that the term “Tax Office” refers to the municipalities.

Within this framework, as each municipality functions as a tax office, municipal organization and activities should be executed accordingly.

However, the regulation concerning the determination of tariffs by municipal councils in Article 96(B) of the Law on Municipal Revenues was abrogated upon the Decision No. E:2010/62 and K:2011/175 of the Constitutional Court of 29.12.2011 on grounds of unconstitutionality. Within the framework of the decision of the Constitutional Court, the Law No. 6487 on Amendment of Some Laws and the Decree Law No. 375 established that the tariffs for all municipal taxes and charges for which the minimum and maximum amounts have been specified in the Law on Municipal Revenues shall be determined by the President of the Republic.

In this context, municipal authority is limited to participating in tax assessment commissions for the property tax and certain other taxes specified in law (announcement and advertisement tax, entertainment tax levied on venues not requiring ticketed entry) and making contributions to the determination of the tax value.

Moreover, municipalities lack the authority to conduct tax reviews and can only exercise their authority in inspections, requesting information, issuing fines and pursuing conciliation. This particular provision prevents municipalities from conducting tax audits and establishing an effective audit mechanism for collected municipal revenues.

The By-Law on Municipal Collections provides provisions on the transactions to be conducted by municipal collection services, the duties of those who are involved in the collection process (collection manager, collection clerk, collection officer and collector), keeping collection records, payment of debts in the bank or at the cash desk, acknowledgement of collected money as well as the format and content of receipts to be issued. However, although the By-Law provides information on the operation of revenue units, the information is not up-to-date. While certain provisions no longer have any application area, others have indirectly become null and void with the newly-enacted legislative provisions.

For example, the provision which reads “The receipts to be issued to the taxpayer in return for the collected money shall be drafted as shown in (Sample 1)” in Article 25 titled “Format of Receipts” of the aforementioned By-Law has indirectly become null and void with Article 50 of the By-Law on Budgeting and Accounting in Local Administrations which stipulates that Collection Receipt No. 45 shall be used for collections made by the Collectors.

Similarly, the provision which reads “The receipt is cancelled by affixing a tax stamp in accordance with the Law on Stamp Duties. The cost of stamp belongs to the taxpayer” in Article 25 of the By-Law is no longer valid as tax stamps have been abolished.

According to Article 11 of the same By-Law, “Collectors shall issue a copy of the collector’s receipt for the money they collect as per the counterfoil from the collector’s receipt book used on the day of delivery and submit it to the collection service. (Sample: 2)”, however, Article 50 of the By-Law on Budgeting and Accounting in Local Administrations reads as follows: “The collections made by collectors and enforcement officers along with the collection receipt shall be submitted to the cash desk together with the collection slip for collectors and enforcement officers. (Collection slip for collectors and enforcement officers (Sample-48)).”

It is possible to list even more examples. However, in short, it can be stated that the legislative provisions on the organization and activities of the municipal revenue units have been overlooked.

The following section provides explanations on the Tax Procedure Law No. 213 and the Law No. 6183 on the Procedure for Collection of Public Receivables, which constitute the legal bases for the collection of Municipal Revenues.

## 2.1. Provisions of the Tax Procedure Law regarding Municipal Revenues

Article 98 of the Law on Municipal Revenues, which reads:

*“Provisions of the Tax Procedure Law No. 213 and supplements and amendments thereto shall apply to taxes, charges and contributions to be collected pursuant to this Law unless otherwise stipulated in this Law.”*

establishes the link between the Law on Municipal Revenues and the Tax Procedure Law (TPL). Within this framework, unless otherwise stipulated in law with regard to procedural provisions, provisions of the TPL shall apply.

Besides, excluding the power to carry out a tax review indicated in Law No. 213, in Article 102 of the Law on Municipal Revenues, it is stipulated that:

*1 – The Municipal Revenue Branch Director, or the Municipal Accounts Director at places where no Municipal Revenue Branch Director exists, or the Accountant at places where no Municipal Accounts Director exists shall have the title and power of the Tax Office Director.*

*2 – Duties and powers assigned by the Tax Procedure Law to the highest ranking fiscal officer of the administration shall be exercised by the Mayor in respect of the implementation of the Law on Municipal Revenues.*

This enables persons designated as municipal officials to exercise their duties and powers, excluding the power to carry out tax reviews, in accordance with the provisions of the Tax Procedure Law.

Within this framework, both in the exercise of duties and in the delegation of authority, it is very important for officials to pay attention to and take into account the relevant provisions of the TPL that concern the Law on Municipal Revenues.

Apart from the above-mentioned articles of the Law on Municipal Revenues, in Article 1 of the TPL which establishes the scope of the law, it is clearly stated that the Law shall also apply to municipal taxes, duties and charges. In addition, Provisional Article 9 stipulates that the provisions of the TPL shall apply to municipal taxes, duties and charges.

In this context, unless otherwise stipulated in the Law on Municipal Revenues, the provisions of the TPL that shall be applied are: Article 3 of the TPL on the burden of proof, Articles 5 and 6 of the TPL on the secrecy of taxes and prohibitions, Article 13 of the TPL on force majeure, Article 14 setting the legal and administrative periods as well as Articles 15, 16, 17 and 18 of the same Law.

Other important provisions of the Tax Procedure Law concerning the revenues obtained by municipalities and the collection of these revenues are explained in the following sections.

### **2.1.1. Assessment of Tax Receivables, Tax Imposition and Accrual Procedures**

According to Article 3 of the TPL, the Law on Municipal Revenues also counts as a tax law. For this reason, Article 19 of the TPL on the assessment of tax receivables is also important from the viewpoint of the Law on Municipal Revenues and should be taken into account in practice.

According to Article 19 of the TPL, “The tax claim arises with the occurrence of the taxable event or with the maturation of the legal position” and with the occurrence of the taxable event, the tax receivable arises for the administration while the tax liability arises for the taxpayer. However, the imposition, notification and accrual procedures must be completed in order for the claim and liability to gain legal certainty for the parties. Articles 20, 21 and 22 of the TPL include the relevant provisions.

The accrual slip principle as specified in the TPL is applied to certain Municipal Revenues stipulated in Law on Municipal Revenues. For example, Entertainment Tax levied on mutual betting and Fire Insurance Tax are accrued according to the accrual slip principle.

According to this principle, an accrual slip is issued upon receipt of the declaration by the administration. A copy of the accrual slip is given to the taxpayer or to the person who submits the declaration to the tax office on behalf of the taxpayer. In this way, the tax is accrued. The taxpayer copy of the accrual slip also counts as the receipt of declaration, and if necessary, declaration based taxes can be notified with a notification instead of an accrual slip.

According to Article 27 of the TPL, the failure of the person, who submits the tax declaration to the Administration, to receive the accrual slip does not prevent the accrual of the tax to be accrued based on the tax base specified in the declaration.

In this case, the taxpayer copy of the accrual slip is mailed in a sealed envelope to the address specified in the declaration by the taxpayer. Article 378 of the TPL also stipulates that in parallel with the principle of accuracy of the accrual slip, taxpayers cannot object to the tax bases or to taxes accrued based on the tax base declared by the taxpayer.

In the current implementation of tax laws, before submitting the declaration, taxpayers write a petition, reserving the right of objection concerning the items claimed not to constitute a taxable event from the legal understanding and point of view of the taxpayer or items that may cause ambiguity on whether they are subject to taxation or not, and submit this petition (known as declaration with reservation) together with the declaration. In this way, taxpayers may raise an objection when a tax is imposed and accrued by the Administration on the basis of this declaration.

Even though we are yet to encounter such practices in the implementation of the Law on Municipal Revenues, submitting a “declaration with reservation” is also theoretically possible for municipal taxes.

However, according to Article 389 of the TPL, appeals against taxes calculated based on the declarations submitted with reservation shall not stop the collection of the tax. In such cases, the appeal period must be 1 month from the date of issuance of the accrual slip.

### **2.1.2. Valuation Commissions**

Procedures for the calculation and collection of municipal revenues specified in the Law on Municipal Revenues are determined in their own laws. Since these are special provisions, it is not possible to apply the provisions of the TPL in this case. Therefore, the duties of the Valuation Commissions mentioned in Article 72 of the TPL remain limited to specific events in assessing the bases for municipal taxes and charges.

The commission ascertaining the minimum unit values for lands and plots is attended by two members from the municipality, namely the mayor or an officer deputizing for the mayor and an authorized officer from the relevant municipality. The mayor or the municipal officer deputizing for the mayor acts as the head of the commission. It is possible to state that these two municipal officials play an active role in determining the minimum unit values. However, there are no municipal

personnel present in commissions which are established in provinces with metropolitan municipalities, and which can review the decisions of the valuation commission and request changes when necessary.

The absence of municipal staff in the second commission formed in provinces with metropolitan municipalities and the fact that this second commission has the authority to change the minimum unit values determined by the valuation commission may limit the involvement of municipalities in the determination of unit values.

Looking at the formation of valuation commissions that determine the tax value for lands and plots, it is seen that these commissions do not include an expert in valuation or an appraiser. However, today real estate appraisal has become a profession that has a legal basis and requires expertise. The Capital Markets Board issues licenses to real estate appraisers and these experts carry out their activities in accordance with international valuation standards.

In our country, with the boom of the housing market in recent years and with the increase in the number of house sales, real estate financing has gained importance and it has become vital for institutions that finance house sales to know the real value of the house when determining the credit amount and carrying out mortgage transactions. As a result, real estate appraisal firms and licensed real estate appraisers have gained prominence in our country.

### **2.1.3. Notification Principles**

In transactions to be carried out in accordance with the Law on Municipal Revenues, it is possible to apply the provisions specified in section five on notifications of the TPL. According to Article 114 of the TPL, the statute of limitations shall expire for taxes (Municipal Taxes, Charges and Contributions to Expenditures) that are not imposed and notified to the taxpayer within 5 years from the beginning of the year following the year of the taxable event.

### **2.1.4. Penal Provisions**

Penal sanctions prescribed in the relevant articles of the TPL are enforced either due to errors and irregularities in the implementation of procedural provisions or due to causing tax losses or committing both acts at the same time.

If taxpayers or responsible persons subject to the Law on Municipal Revenues fail to fulfill their taxation duties on time in whole or in part, taxes are either not accrued on time or under-accrued. This is defined as “tax loss” in the TPL.

In the implementation of the Law on Municipal Revenues, the penal sanctions stipulated in the TPL shall also be applied for the taxpayers subject to the Law on Municipal Revenues, depending on the nature of the crime (sanctions for tax fraud, gross negligence, negligence and irregularity).

The subsequent accrual of the tax and fulfillment of the tax obligation or the reclamation of undue tax refunds do not prevent the sanctions from being imposed.

### Sanctions for Fraud

Fraud occurs when the taxpayer or the responsible person causes tax losses in one of the specified cases in Article 344 of the TPL. In case the taxpayer causes losses in municipal taxes and charges, sanctions for fraud shall be applied to the extent that the act falls within the scope of the cases listed in the TPL.

However, since charges should be collected during the provision of Municipal services, no sanctions for fraud shall apply to charges.

### Irregularity Fines

In case of failure to comply with the formal and procedural provisions of the Law on Municipal Revenues, the irregularity fine as specified in Article 352 of the TPL shall be imposed. If the act of irregularity requires ex officio assessment, the fine shall double.

According to Article 352 of the TPL, in terms of Municipal Revenues, while the first degree irregularity fine is issued when the declarations are not submitted and when the start of operations is not notified; the second degree irregularity fine is imposed when the declarations are submitted within the prescribed extension of time or when the notifications are not made on time.

#### **2.1.5 Contrition and Correction**

It is possible to apply the provisions of Article 371 of the TPL regarding contrition and correction with regard to municipal taxes as well. Taxpayers who comply with the provisions of this article will not be penalized for fraud, gross negligence or negligence. Apart from this article, Article 375 of the TPL on the correction of errors in tax penalties and Article 376 of the TPL determining the conditions for reduced sentences may also be applied to municipal taxes and charges (except for the Property Tax).

#### **2.1.6. Conciliation and Tax Cases**

The provisions concerning conciliation included in Additional Articles 1-13 following Article 376 of the Tax Procedure Law are also applied to municipal taxes, duties and charges.

The By-Law on Conciliation for Local Administrations drafted based on the above-mentioned provisions designates the procedures and principles regarding conciliation after assessment specified in the Tax Procedure Law No. 213 as implemented by Special Provincial Administrations and Municipalities.

Accordingly, Additional Article 1 of the Tax Procedure Law authorizes the Ministry of Interior and the Ministry of Environment and Urbanization for special provincial administrations and for municipalities respectively, in determining which taxes, duties and charges to be collected by Special Provincial Administrations and Municipalities may be subject to conciliation and in setting the upper limits for taxes, duties and charges that may be settled by conciliation commissions (Amended Clause: RG-23/5/2019-30782).

Based on the authority granted to the Ministry, the upper limit for taxes, duties and charges that may be settled by conciliation commissions is determined by general communiqués.

In line with the above regulation, for taxes, duties and charges included in the municipal budget, conciliation commissions consist of three members. These members are: in Metropolitan Municipalities, the municipal revenue branch director under the chairmanship of the secretary general, assistant secretary general or head of department appointed by the mayor; in other municipalities, the financial services department director under the chairmanship of the mayor or the deputy mayor appointed by the mayor; or an accountant at places where no financial services department director exists as well as an officer selected from the financial services unit by the municipal board. These commissions convene with the participation of all members and decisions require majority voting.

Taxpayers liable to pay municipal taxes and charges should submit their conciliation request by taking into account the above-mentioned articles and other provisions of the By-Law regarding the conciliation mechanism and follow-up procedures. The written request of conciliation must be submitted to the authorized conciliation commission within 30 days from the date of the notification for penalty either personally by the taxpayer / the person subject to penalty or through an agent with the official power of attorney. If the commission reaches a decision in favor of conciliation, the conciliation reports to be issued by the commission are final and as required (Amended Clause: 7/3/2015-29288) they are immediately executed by the financial services unit.

However, the conciliation mechanism has a very limited application area since the taxpayers are mostly unaware of the possibility of seeking conciliation against municipal taxes and since municipal officials tend not to offer the citizens the option of conciliation.

## 2.2. Law No. 6183 on the Procedure for Collection of Public Receivables

### **Scope of the Law No. 6183**

The primary legislation on the collection of public receivables in our country is the Law No. 6183 on the Procedure for Collection of Public Receivables. Article 1 of the Law No. 6183 clarifies which receivables of municipalities and other public institutions fall within the scope of the Law on the Procedure for Collection of Public Receivables. Article 2 of the Law also stipulates that the provisions of this law shall apply to all kinds of receivables the collection of which is stated pursuant to the former Law on Collection of Assets.

However, the scope of application of the Law is not limited to the above-mentioned provisions. Subsequently-enacted laws have referenced the Law No. 6183, thus expanding the scope of application of the Law both in terms of the subject (types of receivables) and the institutions (creditors) that are included within the scope of the Law.

According to Article 1 of the Law, the provisions of this law shall apply to principal public revenues such as taxes, duties, charges, court fees for criminal investigations and procedures, tax penalties and pecuniary penalties and to auxiliary public receivables such as delay fines and interest due to the Government, Municipalities and Special Provincial Administrations.

Other receivables arising from the provision of public services, other than those due under contract, tort or misappropriation are also within the scope of the Law. The concept of “public service” has quite a broad meaning in this context.

Apart from those specified above, all types of receivables determined to be subject to the Law No. 6183 by special laws are within the scope of the Law No. 6183 regardless of the nature of the creditor or the receivable. The following types of municipal receivables had been submitted to the court due to ambiguities in the procedure for collection and came to fall under the scope of the Law No. 6183 with the subsequent court decision: infrastructure stability fee, penalty to be imposed as per the regulation for the use of excavation soil in the soil mixture, all criminal fines (regardless of whether the court of appeal for criminal fines is the criminal court of peace), collection of the fee for illegal use of water, announcement fees in exchange for a service provided and calculated based on fixed tariffs, cost of damages for the destruction of municipal barriers, water fees etc.

The fact that a receivable is subject to Law No. 6183 means that if the receivable is not voluntarily paid after it is ascertained by the public administration and notified to the addressee, the follow-up procedures by the collection office of the same administration shall begin. The follow-up starts with the issuance of a payment order by the collection office. If the receivable is not paid within 7 days, enforced collection is implemented by liquidation of the security, by seizure and liquidation of assets or by requesting the bankruptcy of the debtor if the required conditions are satisfied.

In the system of collection of public receivables, the competent authority in litigations in matters concerning the accrual, payment order and the follow-up procedure is tax courts (in some cases administrative courts). If the debtor applies to a general court, the case is rejected on the basis of “scope of jurisdiction.”

Municipalities determine the amount of public receivable in accordance with the provisions stipulated in law. For this, they do not have to apply to a court and get a “verdict”. Receivables determined by municipalities in this way are subject to follow-up procedures by municipal units and may be collected by force.

As is seen, the collection office of the Administration may only collect the receivables specified in Articles 1 and 2 of the Law No. 6183 and other receivables deemed to fall within the scope of the Law No. 6183 by reference of other laws. These are “public” receivables. Other “private” receivables, for example rental receivables, may not be collected in this way.

### **Application of Law No. 6183**

Examining the application of the Law No. 6183 by municipalities reveals that there are certain problems which result in loss of receivables or a delay in their collection.

In the audit reports prepared by the Turkish Court of Accounts – TCA (“Court of Accounts”) examining various municipalities, receivable follow-up is listed as the primary criticism regarding the application of the Law No. 6183.

In Article 37 titled “Time of Payment and Pre-Payment” of the Law No. 6183 on the Procedure for Collection of Public Receivables, it is stipulated that “public receivables are paid at the times provided in the special laws governing such public receivables. Public receivables for which no payment period

has been provided shall be paid within one month from the date of notification to be made pursuant to the procedures to be provided by the Ministry of Finance.” In paragraph one of Article 55 titled “Payment Order” of the same Law, it is stated that “Those who have not paid a public receivable on its due date shall be served with a ‘payment order’ notifying them to pay their debts within 7 days or to make a wealth declaration.”

When the specified legislative provisions are evaluated together, it is understood that a “notification” concerning public receivables should be issued to the debtor, requesting a payment within 1 month from the date of notification. In case of nonpayment despite the notification, a “payment order” should be issued, notifying the debtor to pay the debt within 7 days or to make a wealth declaration.

Municipalities, which receive criticism for the shortcomings in the follow-up procedures for various taxes, charges and contributions to expenditures, bring up the following points in their defense:

- If the debtor did not make a wealth declaration or if the address to be used while issuing notifications for the accrual and collection of receivables is not confirmed, in order to execute the enforcement procedures in line with the provisions of the Law No. 6183, it is necessary to conduct a wealth investigation and to use all technological means in order to determine the wealth and address information of the debtor in a fast, accurate and cost-effective way. However, portals such as TAKBİS (Land Registry and Cadastre Information System) or MERNİS (Central Civil Registration System) used by central government institutions do not give Municipalities full access to information on the real estates owned by debtors and located outside of municipal boundaries.
- The Turkish Revenue Administration uses the e-enforcement system. However, municipalities do not have access to this system and are obliged to constantly exchange correspondence with banks.
- Today, although it is possible to issue electronic notifications as per the Law No. 7201 on Notifications, our municipality is yet to start issuing electronic notifications due to the lengthy procedures required to make the transition to e-notifications.
- Municipalities do not have the necessary staff capacity to perform follow-up procedures for receivables.

Another criticism brought up in the audit reports of the TCA is that District Municipalities fail to transfer 20% of the sanitation tax collected from business and buildings used in other ways to Metropolitan Municipalities or that the relevant provisions of the Law No. 6183 are not applied in case of delayed transfers.

According to the provisions of repeating Article 44 titled “Sanitation Tax” of the Law No. 2464 on Municipal Revenues:

*“The amounts of taxes or defaults surcharges collected but not paid to the relevant municipalities shall be collected along with default surcharge from the defaulting administrations according to the provisions of the Law No. 6183 on the Procedure for Collection of Public Receivables.”*

Metropolitan Municipalities are required to collect the Sanitation Tax shares from the relevant district municipalities together with the default surcharge to be calculated according to the provisions of the Law No. 6183 on the Procedure for Collection of Public Receivables.

Moreover, it has been observed that in cases where the taxpayer raises an objection against the payment order and the objection ends up being rejected by court decree, many municipalities fail to collect the public receivable with a 10% mark up.

In paragraph one of Article 58 of the Law No. 6183, it is stipulated that the person who has been served with a payment order may file a lawsuit before the tax court that examines the cases of the receivable collection office within 15 days from the date of notification on the grounds that they have no such debt, or that such debt has been paid in part or that such debt is no longer recoverable due to the statute of limitations. In paragraph five of the same article, it is stated that the objected part of the receivable will be collected with a 10% mark up from debtors whose objection is rejected in part or in full.

In case of rejection of the lawsuits filed against the payment order, a 10% mark-up must be applied upon the definitive judgement. It is necessary to follow up the lawsuits filed against the payment order and initiate the procedures for the collection of the receivable with a 10% mark up in cases where the court rejects the objection.

On the other hand, during the audits conducted by the Court of Accounts in some municipalities, it has been determined that the balance of the “121 – Account for Non-Performing Receivables” which tracks the uncollectible receivables has been steadily increasing over the years.

Municipalities have attributed the large balance of uncollectible receivables to the fact that certain accruals contain inaccessible information. These accruals made in previous years do not include Name-Surname, TR Identification Number or any contact information. Another reason for uncollected receivables is the on-going judicial processes for certain accruals. The follow-up of collections is carried out meticulously with an emphasis on enforced collection methods.

In the reports of the Court of Accounts, it is indicated that in order to increase the accrual / collection rates of municipal revenues and receivables, it is necessary to initiate the collection procedures on time for receivables accrued by the financial services unit and send the necessary information and documents to the legal unit on time to initiate the legal proceedings against those who do not pay their debts.

During the audits conducted by the TCA, it was revealed that the collection rates for certain accrued revenue items remain low as the public administrations fail to enforce the legal procedures as prescribed in the relevant legislation on these revenue items.

### **3. Collection Procedures for Municipal Accounts Receivable**

#### **3.1. Finalization and Maturity of Receivable**

The first condition for starting the follow up procedures is the finalization of the receivable in line with the Tax Laws. Finalization of the receivable means that there is no dispute or disagreement regarding its amount, which is either achieved with the express or implied acceptance by the debtor or by decree of court. For most tax types, finalization of the tax receivable also means that the tax is accrued.

Accrual is the establishment of the liability or obligation to pay the tax once the tax is assessed and notified. The method of assessment determines the time of accrual. In case of assessment based on declaration, the tax is levied and accrued with the “accrual slip” issued upon the submission of the declaration. However, the failure to receive the accrual slip does not prevent the accrual of the tax.

In case of complementary assessment, ex officio assessment and assessment by the administration, as long as a lawsuit is not filed within 30 days from the date of due notification of the accrued tax to the taxpayer, the tax is accrued.

In the case where a lawsuit is filed, the tax is accrued when the tax court rejects the taxpayer’s case. With the automatic assessment method, the tax is accrued at the time specified in the law. For example, the Motor Vehicle Tax and the Sanitation Tax are both accrued in January.

The accrual principle also applies to municipal receivables other than taxes (charges, contributions to expenditures etc.). In other words, the collection process cannot start, and payment orders cannot be issued before such receivables are finalized. For example, for contributions to expenditures collected in accordance with the Law No. 2464 on Municipal Revenues, the collection process cannot start, and payment orders cannot be issued before the accrual procedures specified in Article 90 of the same Law are completed and any payment order issued beforehand is cancelled.

The following sections provide an overview of the assessment and accrual procedures for various taxes that constitute the primary revenue items of Turkish Municipalities.

#### **Property Tax**

The owner of the immovable, i.e. taxpayer, submits a declaration to the municipality upon acquisition of such immovable, which shall suffice until any modifications thereupon to alter the tax value thereof. Municipalities levy and accrue property tax upon submission of such declaration.

The administration accrues the tax every four years, and then, the tax value of the land is increased by half of the revaluation rate in the following years.

## **Announcement and Advertisement Tax**

The tax is levied and accrued by a declaration to be submitted to the relevant municipality before carrying out the announcement or advertisement work. In the event that the announcement and advertisement is made by those who carry out announcements and advertisement as a customary occupation, the applicable tax is levied and accrued based on a declaration to be submitted by the evening of the 20<sup>th</sup> day of the month following the one in which the announcement or advertisement was made.

Declarations are submitted to the municipality of the locality in which the announcements and advertisements were published, distributed or exhibited and the tax is paid within the declaration submission period.

## **Sanitation Tax**

Since the sanitation tax applicable to houses is levied and collected together with water consumption price on the basis of the amount of water consumption of the building users, the latter will not be required to submit notifications to relevant municipalities, or to water and sewage administrations in the case of metropolitan municipalities.

Within this framework, the sanitation tax will be calculated on the basis of water consumption per cubic meter and will be deemed to have accrued when indicated on a separate line on water bills.

Sanitation Tax applicable to businesses and buildings used in other ways is deemed to have accrued in annual sums in the month of January of every year once municipalities have adapted the buildings to degrees assigned in the tariff and the tax is paid every year within the deadlines of the property tax instalments.

### **3.2. Issuance of Payment Order**

The receivables which have been accrued and finalized but not paid by the due date are collected through enforced collection. For this, first, a “payment order” is issued. A payment order is a warning to the person who has not paid the debt to pay the debt or to make a wealth declaration. Issuance of a payment order is the first step in enforcement proceedings. Without this first step, it is not possible to proceed with the other steps.

Enforcement proceedings for public receivables are carried out by the collection office of the public administration, which is in the position of creditor. In other words, municipalities do not have to apply to enforcement and bankruptcy offices for receivables that fall within the scope of the Law No. 6183. In the case of both voluntary and enforced collections, public municipal revenues are collected by the collection offices of municipalities in accordance with the Law No. 6183.

In public administrations, the officers who will implement the provisions of the Law No. 6183 and their duties are stipulated by laws, regulations or by-laws.

According to Article 48 of the Municipality Law No. 5393 of 03.07.2005, the “financial services” unit is the unit that performs the follow-up of such receivables. In its simplest form, this unit consists of

revenue and expense branches. The Municipal Revenue Branch Director, or the Municipal Accounts Director at places where no Municipal Revenue Branch Director exists, or the Accountant at places where no Municipal Accounts Director exists shall have the title and power of the Tax Office Director. The unit headed by one of these officers is responsible for implementing the provisions of the Law No. 6183. Therefore, this unit makes both voluntary and enforced collections. Accordingly, officials from this unit shall make voluntary collections, issue payment orders for receivables that are not paid on a voluntary basis and if the receivable is still not paid, initiate enforced collection proceedings.

According to Article 54 of the Law No. 6183, enforced collection is implemented by liquidation of the security, by seizure and liquidation of assets or by requesting the bankruptcy of the debtor if the required conditions are satisfied.

Once issued, the payment order is notified to the debtor in accordance with the notification provisions of the Tax Procedure Law.

### 3.3. Enforcement Phase

The person being notified (receiving) a payment order has three options: to make the payment, to file a lawsuit or to make a wealth declaration.

The person who receives a payment order may pay the debt partially or completely. The paid amount is deducted from the total debt.

If the person who is served with a payment order does not file a lawsuit, they are obliged to make a wealth declaration. While the provisions regarding wealth declaration are stipulated in Article 59 of the Law No. 6183, Article 60 of the same prescribes the consequences of not making a wealth declaration.

The person who receives a payment order may file a lawsuit with the tax court within seven days. Filing a lawsuit shall not prevent the execution of the enforcement procedure. To stop the execution of enforcement, a motion for stay of execution must be adopted in line with Article 27 of the Procedure of Administrative Justice Act.

Seizure proceedings are initiated against the person who does not file a lawsuit against the payment order or who does file a lawsuit but fails to be granted a motion for stay of execution. Movable and immovable assets, receivables and other vested interests of the debtor held by the debtor or by third parties, which have been declared in the wealth declaration or determined by the collection office, are seized to the value of the public debt.

Seized assets are sold and converted into cash by the enforcement office and deducted from the receivables in accordance with Article 47 of the Law No. 6183. While the sale of movable assets is regulated in part two of the section two of the law (Articles 77-87), the sale of immovable properties (immovables) is elaborated in section three (Articles 88-89).

### 3.4. Collection of Municipal Accounts Receivable within the scope of the Law. No 2004 on Bankruptcy and Debt Enforcement

Municipal revenues, other than those listed above, are subject to general procedures i.e. the Law No. 2004 on Bankruptcy and Debt Enforcement of 1932. These are municipal receivables due under contract or arising from misdemeanour or misappropriation.

The municipal revenues subject to the Law on Bankruptcy and Debt Enforcement include receivables arising from a lease contract or from the sale of real estate, fee for constitution of servitude, and appropriation fee.

Persons claiming that their rights are being denied or violated will first try to settle the conflict by peaceful means by appealing to the addressee to rectify the situation. If this is not possible, they will apply to the competent court in order to receive a judgment resulting in their favor. If the other party deemed to be in the wrong by court decree does not voluntarily do what is necessary, it will be necessary to resort to force. For this, an application is made to the designated public agencies. In this case, the designated agency is enforcement and bankruptcy offices. The most common enforcement method for monetary receivables is the general lien or lien pertaining to commercial papers and bills.

In the general lien method, the creditor first applies to the debt enforcement office with a follow-up request. The enforcement office issues and sends a payment order. If the debtor does not raise an objection within seven days, enforcement proceedings are finalized and initiated. If the debtor raises an objection, enforcement is suspended. In order for proceedings to continue, the objection must be dismissed. There are two ways the creditor can go about this. If the creditor has one of the documents listed in Articles 68-68/a of the Law on Bankruptcy and Debt Enforcement, the creditor can apply to the court of enforcement within six months and request the "dismissal of objection." Once the objection is dismissed, enforcement proceedings continue.

Creditors who do not have access to the above-mentioned documents have no choice but to file an action for annulment of objection with general courts within one year. In this lawsuit filed against the debtor, the creditor requests that the objection is annulled, enforcement proceedings are continued, the debtor is sentenced to pay the debt subject to enforcement and pay compensation for denial of enforcement. If the court accepts the case, the objection is annulled. The creditor may request the continuation of suspended enforcement proceedings by submitting the court decision to the enforcement office. With this, the seizure proceedings may begin. With the creditor's request for seizure, the debtor's assets corresponding to the debt amount are seized and sold. The sales revenue is delivered to the creditor. If the revenue from the sale of seized assets does not cover the total debt, the enforcement office automatically issues a certificate of insolvency.

In addition, the debtor may file a negative declaratory action before or after the enforcement proceedings, but before the payment of the money obtained through seizure. In return for providing a collateral, the debtor may prevent the continuation of enforcement proceedings or payment of money. After the money is paid to the creditor, the debtor has no option but to file an action for restitution, whereby the money is re-paid the latter if the debt claim is dismissed and proven false.

## 4. Problems Encountered in the Collection of Municipal Taxes and Charges

### 4.1. Financial Analysis of Own Revenue Collections by Turkish Municipalities

As previously explained, the own revenue sources of Municipalities mainly consist of taxes (taxes and charges as stipulated in the Law No. 2464 and the property tax), enterprise and ownership revenues and capital revenues.

When we analyze the share of these different revenue sources within total revenues, we can see that the share of revenues from tax collection has been declining over the years.

As can be clearly seen in the table below, the share of tax revenues in total municipal revenues has dropped from 14.80% to 12.95% between 2014 and 2018.

*Table 2 Share of municipal tax revenues in total revenues*

	2014	2015	2016	2017	2018
Total Tax Revenues (a)	9,283,644	10,839,017	12,225,548	13,217,357	14,484,934
Enterprise and Ownership Revenues (b)	6,739,057	7,474,956	8,426,757	11,585,675	11,636,306
Donations / Assistance and Special Revenues (c)	1,109,552	1,475,922	1,621,091	1,981,842	1,949,520
Capital Revenues (d)	3,448,302	4,908,445	5,838,798	7,879,786	10,359,567
<b>Total Own Revenues (a+b+c+d)</b>	<b>20,580,555</b>	<b>24,698,340</b>	<b>28,112,194</b>	<b>34,664,660</b>	<b>38,430,327</b>
<b>Total Revenues</b>	<b>62,544,796</b>	<b>72,159,838</b>	<b>80,994,408</b>	<b>97,148,981</b>	<b>110,933,045</b>
Share of Tax Revenues in Total Revenues (%)	14.8	14.97	14.91	13.48	12.95
Tax to GDP Ratio (%)	0.45	0.46	0.47	0.42	0.39

Source: [www.muhasabat.gov.tr](http://www.muhasabat.gov.tr)

The fact that tax revenues of Municipalities are low in proportion to total revenues demonstrates that the taxes allocated to Municipalities remain insufficient. There are multiple factors contributing to this situation, including structural issues such as outdated legislation or limited municipal authority over own revenues, as well as inadequate collection capacity of Municipalities and problems encountered in the collection process.

Based on the interviews conducted with municipal officials, the following sections summarize the problems identified in the collection of Municipal own revenues.

## 4.2. Collection Problems Due to Lack of Municipal Authority in Taxpayer Identification and Tax Auditing

Article 102 of the Law No. 2464 on Municipal Revenues states that officials such as the Municipal Revenue Branch Director or the Financial Services Director who carry out the revenue collection transactions in municipalities have the title and power of Tax Office Director in the implementation of the provisions of the Tax Procedure Law, however this excludes “the power to carry out tax reviews.”

For this reason, municipalities do not have the authority to review the taxpayers’ records and can only exercise their auditing authority by determining the tax statuses of taxpayers through attendance forms. For example, a Municipality official who participated in one of the interviews conducted within the scope of this study made the following statement regarding this issue:

*“Establishing coordination between tax offices and Municipalities would enable us to identify taxpayers who are either not registered for the announcement and advertisement tax, sanitation tax and entertainment tax or who do not have a business and operating license. This practice of mutual information sharing would not only increase central administration revenues but also municipal revenues. Moreover, this coordination would prevent unnecessary accrual entries, thus reducing the waste of resources (labor, time, money) stemming from unnecessary correspondence.”*

It can be argued that the Announcement and Advertisement Tax and Entertainment Tax are possibly the only tax types the most appropriate for municipalities to exercise their auditing authority by conducting inspections. Municipalities are able to identify the tangible elements of advertising (by taking photographs, measuring the dimensions of billboards etc.) in the case of Announcement and Advertisement Tax and are able to inspect and record the number of tickets sold during entertainment activities.

On the other hand, in the case of other taxes such as Communication Tax and Fire Insurance Tax, which are accrued based on declaration, Municipalities have no means of conducting an analysis or inspection in order to confirm the revenues declared by the relevant institutions. For this reason, municipalities end up having to rely on the declarations made by the respective institutions.

In the case of the Property Tax, even though accrual and collection of the tax is under the responsibility of Municipalities, it is seen that in practice, municipalities fail to carry out effective follow-up procedures targeting taxpayers and receivables.

A Municipality official who participated in one of the interviews conducted within the scope of this study made the following statement regarding this issue:

*“To carry out property tax accruals based on declaration, we have to rely on either declarations made by taxpayers or correspondence from other institutions (courts, enforcement offices etc.) and we try to follow the provisions of the Law No. 1319 and Law No. 213 in order to identify the immovables assets which have not been declared.”*

### 4.3. Collections Problems Due to Staff Shortage

Another problem encountered by municipalities in the collection of taxes and charges stems from staff shortage.

Especially in provinces with Metropolitan Municipalities, as the municipal boundaries are the same as provincial administrative boundaries, the municipality has jurisdiction over all districts spread over a large area and fails to conduct inspections and audits and fails to respond to demands on time, which hinders the due identification of taxpayers, of businesses that start or stop operations and of cases of occupancy, leading to a decrease in collections.

Municipal budgets remain limited due to the fact that the laws governing revenues are not up-to-date, thus preventing the recruitment of sufficient number of personnel. This issue, which was frequently mentioned during the interviews conducted within the scope of this study, was elaborated by a Municipal official as follows:

*“Staff shortage in municipalities impedes the identification process and leads to tax losses. We believe that we encounter problems in accrual, collection, accounting and enforcement procedures due to the lack of qualified and specialized personnel.”*

It is essential to establish appropriate systems and processes, employ qualified personnel and provide staff trainings in order to not only perform inspection and identification duties properly but also to carry out the imposition, accrual, collection and review of tax revenues effectively and efficiently in accordance with the law. However, it does seem impossible to say that all municipalities have adequately functioning tax management systems with well-trained and qualified personnel and proper systems and processes.

At the central administration level, the personnel in charge of tax collection and auditing consist of experts who are knowledgeable about tax legislation. On the other hand, at the municipal level, staff members and managers in charge of collecting and auditing revenues are not selected among those with special training in this field and for this reason, they may have difficulty understanding and interpreting the tax legislation.

In addition, there may be differences between municipalities in terms of institutional and technological infrastructure and the systems in place. This may negatively affect the tax compliance especially in metropolitan municipal areas where multiple municipalities share tax authority. Differing applications of the tax legislation between different municipalities may prevent the effective conduct of tax audits and collections, resulting in tax losses or leading to taxpayer dissatisfaction.

It is important to note that qualified personnel would be effective in instilling a sense of duty in the public especially regarding the taxes, charges and fees that they are obligated to pay to the municipalities.

Moreover, in accordance with Article 106 of the Law No. 6183:

*“Those public receivables up to an amount of 10 Turkish Liras (including 10 TRY) in case of public receivables within the scope of Law No. 213 and up to an amount of 20 Turkish Liras (including 20*

*TRY) in case of other public receivables, where it can be seen that their collection is impossible or where it can be seen that the costs for their collection is more than the receivable, can be cancelled without waiting for the expiry of the statute of limitations by those who have the authority to cancel in the public administration. The President of the Republic has the authority to increase these amounts up to ten times, either collectively or individually.”*

Within this framework, Municipal personnel tasked with the follow-up of receivables end up having to pursue all receivables over 20 TRY regardless of the amount. This results in inefficient use of human resources, which are often inadequate.

#### 4.4. Collection Problems Due to Insufficient Information Exchange between Municipalities and Other Public Institutions

Municipalities require a large amount of information about taxpayers at the stages of accrual and collection of taxes and charges (own revenue items). To this end, municipalities get in contact with various public institutions.

However, this may not always be as efficient as required from the perspective of municipalities as in certain situations, they are unable to access all the information that they need.

Below are some examples illustrating the issue:

- Due to the provision of “tax secrecy” in the tax legislation, directorates of tax administration refuse to share taxpayer information with municipalities and the online tax office only provides access to information on the headquarters of businesses while the information about their branches is inaccessible.
- Municipalities have limited authority and access in the “TAKBİS” portal. This portal operated by the Directorate General of Land Registry and Cadastre does not provide municipalities with information about the real estate properties owned by debtors (taxpayers) and located outside municipal boundaries. This prevents municipalities from conducting a thorough property survey and from identifying properties owned by taxpayers but located in another region. As a result, problems arise when it comes to granting Property Tax exemptions to pensioners with only one house and enforcement procedures cannot be properly performed.
- Municipalities have limited authority and access in the “MERNİS” portal. This portal operated by the Directorate General of Civil Registration and Citizenship Affairs does not provide access to address information of taxpayers outside municipal boundaries. In other words, Municipal access to MERNİS address is limited to those citizens whose official residence is located within municipal boundaries and municipalities have no access to address information of those who reside outside municipal boundaries. As a result, municipalities end up having to exchange additional correspondence with Civil Registry Offices and often do not receive reliable information.
- Municipalities have no access to the “POLNET” portal, which is a registry of vehicles operated by the Directorate General of Security. Since municipalities are unable to access vehicle records via this platform, they end up having to constantly exchange correspondence with Traffic Registration Offices. In order to impose administrative fines on vehicles parked on pavements, municipalities need to know the registered owner of the vehicle as well as the

address of the owner to be able to issue a notification. As municipalities do not have access to either information, collection of receivables take a long time and becomes quite a difficult and troublesome process.

Many of the interviewees pointed out that the lack of access to the above-mentioned portals and databases results in a waste of resources (labor, time, money) for both municipalities and relevant institutions and causes delays in the collection and follow-up procedures for municipal accounts receivable.

The “2019 GENERAL ASSESSMENT REPORT ON EXTERNAL AUDITS” prepared by the Turkish Court of Accounts includes the following statements:

*“Article 10 of the Law No. 2942 on Expropriation obliges the Land Registry Administration to notify the relevant municipality of property changes such as expropriation or transfer of property by public administrations other than municipalities. Article 39 of the same law stipulates that if the property tax value of the expropriated immovable property in the year of expropriation is less than the finalized expropriation value, a penalized property tax shall be levied based on the difference between the expropriation value and the tax value.*”

*It was determined that certain municipalities are unable to properly accrue and collect the property tax differences arising from expropriation, to identify the taxpayer for the property tax and to carry out debt follow-up. The reason behind this is that the Land Registry Administration fails to forward the alienation-related information to the relevant municipality for the expropriation transactions taking place within municipal boundaries and the relevant municipality fails to take any action in this direction.”*

#### 4.5. Collections Problems Due to the Uncertainties Surrounding the Collection Authority

Although the authority to collect taxes and charges specified in the Law on Municipal Revenues is explicitly designated, there may be disputes between municipalities regarding the collection of certain taxes or charges, mostly due to certain provisions of the Law on Metropolitan Municipalities. For example, in Metropolitan areas, the question of which municipality will collect the Announcement and Advertisement Tax levied on buildings with one façade facing the main arterial road, boulevard or main road and with other façades facing regular streets may constitute a matter of dispute between municipalities.

Similarly, due to conflicting legislative provisions, it is not clear whether it is Municipalities or Organized Industry Zone administrations that are authorized to collect the Announcement and Advertisement Tax in Organized Industry Zones.

#### 4.6. Collections Problems Due to the Existence of Many Different Types of Taxes and Charges

As explained in the previous sections, there are many different types of taxes and charges collected by Municipalities.

However, since Municipalities are obliged to collect these taxes and charges regardless of the amount due to legislative provisions, in certain cases the amount of the collected tax or charge is rather low compared to the effort made for collection. This results in a waste of municipal resources including human resources.

In addition, the subject of certain taxes and charges are the same or quite similar and this negatively affects the views surrounding municipal taxes held by certain citizens whose tax awareness is already relatively low. Sanitation Tax, Charges for Wastewater and Charges for Solid Wastes collected separately may be cited as an example of this situation.

#### 4.7. Collection Problems Due to the Restructuring of Public Receivables and Tax Amnesties

There are various reasons behind the enactment of tax amnesty laws in Turkey, including the low economic and political costs associated with tax amnesties, lack of savings and taxpayers treating it as cheap credit instead of paying their tax debts, the ambition to obtain high amounts of revenue in a short period of time, structural issues in the financial system, tax harmonization and fiscal crises.

Tax amnesty, which has become an instrument of the tax policy, may be defined as a call for payment made with the promise of partially or completely freeing taxpayers from monetary and criminal proceedings for unpaid taxes.

The practice of extending tax amnesties and restructuring public receivables, which have become quite frequent in recent years, create an expectation among citizens for the next amnesty, thus hindering the collection of Municipal taxes.

#### 4.8. Collection Problems Due to the Underutilization of E-Enforcement and E-Notification Procedures

As is well-known, the Revenue Administration established the e-enforcement system to expedite the enforcement proceedings to be conducted in line with the Law No. 6183, thus eliminating the need for engaging in paper-based correspondence with banks for enforcement transactions targeting public debtors.

However, since municipalities are yet to start using this system, they continue to engage in paper-based correspondence with bank branches in order to carry out enforcement proceedings and to release an attachment. This situation increases the workload and prolongs the enforcement process.

With the E-Notification system, the documents, which must be delivered to taxpayers in accordance with the provisions of the Tax Procedure Law No. 213 and the General Communiqué No. 456 on the Tax Procedure Law, are electronically delivered to whom it may concern. The electronic notification has the same effect as paper-based notification. However, due to the lengthy procedures required to put the electronic notification system into practice, Municipalities are yet to start using electronic notifications.

In this context, in order to facilitate municipal tax procedures and transactions, it is recommended to carry out a joint operation with the Revenue Administration and make the e-notification and e-enforcement systems used by the Revenue Administration available to municipalities.

A proposal to carry out this joint operation under the coordination of the Ministry of Environment and Urbanization may be put on the agenda.

#### 4.9. Collections Problems Due to Reluctance by Municipalities to Conduct Tax Audits and Collections for Political Reasons

During certain periods and in some situations, the political nature of municipalities may mean that these administrations fail to effectively exercise their tax collecting and auditing duties and to conduct effective follow-up procedures for tax receivables.

While the fact that taxpayers interact more with local administration units compared to the central administration comes into play in tax payments, local authorities tend to be reluctant in the audit, follow-up and collection of taxes in certain situations, especially during electoral periods.

For example, a Municipal official who participated in one of the interviews conducted within the scope of this study mentioned that a previous Mayor lost the elections because he/she attached great importance to property tax collections and followed them closely.

In our interviews, it has been observed that this is less of an issue in Metropolitan municipalities with larger institutional structures and more of an issue in district municipalities and small-scale municipalities which tend to have closer interactions with the local residents.

#### 4.10. Collections Problems Due to Lack of Audits Targeting Municipal Tax Management Systems

In Turkey, Municipalities are subject to external financial auditing by the Court of Accounts within the framework of the Law No. 5018 on Public Financial Management and Control and the Law No. 6085 on Turkish Court of Accounts and also have the opportunity to have their tax practices audited by internal auditors and Municipal inspectors.

However, it is unclear whether there are sufficient number of audits to examine municipalities' level of compliance with the tax legislation.

When we examine the annual audit reports prepared by the Court of Accounts, we can see that certain specific topics such as "Failure to Receive Adequate Pay for Occupied Municipal Immovables" or "Notes on the Accrual and Collection of the Sanitation Tax" are analyzed for all Municipalities, however the low collection rates of municipal revenues are not subject to detailed and comprehensive analysis.

Considering that municipalities either do not have internal auditors or cannot assign qualified personnel to these positions, it can be argued that internal and external audits for municipal tax management systems remain insufficient.

In this context, it is likely that there would be differences in the implementation of the tax legislation between different municipalities and that municipalities would continue to follow improper practices.

## **B. ANALYSIS OF THE MUNICIPAL COLLECTION PROCESSES IN SELECTED EU COUNTRIES**

In this part of the study, interviews were carried out with the officials of 10 municipalities from 9 countries (Italy, Hungary, Czechia, Sweden, Spain, Poland, Latvia, Slovenia and Denmark) in Europe. Additionally, Greece and Germany were included in the study with a desk review.

The selected country cases were reviewed with virtual meetings and via desk review. The specific topics of the desk review have been agreed with the Technical Assistance Team of the LAR III project. One can find attached the list of Municipalities that were included in this scope of this study (Annex-1).

The objective of this section is to identify possible recommendations that could improve the local tax collection system of Turkish municipalities by examining the practices in other countries. In addition to interviews conducted with this objective in mind, the reports of state audit institutions in various countries regarding the municipal local tax/fee management were reviewed and previous research and policy documents were analyzed. The information obtained through the interviews conducted with EU municipalities were first sent to these municipalities to receive their input and approval before being included in this Draft Report.

## 1. SPAIN

Spain is a unitary state composed of 8131 municipalities (“Ayuntamientos”), 50 regions (“Diputaciones provinciales”), Canary Island county councils (“Cabildos Insulares”), Balearic Island county councils (“Consejos Insulares”) and 17 autonomous communities (“Gobierno de las comunidades autónomas”).

The local council (“pleno”) is the local authority’s deliberative body and is composed of councilors elected by direct universal suffrage for a four-year term. This assembly approves the local budget, urban planning, by-laws and municipal rules.

The local government council (“junta de gobierno local”) is the local authority’s executive body. It is composed of local council councilors appointed by the mayor to assist him in his work and to exercise a number of executive functions.

The mayor is the head of the executive body. He/she is appointed by and from within the local council and is assisted by a number of councilors which he/she nominates and can dismiss. The mayor also chairs the local council.

Municipalities are mainly responsible from:

- Water supply
- Street lighting
- Urban traffic
- Food security
- Road maintenance
- Sewage and waste management
- Public libraries
- Green areas
- Local police
- Social services
- Fire prevention
- Sporting facilities
- Public transport
- Protection of the environment

***Table 3 Revenues of Spanish Municipalities & Local Taxation***

Below one can find the main sources of revenues of Spanish Municipalities as percentages in 2015.<sup>1</sup>

<b>SPAIN</b>	
Revenues (borrowing and targeted grants excluded)	
<b>Own taxes</b>	41.9
Property tax	(27.7)
Vehicle registration levy	(4.7)
Economic activity tax	(3)
Building tax	(1.1)
Added value of land tax	(5.4)
Others	(1.9)
<b>Fees and charges</b>	15
<b>Transfers (mainly central State)</b>	35
<b>Others</b>	10

Spanish municipalities obtain an important part of their resources through unconditional financing from the State. The regional governments (comunidades autónomas) provide much less funding, and it is usually conditioned.

As a reference, the report A.1.1.3 “Increasing Local Administration Revenues in line with European Union Country Experiences” includes detailed information on the local taxation system in Spain.

The Taxes of compulsory levying are that of Real Estate, that of Economic Activities and the one of Motor Vehicles. The taxes that may be established are the tax of Increase in the Value of Urban Land and the tax of Construction and Installations Works.

Accordingly, the main municipal taxes existing in Spain are as follows:

- Real Estate Tax (IBI)
- Motor Vehicles Tax (IVTM)
- Tax on Economic Activities (IAE)
- Tax on the Increase in the Value of Urban Land (Capital Gains Tax) (IIVTNU)
- Tax on Constructions, Installations and Works (ICIO)

While the Real Estate Tax, Tax on Economic Activities and Motor Vehicles Tax are mandatory, Tax on the Increase in the Value of Urban Land (Capital Gains Tax) and Tax on Constructions, Installations and Works are voluntary taxes that may be levied by Municipalities.

Below one can find a brief review of the most relevant characteristics of each local tax.

<sup>1</sup> HACIENDAS LOCALES EN CIFRAS AÑO 2015 / MINISTERIO DE HACIENDA Y FUNCIÓN PÚBLICA

## **1.- Real Estate Tax (IBI)**

The Real Estate Tax is a direct tax whose taxable event is constituted by the ownership of the rights over rural and urban properties and on properties with special characteristics.

The local council calculates the real estate tax according to the cadastral value which is determined according to:

- Size
- Condition
- Location
- Title
- Lease details
- Cost of improvements
- Construction cost of the property.

It is also important to note that cadastral values can be modified by collective assessment procedures of a general nature, such as the update carried out in the General State Budget Laws by establishing coefficients. In theory, this should happen every ten years.

Both the central government and municipalities play a role in the management of the Real Estate Tax. While the cadastral management and valuation functions are carried out by the central government, Municipalities are responsible for the calculation and collection of the Real Estate Tax.

The minimum and supplementary tax rate is 0.4 percent in the case of urban real estate and 0.3 percent in the case of rural real estate and the maximum is 1.10 percent for urban and 0.90 percent for rural. While the central government determines these minimum and maximum thresholds, Municipal administrations determine the specific rates for each municipality.

The type of tax applicable to real estate with special characteristics, which has a supplementary character, is 0.6 percent. The Town Councils can establish for each group of real estate with special characteristics existing in the municipality a differentiated rate that, in no case, may be less than 0.4 percent or greater than 1.3 percent.

The tax is accrued on the first day of the tax period, which coincides with the Calendar year.

## **2. Tax on Economic Activities (IAE)**

The Tax on Economic Activities is a direct tax whose taxable event is constituted by the exercise of professional or artistic business activities. The tax is calculated on the basis of various factors (type of activity, area of premises, net revenues, etc.). The minimum tax rates published by the Government can be adapted by the municipal authorities.

Central and local governments share various responsibilities in the management of this tax as well. While the tax legislation is regulated by the central government, tax management is carried out by local governments.

The levying of the tax can be carried out at three different levels:

- **Municipal:** the levying of the fees is carried out by the Municipality where the business activity is carried out.
- **Provincial:** The levying of tax is carried out by the Provincial Delegation of the State Tax Administration Agency in whose territorial scope the performance of the business activity takes place. The amount of the provincial fee is distributed between all the municipalities of the province and the Provincial Council.
- **National:** The levying of tax is made by the Provincial Delegation of the State Tax Administration Agency in whose territorial scope taxpayer has his tax domicile. The amount of the fees is nationally distributed among all municipalities and Provincial Councils of common territory.

The General State Budget Laws can modify the tax rates, as well as the instructions for their application, and update the quotas contained therein. The tax payable is calculated on the basis of various factors (type of activity, area of premises, net revenues, etc.). The minimum tax rates published by the Government can be adapted by the municipal authorities.

### **3. Tax on Motor Vehicles (IVTM)**

The Tax on Motor Vehicles is a direct tax levied on the ownership of vehicles suitable for driving on public roads regardless of their class and category.

The minimum rates are set in article 95 of the Royal Decree Legislative 2/2004, however, the City Councils can increase them by application of a coefficient, which cannot be higher than 2.

In the case where the municipality decides to raise the rates, the coefficients may be equal or different for each category and class of vehicle, without exceeding in any case the maximum limit.

### **4. Tax on Constructions, Installations and Works (ICO)**

The Tax on Constructions, Installations and Works is an indirect tax whose taxable event is constituted by the realization of any construction, installation or work for which an urban planning license is required.

The tax base is made up of the real and effective cost of construction, installation or work. The rate of tax is determined by the Municipality however it cannot exceed 4 percent, regardless of the size of the municipality.

## **5. Tax on the Increase in Value of Urban Land (IIVTNU)**

The Tax on the Increase in Value of Urban Land is a direct tribute that taxes the increase in the value of urban lands.

The tax base for this tax is constituted by the increase in the value of the land, revealed at the time of accrual and experienced throughout a maximum period of twenty years. In land transfers, the value at the time of accrual is the one determined at that time for the purposes of Real Estate Tax. On the value of the land at the time of accrual, the annual percentage is applied determined by each City Council, without the latter being able to exceed the limits determined by the Law.

The current legislation stipulates that if there is no increase in value recorded in the acquisition of taxable assets, this tax should not be levied.

### **Collection of Municipal Taxes, Fees and Receivables**

In Spain, the management and collection of the local taxes, charges, fees and local levies can be carried out by the Municipality itself, by delegation to the Provincial Council or by outsourcing the service directly. Frequently a combination of several formulas for full or partial delegation are utilized.

Principally, tax management and collection functions are carried out by the City Council. The administrations that prefer this option are those that have already introduced reforms towards flexibility in their personnel structures so that it would match the private sector when it comes to human resources.

However, in practice, many municipalities utilize and collaborate with private companies (i.e. outsourcing) for tax collection. Although external private companies are commonly utilized for tax collection due to efficiency, there are critical arguments to the utilization of external companies especially from a legal background.

This practice is also criticized from a confidentiality perspective. Considering that these private companies gain full access to the registry of real estate, vehicles, economic activities, etc. personal data security becomes a significant issue.

Therefore, in the case of the possible outsourcing of local tax services, the management must be ultimately controlled by the Administration, thus leaving the actions of the collaborating companies limited to those that do not imply the exercise of authority. In this regard, two possibilities appear:

- Total collaboration: The external company provides the know-how, staff, resources, IT and even facilities.
- Partial collaboration: The external company only provides part of the service to the administration as designated in the collaboration contract (in competencies and tributes) leaving the rest to the Municipality. Example: The administration provides the human resources (officials), but technical resources are bought or developed by the private companies.

Approximately 90% of Spanish municipalities tend to delegate some aspect related to the management of taxes. Municipalities that are the capitals of provinces are the most reluctant to

transfer their tax powers, there are only 7 which have delegated the management of their taxes to another institution (Albacete, Alicante, Badajoz, Cáceres, Pontevedra, Huelva and Salamanca).

One possible internal explanation lies in the resistance exerted by the collection technicians of the local institutions (Unions). Also, while the smaller local administrations may be interested in transferring the image to its citizens that the collection of taxes is made from another body, while they are the suppliers of the services, larger administrations are also interested in being visualized politically as responsible for their public revenues.

The types of service that the partner company can provide range from development and maintenance of a specialized computer tool to the contribution of specialized personnel who carry out the collection procedures and then transfer the money.

### **Payment Methods for Local Taxes**

The most common payment methods are:

- Direct debit
- Banks: Offices, Webservice and ATM's (Cash, Credit Cards and checks)
- Open Webservice (Only Credit Cards)
- Mobile phone (Only Credit Cards)
- Call Center (Only Credit Cards)

### **Direct Debit System**

Basically, the direct debit system is the payment of the taxes and other municipal charges/fees through the accounts of the debtors/taxpayers opened in banks and credit institutions. For this purpose, the citizens notify the collection body at least two months before the beginning of the collection period. Direct debits will be valid indefinitely as long as they are not cancelled by the taxpayer, rejected by the credit institution or the Administration expressly provides for their invalidity for justified reasons.

The main benefits of direct debits for the taxpayers are:

- There is no need to take trips to different places and queue to pay bills.
- There is no need to remember local tax calendar.
- Possibility of accessing discounts for direct debit of taxes. (depends on the municipality but generally around 5%)
- Avoiding possible errors with addresses or shipments of payments
- Immediate money-back guarantee from the bank in case of any error (within 8 weeks from the charge).
- Ease of cancellation by giving instructions to either the bank in writing or directly to the Administration.

In those cases where the charge to the account is not made or is made after the deadline for reasons not attributable to the person obliged to pay, no surcharges, late payment interest or penalties will be required, without prejudice to the default interest that, where appropriate, should be settled and require the entity responsible for the delay in admission.

In summary, direct debit constitutes a taxpayer’s right that guarantees the payment of their taxes in a voluntary period and without surcharges, avoiding the hassles derived from payment in person through financial entities, and the concern of remembering the local tax calendar.

The main benefits of direct debits for the Municipalities are

- Securing the immediate collection of a significant percentage of the tax
- Reduction of expenses in the Post Office by avoiding the printing of receipts.
- The costs of paper, printing and folding of paper receipts decrease the higher the direct debit.
- Decreased number of staff in customer service.

**Collection Rates of Local Taxes and Collection Efficiency<sup>2</sup>**

As per information we have received from the officials of Barcelona municipality during our virtual meeting session, the collection rates of 5 main local taxes in Spain were mentioned to be as follows in 2015:

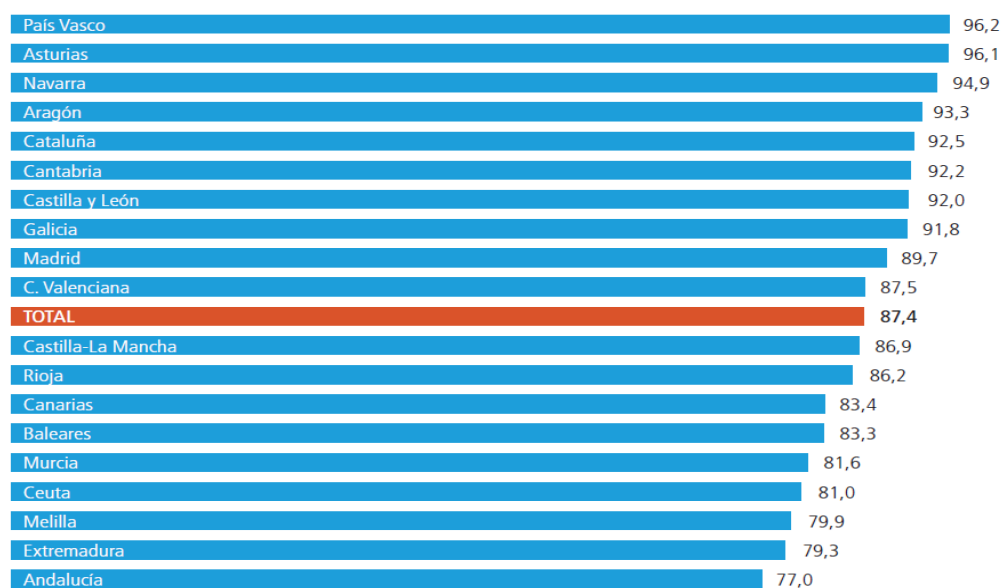
*Table 4 Collection rates of 5 main local taxes in Spain*

Property Tax (IBI)	87.4 %
Tax on mechanical traction vehicles (IVTM)	84.7 %
Tax on the increase in value of land of an urban nature	80.4%
Economic Activity Tax (IAE)	87.9%
Tax on construction, installations and works (ICIO)	79.6%

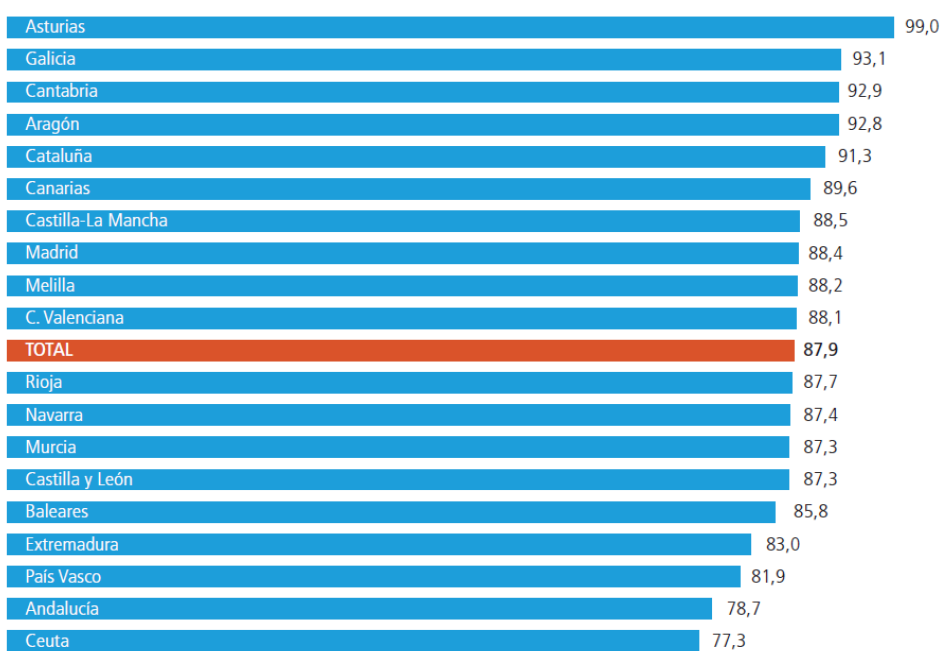
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<sup>2</sup> This section of the report is mainly based on the report titled PANAROMA DE LA FISCALIDAD LOCAL 2018 by Consejo General REAF Asesores Fiscales.

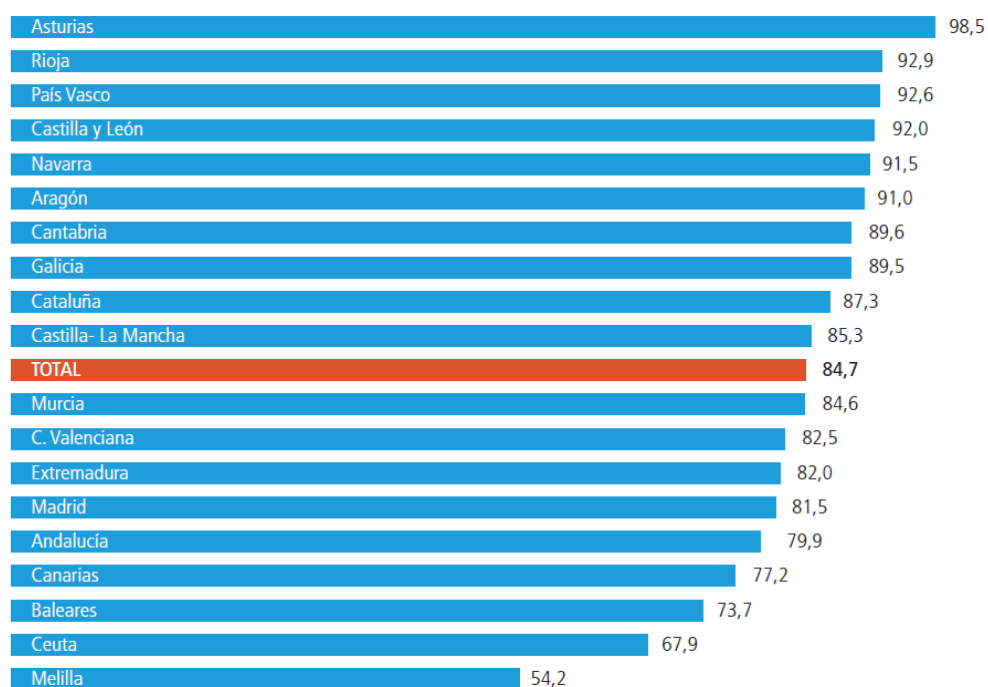
**Figure 1 Collection Rates of Property Tax in Spain in 2015 by Regions**



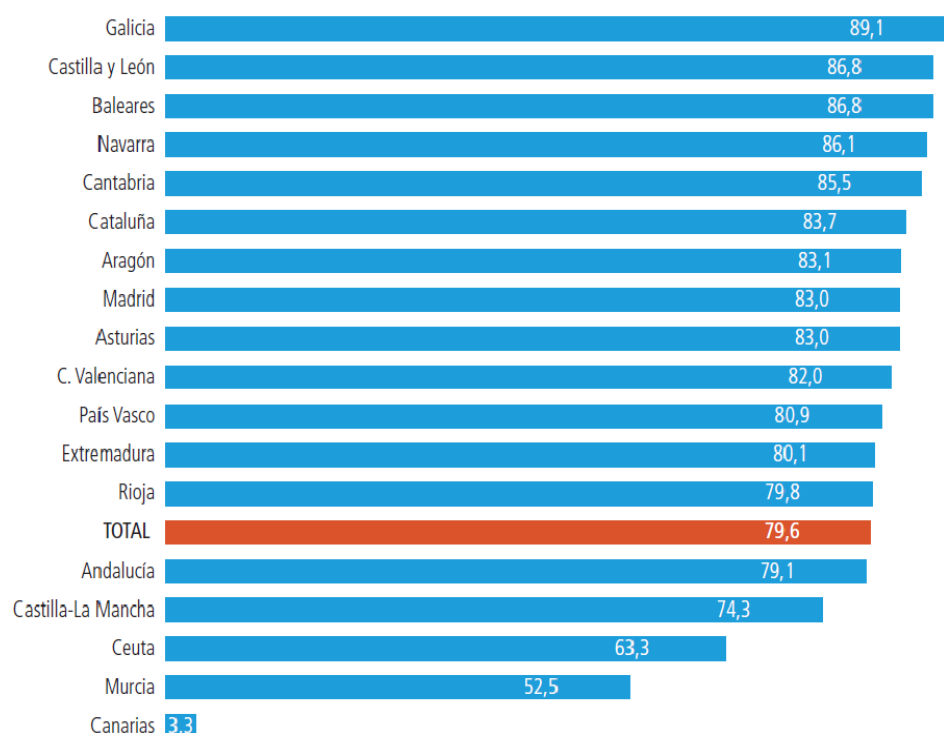
**Figure 2 Collection Rates of Economic Activity Tax in Spain in 2015 by Regions**



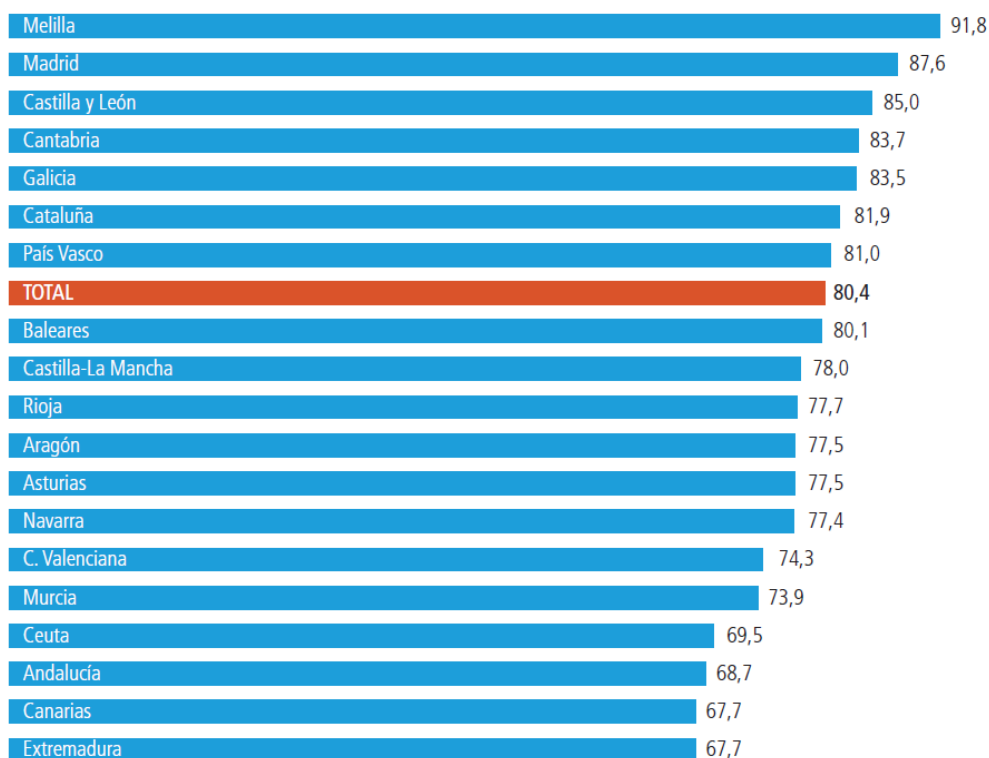
**Figure 3 Collection Rates of Property Tax in Spain in 2015 by Regions**



**Figure 4 Collection Rates of Tax on construction, installations and works (ICIO) in Spain in 2015 by Regions**



**Figure 5 Collection Rates of Tax on the increase in value of land of an urban nature in Spain in 2015 by Regions**



Although the overall collection rate of local taxes is 85%, as it can be seen from the above tables and graphs, there is a significant discrepancy among the regions in terms of local tax collection. Additionally, there are differences among the collection rates of various types of local taxes.

For instance, Barcelona has always been a city where the tax awareness of the citizens is high when compared to the other parts of the country. Therefore, the collection rate of Barcelona Municipality of its receivables is relatively higher than the average collection rate of Spanish municipalities.

The taxes, fees and fines accrued and collected by Barcelona City Council in 2019 are as shown in the following table (amounts expressed in thousands of euros):

*Table 5 The taxes, fees and fines accrued and collected by Barcelona City Council in 2019*

2019	Accrued amount	Collected amount	% collected
<b>TAXES</b>	<b>1 145 854</b>	<b>1 094 169</b>	<b>95.49%</b>
Property Tax (IBI)	728 851	706 273	96.90%
Tax on mechanical traction vehicles (IVTM)	57 505	48 323	84.03%
Tax on the increase in value of land of an urban nature	205 982	197 834	96.04%
Economic Activity Tax (IAE)	103 041	93 975	91.20%
Tax on construction, installations and works (ICIO)	50 475	47 764	94.63%
<b>FEES</b>	<b>132 848</b>	<b>112 513</b>	<b>84.69%</b>
Sewer rates	15 452	14 362	92.95%
Building license	6 675	6 642	99.51%
Activity license	1 057	1 057	100.00%
Permanent ford	16 878	15 935	94.41%
Fee for private use of the public road (terrace)	5 134	4 678	91.12%
Private use or special use of the local public domain of electricity, gas, water and hydrocarbon transport facilities	23 464	23 356	99.54%
Private use or special use of the municipal public domain in favor of undertakings operating services of general interest	950	950	100.00%
Private use or special use of the public domain in favor of companies operating mobile telephone services	6 406	4 659	72.73%
Commercial and industrial waste collection services assimilated to municipal	23 401	15 327	65.50%
Commercial and industrial waste collection services assimilated to municipal- Large generators	5 493	3 488	63.50%
Other revenue	27 938	22 059	78.96%
<b>FINES</b>	<b>101 147</b>	<b>36 804</b>	<b>36.39%</b>
Traffic fines	51 145	31 254	61.11%
Other municipal sanctions	46 998	4 359	9.27%
Tax fines	3 004	1 191	39.65%
<b>TOTAL TAXES, FEES AND FINES CURRENT YEAR</b>	<b>1 379 849</b>	<b>1 243 486</b>	<b>90.12%</b>

Source: Barcelona Municipality / Department of Finance

## **Procedures for Nonpayment**

Once the voluntary period has elapsed without payment having been made, the non-payment procedures will begin as follows:

- Executive surcharge of 5%: when the principal of the debt is paid after the end of the term of entry in the voluntary period and before the notification of the enforcement order.
- 10% enforcement surcharge: the enforcement order has been notified, when the total amount of the debt not paid in the voluntary period and the surcharge itself is satisfied before the end of the period indicated by the Law.
- 20% surcharge: in all other cases.

In case receivables remain unpaid, they are selected automatically for the seizure of money in bank accounts. From here, semi-automatic actions are carried out for seizure of salaries and assets (vehicles) and properties. Finally, there is the possibility of seizing and auctioning properties located in any part of the national territory.

## **Inspection<sup>3</sup>**

The tasks of the Tax Inspection are carried out in order to detect the taxes not declared or incorrectly declared in the different municipal taxes, as well as in the municipal offices, through the investigation and verification of documentation of the taxpayers and the data in the different databases and sources of information available.

Its legal basis is found in General Tax Law No. 58/2003, of December 17, Articles 136 to 159, and in the General Regulation of Management and Inspection (Royal Decree 1065/2007, of July 27) , as well as in the General Tax Ordinance of the Madrid City Council , Statutes of the Madrid Tax Agency and other internal organizational provisions of this Agency.

The Tax Inspection covers all types of local taxes and it may start by sending a notification to the taxpayer, stating:

- Its nature and scope (general or partial inspection action)
- Rights and obligations of the taxpayer
- Term: 18 months in general or 27 months
- Place and time of the inspection actions
- The documentation that the taxpayer must provide

Alternatively, the inspection can also start without prior communication in the company or premises of the taxpayer.

The inspection procedure includes the actions necessary to obtain data and evidence that support the regularization of the tax situation or to declare it correct, which may include the entry and recognition of farms, premises or places where activities or operations of the taxpayer take place.

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<sup>3</sup> This section of the report is based on the legislation and daily Operations of City Council of Madrid.

After the inspection there is a possibility of hearing where the taxpayer can consult the file, formulate allegations or present any documents deemed necessary. Subsequently there is also the possibility of settlement and following a lawsuit.

## **SUMMARY and EVALUATION**

Evaluations regarding the Spanish municipalities are mainly based on our interview with the Municipality of Barcelona and additionally on the annual reports of the Municipality of Madrid.

- Spanish municipalities obtain an important part of their resources through unconditional financing from the State. Still, Spain is characterized by relatively high local government revenue autonomy, with a sizeable share of tax receipts and fees transferred to sub-national governments.
- The Law establishes a set of five taxes. While the Real Estate Tax, Tax on Economic Activities and Motor Vehicles Tax are mandatory, Tax on the Increase in the Value of Urban Land (Capital Gains Tax) and Tax on Constructions, Installations and Works are voluntary taxes that may be levied by Municipalities.
- Municipalities also have the capacity to modify rates, percentages and coefficients within certain limitations.
- In Spain, the management and collection of the local taxes, charges, fees and local levies can be carried out by the Municipality itself, by delegation to the Provincial Council or by outsourcing the service directly. There are many advantages and drawbacks of each system therefore frequently a combination of several formulas for full or partial delegation are utilized.
- Although the overall collection rate of local taxes is considerably high on average there is a significant discrepancy among the regions in terms of local tax collection. Additionally, there are differences among the collection rates of various types of local taxes. In a general sense, the collection rate of mandatory taxes is higher than the collection rates of voluntary taxes.
- Direct debit method is commonly used for payments and it has many advantages both for municipalities and for the citizens.
- The municipalities follow strict procedures for non-payment, and they have authority to carry out audits.
- In a report prepared by GTT (Gestion Tributaria Territorial / a private company engaged in management and collection of taxes), the recommendations for the improvement of tax collection are listed as follows:
  - Updating the local tax legislation so as to reduce complexity is a necessity.
  - Updating the databases and registers regarding the information on taxpayers is a necessity.
  - Daily practice shows that if municipal collection and seizure procedures are quick and efficient, taxpayers will pay or try to pay voluntarily to avoid the risk of incurring higher expenses as a result of surcharges, interest and costs.
  - Direct debit system as a payment methodology should be promoted, payment at the cash desk should be reduced/avoided.
  - Electronic communications such as SMS, MSMS or e-mails to notify the start or end of the voluntary payment period as well as to send receipts should be utilized more frequently.

- Advertising campaigns in the press, radio, TV, Internet to communicate the collection periods, promote domiciliation and create a climate of public sensitivity with the fulfilment of the Tax obligations, all this to fight against tax fraud and help to avoid ignorance in the fulfilment of tax obligations.

## 2. GREECE

Greece is a unitary state composed of municipalities (dimos) and self-governed regions (peripheria). The municipal council (dimotiko simvoulio) is composed of members elected by direct universal suffrage for a four-year term. This deliberative assembly, headed by the mayor, is the decision-making body of the municipality. The municipal council is composed of a number of committees including the financial committee, the quality of life committee and the board of immigrant integration.

The executive committee (ektelestiki epitropi dimou) is the municipality's executive body. It is composed of the mayor and deputy mayors and monitors the implementation of municipal policy, as adopted by the municipal council.

The mayor is elected by direct universal suffrage for a period of four years. He/she defends local interests, heads all local development actions and represents the municipality. The mayor also presides over the executive committee and coordinates the implementation of its decisions.

The main responsibilities of the municipalities are;

- Building permits and urban planning applications
- Social welfare
- Issuing professional licenses
- Agriculture, livestock and fisheries
- Transport infrastructure
- Health care
- Education

### **The revenues of Greek Municipalities<sup>4</sup>**

The revenues of Greek Municipalities can be divided into two categories namely ordinary and extraordinary revenues. Those which are ordinary are derived from:

- Statutory resources and regular subsidies from the state budget
- Taxes, duties (ordinary and user charges), royalties and contributions
- Income coming from municipal/communal/prefectural property

Those which are extra-ordinary are derived from:

- Loans (just 2% of total revenues), gifts, bequests and inheritances
- Selling (or "privatizing") property
- Extra-ordinary subsidies from public agencies
- Funding from the European Union or other international organizations
- Other sources

For the great majority of Local Government Authorities, revenues that cover ordinary expenditure come mainly from the Central Autonomous Funds, that is, the share of local government in revenues of the state budget. The Central Autonomous funds are, more specifically, derived from

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<sup>4</sup> This section of the report is based mainly on the report "Local and regional democracy in Greece" prepared by the Congress of Local and regional Authorities / Council of Europe.

- The income tax of natural and legal persons in a percentage of 19.5% of the total annual tax receipts; a percentage up to 1/3 of the above percentage of 19.5% may be allocated to meet the investment costs of municipalities;
- The Value Added Tax (VAT) in a percentage of 12% of the total annual tax receipts;
- The Unified tax on real estate in a percentage of 11,3% of the total annual tax receipts.

The grants are first assigned to major spending areas and then distributed to individual local governments on the basis of population size, road network and level of social services. There seem, however, to be some major distortions in use of the population criterion.

The grants are divided into the 'Regular Grant' (RG) for operating expenditure and the 'Public Investment Specific Programme Grant' (PISPG) which finances specific projects.

Apart from these grants, Greek local governments also receive compensation grants, global investment grants and earmarked grants. The latter cover expenditure in specific areas, such as transportation costs for pupils and illness and welfare support grants.

32% of municipal revenue stems from own fees, taxes and charges.

For the municipalities, the most important sources of own revenues are waste management and cleaning duties, the road and street-lighting duties, the advertisement duty, the beer tax, the property tax and several fees for services, such as market charges, charges for cemeteries, charges for the use of slaughter-houses etc. In several coastal areas the tourist tax is an important source of revenues.

The road and street-lighting tax is assessed on the area occupied or used (for business premises), multiplied by a set of factors (which is different for residential and business premises).

The property tax is assessed on floor area taking into account the location (value of the area) and the age of the building, both of which are determined by the Ministry of Finance. The national electricity company collects these two taxes (as well as waste management and cleaning duties) for local authorities, when electricity bills are paid - which ensures a very high level of collection.

Other taxes and fees are levied directly by local authorities, with the exception of the beer tax, which is levied by the state and repaid to local authorities.

As described before, local authorities' other revenues (e.g. excluding grants from State Budget & PIB) which represent approximately the 32% of total revenues are divided in 4 main categories:

- Revenues from reciprocal duties and rights: 47% of own revenues in 2013
- Tax revenues, duties, rights & services: 22% of own revenues in 2013
- Other own revenues: 13% of own revenues in 2013
- Revenues related to previous years: 18% of own revenues in 2013

Many municipalities possess important private property (especially real estate, but also stock shares etc.) which has to be managed in a proper way. Respective actions (selling, buying, renting etc.) have to be approved by the municipal council and are subject to further substantial and procedural restrictions (tendering etc.)

## **Collection of Municipal Revenues:<sup>5</sup>**

The collection system of local taxes is quite diverse because the various revenue sources follow specific procedures. Municipal Cash Departments, the local tax offices and post offices are the ones which actually collect local revenues. The most important mechanism is through the Electricity Company bills.

However, this system becomes gradually more dysfunctional because of the delayed payments, the high collection costs and not covering certain areas where other electricity providers entered this market.

A major obstacle of own source revenue raising is the limited local capacity to collect the arrears of local service fees and taxes. Delayed payments increased during the economic crisis. It is estimated that the accumulated debt of citizens to local government budget is approximately EUR 500 Million.

Management of these overdue payments and the improvement of local revenue collection are the two most critical factors to enhance local fiscal autonomy. The municipalities whose population is above 10.000 must have a collection service. The municipalities whose population is under 10.000 can also get collection service from the central government.

In an audit report namely "Horizontal Audit of Own Revenue Municipalities of Thessaloniki, Piraeus, Heraklion Crete, Glyfada and Kalamaria year in 2013" many deficiencies in the management and collection of Municipal revenues and receivables were found out in the following areas:

- In the monitoring system and assessment of the degree of collection of receivables, due to the lack of an integrated policy,
- In the application of a standard procedure regarding the activation and implementation of the compulsory recovery measures,
- In the application of Public Revenue Collection Code,
- In the recording of bad debts requirements in the financial statements
- In the systematic treatment of factors related to the causes and consequences of the uncollected receivables.

With a detailed analysis of the electricity fee collections which also include various local taxes, below deficiencies were determined:

- Incorrect keeping of real estate data and electricity energy meters
- Lack of communication and comparison of data of the Municipalities with the Hellenic Electricity Distribution Network Operator
- Insufficient accounting treatment of receipts and revenues from the electricity providers
- Untimely processing and retrieval of due fees and taxes after a power outage
- Inability to monitor and certify non-electrified debts real estate
- Difficulties in data management with other electricity providers
- Imposition of fines and management of appeals for certification and collection
- of this revenue

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<sup>5</sup> This section of the report is based mainly on the Audit report namely "Horizontal Audit of Own Revenue Municipalities of Thessaloniki, Piraeus, Heraklion Crete, Glyfada and Kalamaria year in 2013" prepared by the Greek State Audit Institution.

The same Audit report also discusses the aging of receivables and criticizes the municipalities for the lack of effective receivables management. In the report, keeping and periodically updating receivables aging tables are recommended in order to avoid:

- Possible losses due to debtors' inability to pay
- Non-implementation of compulsory recovery measures due to untimely and / or lack of information
- Limitation of debts due to the expiration of their claim time
- Insufficient assessment of doubtful receivables due to insufficient information
- Insufficient cash flow to meet cash needs

Most common non-collected receivables are the rents, fines/penalties and real estate tax. The collection rates can be as low as 40% in some of the municipalities.

Several cases of debtors were identified, with debts relating to periods before the computerization of the Municipality in 2003, where these debts, while they had been paid, in the past, by handwritten bills, the corresponding record of the debt card has not been updated. For these debtors, the Cash Certificate Department still carries out the enforcement procedures. In addition, it was found that there are many duplicates in the records.

The main weaknesses associated with the receivables collection are summarized in the report as:

- The absence of standard procedures,
- Time consuming and sometimes inefficient procedures for the determination of the debtors' data such as VAT number,
- Frequent changes in the ownership status of legal persons,
- Delays in the adjudication of appeals to the Administrative Courts;
- Weaknesses in the procedures for termination of overdue debts.
- Random decisions on the receivables follow-up limits (some municipalities do not follow receivables under 10.000 Euro while others follow-up regardless of the amount)
- No follow-up for certain debtors (with a possibility of political reasons)
- Random decisions on write-off of receivables
- Lack of experienced employees

### **The Ombudsman's Report**<sup>6</sup>

Other information on local financial resources has been provided, from a completely different point of view, by the Greek Ombudsman. According to Greek Ombudsman's data the most common complaints concerning to the department of State-citizens relations and related to the first tier of local administration are the financial problems arising from the imposition of the local taxation. In addition the inefficient tax collecting affects the economic self-sufficiency of local government and their ability to fulfil their contractual or other obligations.

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<sup>6</sup> The special report of the Ombudsman entitled "Revenues of Municipalities and the Rule of Law" was presented at the City Hall of Thessaloniki in the context of a relevant meeting attended by representatives of the State, Justice, Local Government, the University, and Bar Associations.

The report points out that citizens do not have equal access to the same services, among municipalities, or within the same municipality. Arbitrary interpretations of tax or town planning laws and regulations have also been recorded, always to the detriment of the citizen.

Significant cause of obstacles and delays in revenue collection, but also an additional burden on financial services, is the lack of a residence register of the traders with the municipalities, with the result that the search for debtors often fails fruitless.

Additionally, citizens complain because they are informed about the existence of debts for the first time when they receive individual notification. In that phase however, the enforcement process has already begun, and the effective defense of debtors is mainly only judicial.

The ignorance of the debtors for the existence of their confirmed debts, is a reason for the non-collected receivables. The case of a large municipality is typical where the Financial Service sent notices by mail to the former address of the debtor while he was attending a University in a city, although he worked and lived uninterruptedly in another city.

Similarly, an Athens lawyer was informed of the existence of certified debts when a foreclosure was imposed her bank account. She was unaware of her financial debt because The Municipality of Athens has been issuing individual notices for a number of years in the wrong address

According to its experience the Ombudsman has come to the conclusion that local authorities are not sufficiently prepared to impose local taxation or, to be more specific, unable to implement the complex and -in many cases- outdated legislation. Additionally, there is an immediate need to simplify the Greek tax system, both by abolishing certain taxes and by recodifying the existing provisions and the eliminating those complicating the tax system and offering virtually nothing.

### **Summary and Evaluation**

Evaluations regarding the Greek municipalities are mainly based on the review of State Audit reports of municipalities including Athens, Marathon, Thessaloniki, Piraeus, Heraklion Crete, Glyfada and Kalamaria on the annual reports of various other Greek Municipalities.

- Local Government revenues and expenditures are very low in Greece, as a percentage of GDP. The taxation autonomy of Greek municipalities remains limited. Their total share of public expenditure is one of the lowest in Europe.
- Local government does not enjoy self-sufficiency in terms of taxation (Art. 78 of the Constitution), and thus the Constitution (Article 102 V)) imposes on the State the duty of ensuring the necessary resources.
- The law, however, also provides for independent revenues, over which local authorities have some control, and transfers from government, which allocates a proportion of certain national taxes, and also makes grants, to them.
- The collection system of local taxes is quite diverse, the most important mechanism for local tax collection is through the Electricity Company bills.
- The collection rates of local taxes vary significantly among municipalities. Most common non-collected receivables are the rents, fines/penalties and real estate tax. The collection rates can be as low as 40% in some of the municipalities.
- It is obvious that the Greek tax system consists of an excessive number of taxes. This is especially true for excise taxes. This large number of taxes is likely to result in the high

administrative cost of taxes, considering that for each type of tax, the Municipalities must have specialized services. It is also challenging and time-consuming for the citizens as well considering that they are obliged to complete various declarations in different dates.

- Frequent changes of the legal framework make the system even more complicated and difficult to understand. Every year at least two tax laws are voted at the Parliament and this obviously prevents even the most diligent taxpayer to know his rights and obligations, while even the competent officials are often not able to inform the public.
- As per the Audit reports of the Greek State Court of Auditors,
  - The revenue collection techniques should be improved as part of the reform of the overall local government revenue administration. Comprehensive assessment of the entire revenue administration process and the local institutional capacities will help to identify the bottlenecks in setting fees and taxes, invoicing, collecting bills, accounting and reporting, enforcing payments.
  - Local governments should have access to the information on registered property collected by the Ministry of Finance. Electronic payments through the national “Taxisnet” platform (<http://www.gsis.gr/>) for collecting certain local government revenues (temporary residence, in tourism) are important parts of the entire revenue administration process.
  - The actual scope and size of unpaid fees, taxes by types of local governments should be assessed. This estimation can be implemented through municipal surveys and with data collection from the service companies. The debt management policies should be developed according to the size, distribution and significance of debt (compared to local revenues). The policy options range from complete consolidation of indebted municipalities through partial repayment agreements to introduction of prevention mechanisms.
  - Support to revenue collection departments is critical, but solutions should be developed with the cooperation among all interested parties, including the national government, service companies, the citizens (households) and nongovernmental organizations.

### 3. HUNGARY

#### Hungarian Municipal System

Hungary is a unitary state composed of municipalities i.e. cities, cities with county rank, capital city districts and counties. In 1990, Hungary established the legal framework for a two-tier system of government after a series of legislative acts and reforms.

In Hungary, local governments have been established through democratic elections, creating the organizational framework for self-organizing local exercise of power. The basic task of local governments is to provide local public services in addition to the exercise of public power in local public affairs.

The main responsibilities of municipalities are:

- Development of public spaces, spatial development, municipal administration (public cemeteries, public lighting, chimney cleaning etc.),
- Pre-school education,
- Social services, childcare and child welfare services and provisions,
- Primary healthcare services (general practice (DP), dentistry etc.), services aimed at cultivating a healthy lifestyle and supporting environmental health (e.g. public health services, disinfection services),
- Cultural services (libraries, public education, support for arts and theater etc.),
- Protection of local environment and nature, water management, prevention of water damage, drinking water supply, wastewater disposal, water and waste treatment,
- Management of housing zones,
- National defense, civil defense, search and rescue operations (disaster management),
- Cooperation in ensuring public security,
- Local public employment,
- Duties linked to local taxes, economic management and tourism,
- Services for youth and sports,
- Themes associated with minorities and different ethnicities,
- Waste management,
- District heating services,
- Providing sales opportunities, weekend sales for small and primary producers specified by law.
- The law may oblige the local government to undertake a local public service or a public service that can be provided locally beyond the responsibilities listed above.
- In cases stipulated by law, the local government may assume state administrative functions based on a financing agreement with the central state administration.
- The local government may assume local public duties that are not subject to the exclusive authority of other statutory bodies.
- Undertaking voluntary duties cannot constitute an obstacle to undertaking mandatory duties. The source of funding comes primarily from local government revenues or from sources specifically allocated for this purpose.

The performance of these tasks, which can be adapted to local peculiarities and needs, requires a solid and adequate financing mechanism and one of the tools of economic independence is the system of local taxes. This creates an opportunity for the local government to exercise the right of local sovereign taxation, and at the same time to develop the local tax policy. However, given the limited powers of Hungarian Municipalities in developing tax policies, it is not possible to say that Hungarian Municipalities are independent in tax management.

The basic goal of local tax policy when drafting regulations is that local taxes should be a continuous, permanent, stably predictable, secure source of revenue for the municipality, but at the same time fair, equitable and affordable for the taxpayer.

### **Hungarian Municipal Revenues and Taxes**

Under the empowerment of the Act No. 100 of 1990 on Local Taxes and according to its provisions, the representative body of the local government may introduce local and community taxes with its decrees within certain limitations.

The highest own revenue of municipalities is the local business tax. Approximately 65% of overall local tax revenue of Debrecen Municipality is due from the local business tax which is imposed on companies located or registered in the municipal area and based on corporate gross margins (the exact rate is decided by the municipality, but it is centrally capped at 2%).

Property taxes are the second highest tax (app. 19% of overall local tax revenue in 2017) and include a building tax and a land tax (paid by owners, based either on area or floor space or on the adjusted market value, tax rates are set by each municipality, up to certain limits).

Other own revenues of municipalities include some minor taxes such as tourism tax, community tax and mostly user tariffs and fees for public services which represent around 2% of overall local revenue.

Below, one can find information on the local taxes applied by Hungarian municipalities.

### **Local Business Tax**

Local Business Tax ("LBT") is a local tax in Hungary which is regulated at the national level but levied by the local municipalities where the businesses that are subject to this tax operate. In general, businesses with trading revenues are subject to LBT. All municipalities are entitled to levy LBT. LBT is deductible for Hungarian CIT purposes and is not treated as 'income tax' in the application of the tax treaties.

In summary, trading revenues of businesses, i.e., net revenue from the sale of products and provision of services, are subject to 0% – 2% LBT. The actual rate is determined by the given municipality by taking into account the 2% cap.

All business activities pursued (for income or profit) permanently or temporarily in the area of jurisdiction of a local government (hereinafter referred to as 'commercial activity') shall be subject to taxation. The taxable person shall be the entrepreneur according to the act on local taxes.

The character of the activity may be permanent or temporary. An entrepreneur whose commercial domicile or place of business is located in the area of jurisdiction of a local government shall be regarded as conducting permanent commercial activities, regardless of whether any or all of his operations are conducted outside his commercial domicile (place of business).

The tax base of local business tax – similarly to the tax liability – depends on whether the activity is permanent or temporary. For any entrepreneur who is engaged in the pursuit of commercial activities

on a permanent basis in the areas of jurisdiction of more than one municipal governments, the tax base shall be divided, with regard to the most characteristic nature of the activities performed by the entrepreneur.

For permanent commercial activities, the maximum rate of tax per annum is 2% of the tax base. For temporary commercial activities, the tax rate shall be maximum 5,000 forints per calendar day. 99% of the collected taxes are from permanent activities.

The amount of the tax to be paid to the local government according to the domicile or place of business may be lessened with the items described in the act on local taxes (up to that amount). The local government is permitted to set tax exemption or tax reduction – beyond the exemptions in the act on local taxes according to the conditions defined there. The taxpayer sets, declares and pays the tax to the local tax authority.

### **Building & Property Taxes**

Building tax liability is linked to buildings and building sections either used for housing purposes or not (hereinafter referred to as “buildings”). The tax base of building tax may be the net floor space expressed in square meters, or the adjusted market value of the building as the local government may decide.

Subject to the tax are private individuals, legal persons and other organizations who is the owner of the building (or holder of a right regarding to the building) as of the first day of the calendar year. The act on local taxes implies several exemptions (e.g. temporary housing units) but the local government has the empowerment to extend the exemption rules. The maximum rate of building tax per annum is 1100 HUF/sqm for tax based on net floor space or 3,6% of the adjusted market value.

Property tax liability covers properties lying in the area of jurisdiction of the municipal government. The tax base is – depending on the decision of the municipal government – the actual area of the land parcel expressed in square meters, or the adjusted market value of the parcel.

The upper limit of Building & Property tax is determined by the central government however there is no lower threshold set by the central government.

The Municipalities can perform tax audits and establishes tax liability within the limitation period with the help of TAKARNET and the WEB map.

### **Personal Community Tax**

Personal community tax is actually a simplified form of building and property taxes, it is a so- called flat tax and its subject may only be private individuals. The tax object may be the building or property in the ownership of the taxpayer or under some right of the taxpayer or the right to lease of a building in the ownership of a non-individual. For the starting of tax liability for properties in the ownership or under the right of private individuals the rules for building and property tax apply. In case of lease right of a dwelling place the tax liability shall commence on the first day of the year following the conclusion of the lease contract.

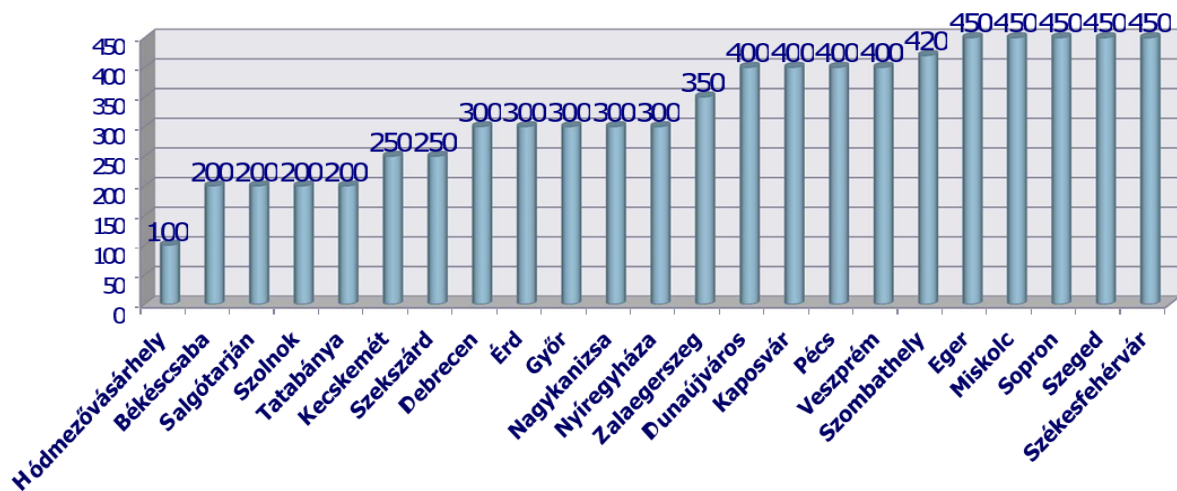
The maximum rate of personal community tax per annum is 17 000 HUF per tax object. The local government imposes the tax based on the tax declaration of the taxpayer.

## Tourism Tax

Private individuals are to pay tourism tax who are not permanent residents in the area of jurisdiction of the local government, spending at least one guest-night there. Depending on the decision of the local government the tax base may be either the number of guest-nights spent or the price of the accommodation.

The person required to collect the tax shall set, declare and pay the tax to the local tax administration. The rates in HUF of the tourist tax of the Cities with County Rights are illustrated in the graph below.

**Figure 6 Tourist Tax applied by Municipalities in Hungary (per night / Hungarian Forint)**



## Management and Collection of Local Taxes

The performance of tax duties - for all types of taxes listed above – is carried out by the Finance Department of the municipality. The number of personnel employed varies from one municipality to other.

The main tasks of Finance department are;

- Determination of the tax liability, including, inter alia, the submitted returns (data reports) processing, tax liability decisions preparation, monitoring of changes in taxation
- Control of tax liability
- Management of tax accounts (remittance or transfer of taxpayers' overpayments to another tax account)
- Initiating official orders (collection)
- Posting payments
- Tax enforcement
- Management of public debts to be collected in the form of taxes
- Issuing tax certificates
- Issuance of tax and value certificates
- Performing implementation tasks
- Preparation of vehicle sharing data
- Preparation of quarterly closing lists

## **Implementation tasks**

In case the taxpayers do not pay the tax liability on time, enforcement actions as specified in the legislation can be applied. Primarily payment notices are sent to the taxpayers and they are provided with a deadline for the fulfillment of payment.

By examining the reasons of the taxpayers and the economic and social circumstances individually, the Municipalities can provide more favorable payment terms and payment in installments.

In the regular procedure, after sending the payment order, the debtor's bank account with an official transfer order is the most commonly used method of implementation. In case this does not work, the debtor's place of work is searched and a suspension from wages and pensions will be carried out.

## **SUMMARY AND EVALUATION**

Evaluations regarding the Hungarian municipalities are mainly based on our interview with the Municipality of Debrecen and additionally on the annual reports of the Municipalities of Dunaujvaros, Jánossomorja and Budaörs.

- Local business tax is the principal tax revenue for all Hungarian municipalities however there are many small settlements in Hungary where business activities are quite limited. Therefore local business tax does not alleviate for the local financing problems of approximately 3,000 Hungarian settlements.
- In connection with the concentration of the business tax, the problem of the efficiency of tax collection, i.e. the expenditure spent on obtaining a unit of tax revenue, can also be mentioned. Due to the concentration of the tax type, the improvement of the indicator can be observed only in the case of local governments with higher tax capacity. In cities with lower tax capacity, efficiency shows an extremely low and steadily deteriorating trend. One of the reasons for this efficiency problem is related with determination of tax base which requires detailed calculations. Therefore in smaller municipalities where tax experts cannot be employed, the efficiency of tax calculation and collection is low. During our interview with the Debrecen Municipality (the second largest city in the country after Budapest), the collection rate of local business tax has been mentioned as to be 95%.
- Another problem for local governments with regard to business tax is the accuracy of revenue planning. The estimate based on the period prior to the current year, due to the multitude of factors influencing the tax base, carries significant uncertainty in budget planning. These may be certain cyclical factors, such as the construction of a larger volume or the opening of a larger tax site in a given settlement. In addition, economic crises or epidemics directly affect the tax base.
- Economic events with the opposite sign, such as liquidations, may also occur and as a result, sites that still existed during the planning period will cease to exist. This phenomena can occur especially in large municipalities and especially if the budget of a given municipality is significantly dependent on the business tax.
- In terms of building and property taxation, with the help of TAKARNET and the WEB map, the Municipalities can perform construction tax audits and establishes tax liability within the limitation period.

- In order to counterbalance the negative effects of the economic crisis, by examining the reasons of the taxpayers and the economic and social circumstances individually, the Municipalities can provide more favorable payment terms and payment in installments.
- The ratio of closing arrears in 2014 , including uncollectible debt, to total tax revenues is 11.89% for the Municipality of Dunaujvaros. A significant part of the arrears is uncollectible because it is accumulated in companies that are not operating or in liquidation, from which the recovery of the debt is not probable. However, due to legal requirements, these debts cannot be written off before the expiry of the limitation period, so they are continuously part of the annual arrears.
- Based on the approved annual work plan, the Dunaujvaros Municipality examined the business tax and construction tax liability of enterprises operating in the administrative territory in 2014. Accordingly,
  - The aim of the business and construction tax audit is to collect the revenues of the local government according to the law as widely as possible, thus preventing the shortening of tax revenues, unauthorized use of tax refunds, strengthening tax morale, uncovering tax deficits and preventing tax evasion.
  - Taxpayers who reduced their tax base or tax by taking advantage of any benefits or split their tax base were selected for the study. The audit also examined companies that had erroneous, unprocessed business tax returns, a negative tax base, liquidation, or self-audit. During the audit of the construction tax, the Municipal officers compared the declarations of constructions owned by enterprises with the records of the tangible assets of the companies and the Land Registry.
- In the municipality of Budaors, performance appraisal and incentive schemes for those working in the fiscal department have been developed. Accordingly, a portion of the receivables collected by the efforts of clerks are paid to them as a reward.

## 4. ITALY

Italy is a unitary state composed of municipalities (comuni), metropolitan cities (città Metropolitane) and regions (regione). The local council (consiglio comunale) is elected by direct universal suffrage for a period of five years. It is the municipality's main legislative and decision-making body. The council notably votes the municipal budget.

The local executive committee (giunta comunale) is the municipality's executive branch. It implements decisions taken by the local council and its members, called deputies (assessori) are designated by the mayor.

The mayor (sindaco) is elected by direct universal suffrage for a total of five years. He/she delegates some of his/her competences to the executive committee. As an exception to this, the mayor of Metropolitan City of Milan (Citta di Milano) is also the mayor of Milan city who was assigned to this post (i.e. not as a result of an election).

Italy has a three-tier system of Sub National Governments, consisting of provinces, metropolitan cities and regions. Italy is often referred to as a "regionalized country", in particular since the constitutional reform of 2001 and the fiscal federalism law of 2009 both granted greater autonomy to the regions, in particular in the following areas.

- Social services
- Urban planning
- Economic development
- Public services
- Land development
- Environment
- Culture

### 1. REVENUES OF LOCAL GOVERNMENTS<sup>7</sup>

Local governments in Italy had an overall degree of revenue autonomy (own revenues relative to total resources available) of 56% in 2018, which is just above the EU average (53%). These figures have remained largely unchanged since 2000. A corollary of this is that the transfer dependency ratio (the share of expenditure covered by transfers) is also roughly in line with the EU average. In 2018 this was 45% and 48% respectively.

Local governments own revenues represented 16% of total general government revenues in 2018, a figure largely unchanged since 2000. The composite ratio, which captures aspects of fiscal decentralization of both revenue and expenditure, suggests that local government has a degree of fiscal decentralization that is above the EU average (23% and 16% respectively in 2018).

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<sup>7</sup>Source: European Committee of the Regions / Italy Policies Area

## 2. TAXATION AT THE LOCAL LEVEL

The Regions and the central government share certain national taxes (Personal Income tax, Corporate Income Tax, stamp tax, excise duties, etc.). Provincial taxes include a vehicle insurance tax, a vehicle registration tax, a surtax on electricity consumption and a share of the personal income tax.

Municipalities also receive a share of the Personal Income Tax<sup>8</sup> but most of their taxes are own-sourced, including a municipal property tax (Imposta Municipale Propria IMU), a municipal tax on building licenses, waste collection tax and tourist tax.

In 2014, a new Municipal tax, called IUC (Single Municipal tax), was established, consisting of three separate taxes: the IMU, the TASI (tax financing local services such as public lighting, roads) and the TARI (waste tax). However in early 2020, IMU and TASI have been merged together creating the “New IMU”.

Below once can find a brief review of the most relevant characteristics of each local tax.

- **IMU (Real Estate Tax)**

IMU is the regular property tax and the applicable rate foreseen by the Law (0.86%) can be multiplied by a coefficient that varies from city to city and thus can be increased up to 1.06% and decreased to 0.76%.

For buildings, the tax base is determined by the market value of the property on 1 January of the tax year, or starting from the adoption of the urban planning instruments, taking into account the following elements:

- territorial area of location;
- building index;
- intended use allowed;
- charges for any land adaptation work required for construction;
- average prices recorded on the market from the sale of areas with similar characteristics.

The municipalities do not send notifications for the payment of IMU however some municipalities notify the citizens of the deadline and the coefficients used. The IMU must be paid in two installments. The first installment must be paid by June 16 of each year and is equal to the tax due for the first semester by applying the rate and deduction for the twelve months of the previous year.

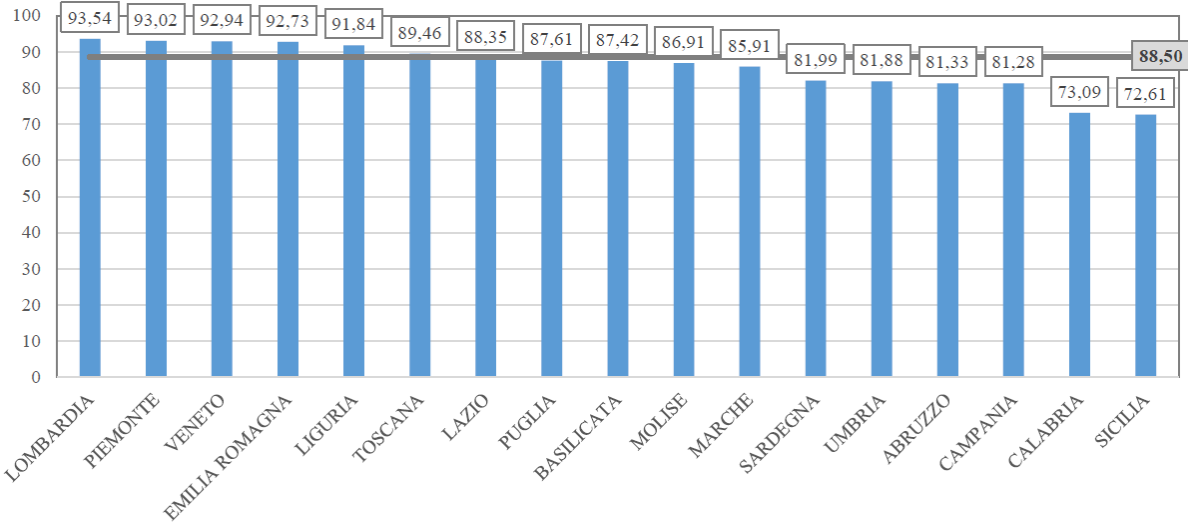
The second installment, with the balance of the tax due for the entire year, with possible adjustment on the first installment, must be paid by 16 December of each year on the basis of the resolution approving the rates and regulations published on the site [www.finanze.gov.it](http://www.finanze.gov.it).

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<sup>8</sup> Municipalities inform the Fiscal Authority annually on the personal income tax planned to be collected from the citizens. In case the Municipality does not collect personal income tax in a particular year, the overall tax burden of the citizens decrease accordingly.

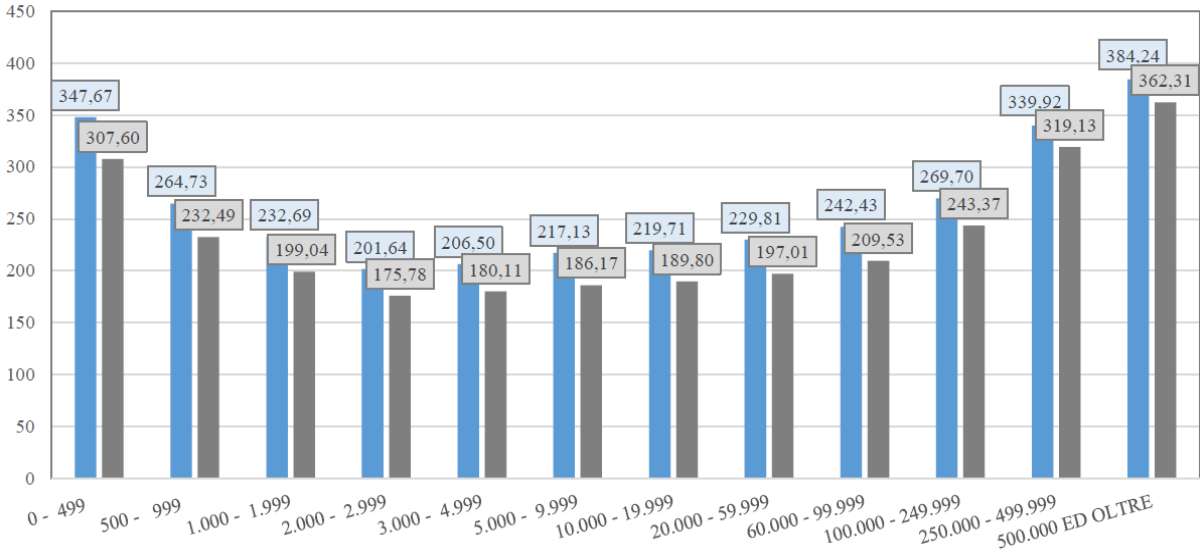
Below Graph demonstrates the collection rate of Property Tax in Italy in 2016 per region with an average rate of 88.5%.<sup>9</sup>

**Figure 7 The collection rate of Property Tax in Italy**



Below Graph demonstrates the amount of Property Tax accrued and collected in Euros among all Italian Municipalities as per population.<sup>10</sup>

**Figure 8 The amount of Property Tax accrued and collected in Euros among all Italian Municipalities as per population**



<sup>9</sup> Source: RISCOSSIONE DEI TRIBUTI LOCALI E TAX GAP / Ministero Dell’Interno

<sup>10</sup> Source: RISCOSSIONE DEI TRIBUTI LOCALI E TAX GAP / Ministero Dell’Interno

- **TASI**

This is the tax regarding the services provided by the town hall or in Italian “municipio”. This tax on real estate property and land does not apply to agricultural land. However it has been abolished by early 2020 and merged into IMU.

- **TARI**

The TARI is payable by anyone who owns or holds for any reason premises or uncovered areas, for any use, likely to produce urban waste. In the case of a plurality of owners or holders, they are jointly and severally bound to fulfill the single tax obligation.

- **TOURIST TAX**

The tourist tax is established on the basis of the provisions laid down by article 4 of Legislative Decree on 14 March 2011 n ° 23. The revenue from the tax is intended to finance interventions in the field of tourism including those in support of accommodation activities, the maintenance, use and recovery of cultural and environmental heritage as well as local public services.

A prerequisite for the tax is the overnight stay in accommodation facilities located in the territory of the Municipality, i.e. hotels and non-hotel accommodation.

The tax is payable by persons who stay overnight, and it is paid for each overnight stay, up to a maximum of 14 consecutive nights. The person who collects the fee or the consideration is responsible for payment of the tourist tax. The tax can also be paid cumulatively and in advance by the organizer of congresses, conventions or group travel.

The omitted, late or partial payment of the tax is sanctioned with imposition of the administrative sanction equal to 30% of the amount not paid. In the event of a false declaration regarding the right to use the exemptions, the sanction applies administrative fee equal to 100% of the tax due with a minimum of € 51.65.

The Municipality carries out checks on the correct application of the tax and on payments.

## **2. COLLECTION OF LOCAL TAXES**

### **Direct Management vs. Reliance on Third Parties**

The municipal body can choose to directly manage the collection phase through internal offices or to maintain ownership of the tax collection but to outsource only certain phases of the procedure.

The tax legislation on local revenues provides, among others, the possibility of involving third parties in the activities of settlement, collection and assessment of the tax levy. These third party service providers should meet the requirements foreseen by the Law.

The undoubted advantage of direct management consists precisely in the autonomous regulatory power with respect to the management of credits deriving from local taxes.

This organizational choice lets municipalities to directly manage the assessment and collection activities using qualified and sufficient internal resources and it allows small local authorities to access (without substantial outsourcing) a degree of management capacity and specialist competence, through the integration of human, economic and material resources.

However, Direct collection by modest-sized local authorities is not always the most effective and efficient choice. Providing directly for the recovery of all the revenue deriving from local taxes is not easily practicable for entities with low staff, which is why the national legislator allows the possibility of outsourcing even just some steps of the local tax case, avoiding the administrative structure of multi-year fixed costs. A small-medium sized municipality could be burdened with excessive fixed costs that would make exceed the revenue derived from local taxes.

The choice of private entities for the management of the collection of local taxes entails budgetary consequences that the Municipality must necessarily take into account when opting for this solution. The costs entail not only the price of the tax collection service, but also all other expenses related to the outsourcing process such as the launch of the feasibility study project, preliminary outsourcing activities, monitoring tools and verification of the results obtained, any inefficiencies; as well as costs relating to the use of means of control by the public client towards the contractor.

In conclusion, the direct management of collection can be the best solution only if certain conditions are met. It must be the result of a thoughtful choice, which takes into consideration all the possible aspects of the procedure in question: a careful analysis of the strengths and weaknesses is necessary, depending on the territorial characteristics of the Municipality, the rules/regulations adopted (or possibly to be modified), by the staff present within the municipal offices and the objectives to be achieved.

### **Payments Methods for Local Taxes**

The most common payment methods are:

- Direct debit
- Banks: Offices, Webservice and ATM's
- Mobile phone

One of the positive elements of direct collection management relates to the greater capacity and speed of reporting on the amounts collected and the conscious awareness of the amounts subject to non-collection, which have been granted in installments or which are at risk of bad debt.

Direct debit is encouraged as a payment method and with a recent change in the legislation local authorities can approve a discount up to 20 percent of the taxes/fees provided that the taxpayer provides the permanent authorization for direct debit of the payment on bank account.

### **Deferral of Payments**

The Municipality, upon the request of the taxpayer, may grant, in the case of temporary situation of objective difficulty of the taxpayer, the distribution of the payment of the tax debt up to a maximum of twelve monthly installments or the suspension of collection for six months and subsequently, the distribution of the payment up to a maximum of six installments.

The request for payment in installments or for suspension of collection must be submitted before the expiry of the deadline for the payment of the tax.

In case of non-payment of the first installment or subsequently of two installments; the debtor automatically forfeits the benefit of the installment payment.

Interest for deferred payment on the sums whose payment has been deferred or suspended, is applied at the rate of six per cent per annum or that in force, pursuant to Presidential Decree 602/73, upon the deferred payment, in relation to the granted extension period.

## **SUMMARY and EVALUATION**

Evaluations regarding the Italian municipalities are mainly based on our interview with the Municipality of Thiene and Metropolitan Municipality of Milan additionally on the annual reports of the Municipalities of Naples and Rome.

- In Italy, the revenues of sub national governments comprises both shared and own-sourced taxes.
- The management and collection of the local taxes, charges, fees and local levies can be carried out by the Municipality itself or by outsourcing the service directly which has certain advantages and disadvantages. Most of the Municipalities utilize a mixture of direct management and outsourcing on certain functions of tax collection. For instance, in case of Motor Vehicle Tax, the tax is paid to Automobile Club d'Italia (Automobile Club of Italy) and transferred to the Regional Authority (e.g. Lombardia) which in turn distribute this tax among metropolitan municipalities.
- There is a significant discrepancy among the regions in terms of local tax collection. Additionally, there are differences among the collection rates of various types of local taxes.
- As mentioned during our interviews, Italy is a country where the values, social norms, and attitudes differ from one region to other and these differences have measurable effects on economic behavior and tax compliance. In a general sense the people living in the northern parts of the country have a higher tax compliance and therefore the collection rates of those municipalities are higher than the ones located in the southern part of the country.
- Besides these differences among the regions, particularities of the culture also play an important role in the payment of local taxes. For instance, the high taxes on real estate can be explained with the possible seizure of the property. In other words the enforcement of the taxes can be carried out by similar very stringent measures.
- The municipalities have the authority to carry out audits and they exert their authority of audit especially in the fields of tourist tax and real estate tax. They follow strict procedures for non-payment of local taxes.
- The Municipality may grant the distribution of the payment of the tax debt up to a maximum of twelve monthly installments or the suspension of collection for six months.
- Direct debit as a payment method is gaining popularity among municipalities and the municipalities are authorized to provide discounts to the citizens that use direct debit method.

## 5. POLAND

In Poland, currently there are almost 2500 municipalities (gmina), 308 counties (powiat) (plus 66 cities of a county status) and 16 regions (województwo) which constitute the three tiers of territorial governments.

There is a dual structure on a regional level, elected self-government and the governor (wojewoda) nominated by the Prime Minister. The functions of regional state and self-government administrations are clearly separated, and a hierarchical subordination does not exist between them.

Polish municipal governments are responsible for the provision of the wide range of municipal services including:

- street cleaning, refuse collection and waste disposal, ,
- maintenance and construction of local roads,
- street lighting
- water supply and sewage treatment,
- local public transportation,
- district central heating
- culture, including local libraries and leisure centers,
- numerous services within social welfare sector, including services for elderly, handicapped and homeless people, as well as housing benefits,
- maintenance of green areas,
- municipal housing,
- provision of education services, including kindergartens and primary schools.

All revenues of Polish local governments are divided into three categories:

- Own revenues,
- General subvention,
- Targeted grants (donations).

Own revenues of local governments, besides various local taxes, fees and charges and revenues from property, include also shares in personal income tax and in corporate income tax (this is an unusual convention). It is important to note that Polish municipalities and counties have very limited autonomy in setting taxes, their main revenues are shared PIT and CIT, and local governments can't influence either the tax base or the tax rate.

Income tax of individuals resident in a municipality make a significant portion of overall revenues of almost all Polish municipalities considering that 38% of income taxes collected from the citizens are directed to the municipal budget.

In addition to income tax, 6.76% of Corporation tax collected from the corporations operating in the municipal is also assigned to the municipal budget. The municipalities do not have a function in the calculation and collection of income tax and corporation tax, these are direct transfer from the central state.

The following local taxes are main own revenues of the municipalities:

- property tax;
- tax on vehicles;
- forest tax;
- tax on dog owners;
- tax on civil law activities;
- tax on legacies and donations.
- tax on small businesses
- tax on agriculture

## **Property tax**

The property tax is paid both by physical persons and by legal entities. The list of subjects of taxation include:

- Buildings and their attachments
- Other architectural structures
- Plots of land which are not subject of agriculture or forest taxes;
- Lakes, water reservoirs;
- Plots of farmland or forests, which are used for commercial activity other than agriculture or forestry;

Property tax is paid by the owner of the property (therefore for example the tenant of the flat is not the taxpayer) and the tax is paid “per square meter”. The only exception is made for “other architectural structures” for which the tax depends on the value used for depreciation of these objects.

The municipalities are responsible for the collection and administration of the property tax. In case of individual taxpayers it is an obligation of the administration to calculate and deliver the information on the amount to be paid (i.e. the homeowner who has not received such an information from the town hall does not need to pay). The individuals pay the tax in 4 installments. (For amounts greater than 100 Zloty)

In case of legal entities, the taxpayer is obliged to calculate and pay its tax regardless of whether such a notification has been delivered.

The maximum rates of property tax are decided by the central legislation and annually adjusted against inflation. The property tax in Poland is not an ad valorem tax and the specific “ceiling” rate is set by the Tax Code. Most of the municipalities use rates lower than the “ceiling” rate. During the interview, it has been mentioned that the collection rate of property tax is around 90%.

## **Tax on Vehicles**

The subject of this tax are individuals and entities that own the means of transportation. Municipalities have only limited powers in the shaping the tax. In determining the rates of tax, the municipality may take into consideration the means of transportation, load, total mass, age and other characteristics (e.g. number of seats).

The tax is paid to the municipal government, on which territory the taxpayer lives or on which territory the company (which is the owner of the vehicle) is registered.

## **Other Local Taxes**

Remaining local taxes have only a very limited importance for municipal budgets. The forest tax is based on a very similar principles to the tax on agriculture, and the base for the tax rate is in this case a market price of the cubic meter of wood. Tax on dog owners brings a very low revenue and it is not imposed by some local governments.

The rates of the remaining taxes which are revenues of local governments (tax on civil law activities, tax on legacies and donations, tax on small businesses) are set on a central level, municipal council

does not have an authority to adjust them. The only discretion to decide upon local policies related to these taxes is granting individual tax exemptions or reductions.

It should be also mentioned, that in Poland there are some local fees which have also the nature of taxes which go to local government budgets. Such a case occurs when the fee-payer receives no (direct) return from the local government. A good example is provided by the exploitation (mining) fee, 60% of which goes to the gmina(s) and 40% – to the National Fund for the Environment and Water Economy. Another example is the local fee paid by (some) visitors to the health-resorts or the marketplace fee, especially when collected from people selling goods on the streets.

Maximum rates of these fees are fixed by the Parliament, but local council can always reduce them, with some limitations in case of the exploitation fee.

### **Collection of Local Taxes and Fees**

The rates of these taxes are set nationally. They include among others property tax, agriculture tax, woodland tax, inheritance tax, civil law action tax. The last one is the tax on some civil law contracts (such as sale, loan, donation, setting up a company and similar). Some sparsely populated, mountainous municipalities derive a large proportion of their revenues from woodland tax.

Local fees are collected by local governments (if fees are paid to municipal or county offices) or by communal institutions and enterprises. Some of the fees are set by local governments. The fees include mainly waste collection fee, marketplace fee, health resort fee, dog fee, outside advertisement fee. A specific fee collected to maintain water installations is called informally “rain tax”, it usually depends on the surface of built up area of the property. Another fee is exploitation fee, collected from mines and other users of geological resources. Revenues from some traffic and disorderly conduct penalties are also included in this category.

Shares in personal income tax (PIT) are transferred for local governments based on residence of the taxpayer (not based on residence of the employer). Some rural municipalities located close to large cities, with suburban homes professionals or business owners, have become among the richest local governments in Poland. Altogether, local governments in Poland receive 51,2% of PIT collected in the country while the share of municipalities is around 38%.

Share in corporate income tax (CIT), similar to PIT shares, are collected by state tax authorities and 6.76% of this tax is transferred to the municipalities. In contrast to PIT, they are distributed to local governments based on the location of the business. CIT shares are therefore largely concentrated in big cities. Altogether, local governments in Poland receive 22,9% of CIT collected in the country.

The most common payment methods for local fees are:

- Municipal Cash Registers
- Banks: Offices, Webservice and ATM's
- Mobile phone
- Local Collection Offices

The decision to establish a local collection office is taken by Municipalities. These collection offices are only responsible for the collection of the property tax, tax on agriculture and forest tax.

In case of nonpayment, the municipality can carry out enforcement against:

- A bank account,

- Remuneration for work,
- Social pension,
- Retirement benefit.

This process involves sending to the debtor of the attached claim a notice of seizure of the property right of the obligated person. It is also obliged to use the least burdensome measure for the debtor, which undoubtedly requires some kind of common use and practice.

### **SUMMARY and EVALUATION**

Evaluations regarding the Polish municipalities are mainly based on our interview with the Zabierzow Commune.

- Income tax of individuals resident in a municipality make a significant portion of overall revenues of almost all Polish municipalities considering that 38% of income taxes collected from the citizens are directed to the municipal budget.
- Besides the income tax that is directly transferred from the central government, property tax is a major source of income for Polish municipalities. The collection rate is relatively high. During the interviews it has been stated that the collection rate is 90.
- The municipalities do not have units specified in receivables collection and authorized collectors of the central government is utilized for this purposes in consideration for a fee.
- The system of local taxes is fragmented and complicated. There are many small local fees and taxes (such as the tax on dog owners) which do not raise significant revenues but are costly in a collection and unnecessarily complicating the system.

## 6. LATVIA

Latvia is a unitary state composed of municipalities (novads) and cities (pilseta). The local council (dome) is the local authority's legislative body. Its members are councilors elected by direct universal suffrage for a period of four years. The council elects the chairman of the local council and the members of the standing committees from among its councilors. Both the finance committee and social, education and culture committee are mandatory.

However, local authorities are free to set up other standing committees, all of which are composed of politicians and local experts. Standing committees prepare draft decisions for the local council. The chairman of the local council (priekšdedetajs) is elected by and from within the local council for a four-year term. He/she chairs the local council and the financial committee.

The main responsibilities of the Municipalities are;

- Water and heating supply
- Waste management
- Public services and infrastructure
- Public management of forests and water
- Primary and secondary education
- Culture
- Public health
- Social services
- Child welfare
- Social housing
- Licensing for commercial activities
- Public order and civil protection
- Urban development
- Collection of statistical information
- Public transport
- Training for teachers

The shares of central and local governments are calculated from estimated personal income tax revenue and not the revenue actually received. For this purpose, the Ministry of Finance annually fixes an estimated total personal income tax revenue for the following budget year and calculates a personal income tax ratio for each local government.<sup>11</sup>

The estimation basis is the actual tax performance of local governments in the year prior to the budget preparation year (e.g. for the budget year 2009, personal income tax data of budget year 2007 were used).

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<sup>11</sup> BUDGETING IN LATVIA OECD JOURNAL ON BUDGETING – VOLUME 2009/3 © OECD 2009 219

Below one can find the budget of Riga Municipality for the years 2015 and 2016.<sup>12</sup>

**Table 6 The budget of Riga Municipality for the years 2015 and 2016**

Cash flow basis (k EUR)	2015 actual	2016 budget	2016 actual
<b>Total revenues</b>	<b>762 250.1</b>	<b>818 217.3</b>	<b>822 740.8</b>
<b>Total tax revenues</b>	<b>562 028.7</b>	<b>619 368.2</b>	<b>626 712.0</b>
Personal income tax	462 886.5	507 059.3	510 492.1
Real estate taxes	94 249.9	107 400.0	111 108.1
int.al. real estate tax on land	35 295.1	47 107.7	48 131.0
int.al. real estate tax on buildings	45 917.8	42 341.7	44 073.0
int.al. real estate tax on housing	13 037.0	17 950.6	18 904.1
Other tax revenue	4 892.3	4 908.9	5 111.8
<b>Total non-tax revenues</b>	<b>20 672.6</b>	<b>17 074.2</b>	<b>21 228.5</b>
Government (municipality) fees	3 900.8	3 407.5	4 426.3
Other non-tax revenues	16 771.8	13 666.7	16 802.2
<b>State institutions' revenues</b>	<b>29 063.6</b>	<b>33 149.3</b>	<b>32 266.0</b>
<b>Total transfers</b>	<b>150 485.2</b>	<b>148 625.6</b>	<b>142 534.3</b>
Transfers of public entities partially financed by State budget and institutions not financed by budget	-	-	0.5
State budget transfers, int.al.	145 544.5	142 497.8	136 935.9
state budget transfers allocated for specific purpose	128 394.9	133 285.4	133 198.0
transfers received from state institutions for projects coo-financed by EU policies' instruments and other foreign financial aid	17 003.7	9 001.0	3 600.8
other State budget transfers	145.9	211.4	137.1
Municipal budget transfers	4 940.7	6 127.8	5 597.9

The central government set up a compensation system to provide local governments that collect lower-than-estimated personal income tax revenue with a refund from the central government budget. The refund bridged a gap between real and forecasted proceeds. This system provided a certain predictability to the budget planning process at the local level, though the estimates fixed at the central government level were rather pessimistic (due to high growth and increasing PIT revenues up to 2008).

The main equalization instrument is the Equalization Fund. The Fund is financed by, first, local government payments (56 local governments contribute to the Fund) and, second, a contribution from the central budget (LVL 7 153 million).

In case of financial problems, local governments are placed under supervision. A financial supervisor is appointed by the Ministry of Finance to help a municipality to prepare a stabilization plan, to decide on loans from the central government, to amend the budget, etc. At present, 19 local governments are under financial supervision.

### **Real Estate Tax**

Currently the real estate taxation system includes 2 taxes namely land tax and tax on immovable property. Local municipalities are entitled (by adopting binding regulations) to determine tax rates

<sup>12</sup> REPORT OF RIGA CITY COUNCIL

within 0.2% up to 3% limits. Tax rate exceeding 1.5% shall be determined by a local municipality only if a real estate is not maintained in accordance with laws and regulations.

Although the real estate tax is a national tax, both local and national governments are responsible for its administration. The State Revenue Service is responsible for collecting data on taxable properties and for assessment. Local governments are responsible for calculating the tax, billing it, and collecting it. Tax payments are due quarterly.

The local government shall notify the taxpayer, or a person authorized by him or her of the amount of real estate tax for the current taxation year by 15 February of the same year, sending a payment notice to the specified address.

The notice of payment of real estate tax is an administrative act. Real estate tax is payable quarterly - no later than March 31, May 15, August 15 and November 15 - in the amount of one quarter of the annual amount of the tax. The tax can also be paid once a year in advance.

Real estate tax is paid to the budget of the local government of the city or county of the Republic in the administrative territory of which the real estate or a part thereof is located.

### **Lottery and Gambling Tax**

The lottery and gambling tax shall be paid by capital companies which have received a special authorization (license) for the organization of lotteries or necessary licenses for the organization of relevant gambling at the Lotteries and Gambling Supervisory Inspection pursuant to the procedures laid down in the Law On Gambling and Lotteries and the Law On Lottery and Gambling Duty and Tax.

The gambling tax is applied to the following:

- income from the sales of tickets of State lotteries and instant lotteries;
- income from the sales of tickets of local lotteries and instant lotteries;
- income from the sales of tickets of single local lotteries.

### **Collection of Local Taxes and Fees**

In Latvia, municipalities collect real estate tax, gambling tax and certain fees charged for services.

The collection of municipal tax is mostly organized by offering residents the opportunity to pay it both by non-cash transfers and in cash at municipal cash registers by issuing an electronic cash register check as proof of payment. At the same time, local governments need to ensure the collection of tax from the population also in parish administrations, where the municipal treasury is not available.

The municipalities effectively use banks as collection agents. Formerly, the municipalities did not have means to follow up receivables from bank accounts in case the citizens close the existing account and open a new one. However nowadays with the integration of the systems it has been easier to track all the bank accounts of an individual.

During an Audit titled "Compliance of the activity of the Riga City Municipality with regulatory enactments and its effectiveness, while administrating the Immovable Property Tax (real estate tax)" carried out by the Latvia State Audit department it was found that The Riga City Municipality, while administrating the real estate tax, did not comply with the legal acts, because:

- In 44% of cases from 25 cases inspected in the sample on non-sent payment notifications the municipality had to send payment notification, but it did not do so;
  - In 19% of cases from 85 cases inspected in the sample on the application of relieves the relief was applied inadequately;
  - Opportunities, which are determined in the regulatory enactment<sup>5</sup> , were not used in order to recover the tax debt, and in 35% of cases from 82 randomly inspected cases no decision on the recovery of the delayed tax payments was carried out within seven years from the moment of occurrence of immovable property tax debt, as it is prescribed by the regulatory enactment<sup>6</sup> . As a result negative prescription of the recovery of the delayed tax payment debt took place.
  - In 43% of cases from 84 cases inspected in the sample on the application of relieves the relief from the immovable property tax is applied only after the submission of the taxpayer's application and certification that the immovable property is not used for economic activity, is not rented or leased;
  - In 8% of cases from 25 cases inspected in the sample on the payment notifications sent with delay the payment notification was sent after the payment term had set it;
- During the audit, the Riga City Council within its competence was provided with three recommendations:
    - Measures will be performed in order to ensure calculation of the immovable property tax for all objects in compliance with the regulatory enactment,
    - Regulatory enactments will be complied with, decreasing administrative load on taxpayers;
    - The procedures in the administration of immovable property tax debts will be improved and the work will be organized in compliance with regulatory enactments

## **SUMMARY and EVALUATION**

Evaluations regarding the Latvian municipalities are mainly based on our interview with the Latvia Local Government Association and the State Audit reports of Riga Municipality.

- As mentioned during our interview, Personal Income Tax that constitutes a significant part of Latvian Municipal budgets is collected by the Central Tax Authority and transferred periodically to the Municipalities.
- There are no commission and/or services fee charged by the Central Tax Authority to the Municipalities for this service.
- Municipalities only collect real estate tax, gambling tax and certain fees charged for services.
- During the interviews it has been stated that certain municipalities may set the property tax rates low (i.e. when compared to Riga) to invite population to their territories and thereby to increase overall property tax revenue.
- During the interviews it has been also stated that collection rates of municipal taxes and fees are relatively high.

## 7. CZECHIA

Czechia is a unitary state composed of municipalities (obec) and regions (kraje). The municipal council (zastupitelstvo obce) is the municipality's deliberative assembly and is composed of members elected by direct universal suffrage for a four-year term. It appoints the members of the municipal committee.

The municipal committee (rada obce) is the executive body of the municipality and is composed of members elected by and from within the municipal council for a four-year term. The mayor and vice-mayors are also members of the committee, which can form specific commissions, such as a financial commission, cultural commission and commission for minorities.

The mayor (starosta for smaller municipalities or towns and primator for larger towns or cities) is elected by and from within the municipal council for a four-year mandate. He/she heads the municipal committee and administration and represents the municipality. In municipalities with fewer than fifteen municipal council members, the executive authority is ensured by the mayor.

Creation of functioning local government in 1990 after a long period of centralized governance during the communist regime is considered to be a major achievement of the democratic transformation which took place after 1989. The Czechia had no real local government and façade institutions existing at that time enjoyed little to no autonomy from the state and party institutions. Local government, played (and still plays) a key role in building a democratic society.

The main duties of the municipalities are:

- Municipal budget
- Local development
- Agriculture and forest management
- Municipal police
- Water supply and sewage
- Household refuse
- Primary education
- Housing
- Social services
- Spatial planning
- Cooperation with other municipalities and regions
- Public transport

In the Czechia, there are 6258 municipalities (Czech Statistical Office 2017) with a basic range of delegated powers.

The population of the Czechia is currently around 10,649,800 residents (Czech Statistical Office 2019). In a general sense, The Czech municipal structure can be regarded as fragmented and asymmetric, with more than 78 % of municipalities forming municipalities of fewer than 1,000 inhabitants.<sup>13</sup>

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<sup>13</sup> Fifty five percent of all municipalities are municipalities with fewer than 500 inhabitants, and up to 26 % of municipalities do not even have 200 inhabitants (Czech Statistical Office 2017).

Czechia currently uses a combined model of fiscal federalism with certain decentralization elements. It can be understood as a compromise between a centralized model, in which there is a very low degree of self-sufficiency of lower levels of government, and a centralized model, where a complete degree of financial independence of lower levels of government is assumed without any redistribution processes within the budget system.

Sub-national governments are mostly financed through a mix of shared taxes (personal and corporate income tax and VAT) and grants and transfers from the central government. This makes Czech regions and municipalities much more reliant on revenue from the central government, through shared taxes, grants and transfers.

Shared taxes are distributed according to a detailed formula. Municipalities have more revenue from their own sources than regions, including recurrent taxes on immovable property, user charges and also property income (from infrastructure). However, their autonomy over property tax is limited by centrally determined restrictions, as are some user charges.

Below table summarizes the main revenue items of Czech municipalities.

**Table 7 The Breakdown of Czech Municipal Revenues**

Municipal revenues (mil. CZK, 1 EUR is app. 26 CZK)

<b>Revenue</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Total tax revenues	175 394	190 751	206 316
Shared personal income tax	38 924	44 781	47 846
Shared corporate income tax	41 200	45 762	47 071
Shared VAT	68 761	72 523	82 545
Property tax	10 334	10 586	10 765
Other local taxes and fees	16 175	17 099	18 089
Other current revenues	31 640	31 363	30 624
Capital revenues	5 477	7 878	6 350
<b>Total own revenues</b>	<b>212 511</b>	<b>229 991</b>	<b>243 290</b>
<b>Transfers</b>	<b>75 171</b>	<b>52 039</b>	<b>54 345</b>
<b>Total</b>	<b>287 692</b>	<b>282 031</b>	<b>297 635</b>

Source: Czech Ministry of Finance, 2020

As mentioned during our interview, main tax revenues of municipalities include

- Value added tax,
- Corporate income tax
- Personal income tax
- Real estate tax,
- Gambling tax,
- Various types of fees, in particular local and administrative charges.

### **Collection of Local Taxes**

The collection of taxes is provided by the Financial Administration of Czechia and the relevant share is subsequently transferred, usually twice a month, to the accounts of municipalities. Taxes on real estate are also collected by the Financial Administration of Czechia, however, the state retains nothing of the collection and the entire proceeds go to municipal budgets.

The municipality can affect the amount of income mainly through coefficients determined by generally binding ordinance. This is a corrective coefficient according to population, municipal and local coefficients. The corrective coefficient is determined by law and depends on the number of inhabitants in the municipality. The municipality has the possibility to affect the amount of coefficient that for each area may be reduced by one to three categories or increase of one category. However municipalities in Czechia have a limited discretion by adjusting coefficients over the property tax and full discretion over local fees.

The collection of local and administrative fees, on the other hand, is provided by the municipalities themselves, in accordance with the relevant legal regulations.

Presently, the municipalities in Czechia have the opportunity to levy only the following local charges:

- Dog charge;
- Charge for spa and recreation stay;
- Charge for using public places;
- Charge on entrance;
- Charge for housing capacity;
- Charge on communal waste;
- Charge for permission to enter selected places by motor vehicle;
- Charge on appreciation of building land

The municipality has the right to modify the details for the collection of local charges, in particular to specify the charge rate, the occurrence and the termination of the charge duty, the deadlines for the fulfilment of the reporting obligation, the charge maturity, the charge relieves and eventual exemptions from charging.

The methods of collection are explained widely by the Czech constitutional court, including sanctions if the charge is not paid on time or in the correct amount. In the ordinance, the municipality may

modify other forms of payment (and the corresponding due date) of the charge other than the means of payment and the due date according to the Tax Procedural Code.

The taxpayer's obligation is to pay the fees and charges within the due date determined by the municipality. In the event of non-compliance with this obligation by the taxpayer, the municipality issues a decision, which is a payment order. As a sanction measure, the municipality may increase the fee up to three times in case of non-payment on time or in the correct amount.

The rate of fees, the details of their collection and maturity, the related reporting obligations and reliefs or exemptions, or the definition of places subject to the fee shall be determined by the municipality in its independent competence by a generally binding decree. The law defines certain cases and persons who are excluded from paying the fee, and in some cases allows the municipality to set a flat fee by decree or agreement. At the request of the taxpayer, the municipality may waive the fee or its accessories in whole or in part due to the removal of hardness - however, it is unclear whether this waiver is an act of the municipality in its independent competence or already part of the administration of the fee in delegated competence.

In the case of the charge for using public places, the municipality shall determine the places which are subject to a charge. For the charge on communal waste, the municipality must provide for the apportionment of the costs of collecting and transporting unsorted municipal waste per person. Instead of the local charge on communal waste, the municipality may by the general binding ordinance adopt and levy the municipal waste charge for the waste arising in its territory.

The main real problem in the area of local fees are generally "non-payers" for small municipalities. However, in the examined<sup>14</sup> small municipalities, a relatively high success rate of recovery of arrears was recorded (according to the provided data, three quarters of municipalities will receive more than 80% of arrears). In practice, recovery takes place not only in the form of a written (75% of municipalities) or oral (50% of municipalities) summons or reminder, but in the case of a fifth of municipalities also by execution, especially execution from wages.

In practice, however, there are a number of non-standard solutions, such as the possibility of working out the amount due by performing certain work for the municipality or cooperation of the municipality with the social security administration, where social benefits are withheld by the municipality until the citizen pays the arrears. However, this is at least problematic in relation to the current legal system in Czechia.

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<sup>14</sup> Local fees - options and reality / Date: June 26, 2008, source: OF 2/2008, section: Economics

## **SUMMARY and EVALUATION**

Evaluations regarding the Czech municipalities are mainly based on our interview with the officials of Prague Municipality.

- The collection of local taxes is provided by the Financial Administration of the Czech Republic and the relevant share is subsequently transferred, usually twice a month, to the accounts of municipalities.
- Financing local governments is mainly based on shared taxes; own tax revenues (except for shared taxes) represent only a small share of municipal financial resources, among the lowest level in the OECD. The tax sharing system was introduced in 1993 and has been fundamentally changed twice. Until 1996, municipalities received the share from the personal income tax (PIT). Revenues from the PIT levied on dependent incomes were distributed among the municipalities based on the place of work; the distribution of revenues from the PIT levied on the incomes of the self-employed was based on the residence criterion.
- The system was adjusted in 1996: 30% of the PIT from dependent income and 20 % of the corporate income tax (CIT) was received by municipalities. As CIT revenues declined, another change was instituted in 2000 when the value added tax (VAT) was committed to revenue sharing. Currently, municipalities receive between 20.8% and 23.6% of the revenues from these three taxes and these resources are distributed among municipalities based on the population and area of the municipality, the number of pupils and the size category. Revenues from shared taxes represent more than 50 % of total municipal revenues.
- The real issue is the structure of own revenues. A great part of municipal revenues still comes from the state level via the system of shared taxes. This system of “shared taxation”, according to which about 22 % of state taxes are transferred to local and regional authorities, leaves the latter considerable freedom in deciding how these resources should be used within the field of their proper responsibilities”. Municipalities have discretion over local fees, but limited discretion over the property tax – and this property tax autonomy of the Czech municipalities is to great extent unused.
- This situation means that municipalities have rather limited power to determine the rates of own revenues. The equalization is based on the number of population and does not include other necessary aspect. Municipal representatives argue that the transfers for the execution of delegated powers are not commensurate with the size and nature of these powers and state that some municipalities have to subsidize the accomplishment of these tasks by drawing on their share of taxes in a way detrimental to their possibilities to exercise their proper powers according to their own decisions about the nature and size of these activities. Under the law, local and regional authorities are free to borrow under their own responsibility.
- Currently, there are eight local fees. Municipalities have discretion over the fee base, and fee rate, which has to respect the upper limits given by the law. Local fees are collected by the municipalities. Apart from local fees, municipalities collect fees for particular types of environmental pollution or damage and administrative fees. There is no significant problem in collection of local fees.

## 8. SLOVENIA

Slovenia is a unitary state composed of municipalities (občin). The municipal council (obcinski svet) is the municipality's deliberative body and is composed of members elected by direct universal suffrage for a four year-term. Deputy-mayors are appointed by and from within council members, upon the mayor's proposal. The council is responsible for making the municipality's main decisions, such as adopting local land and development plans and the municipal budget and deciding on the acquisition or selling of municipal property. The mayor (zupan) is the municipality's executive body and is elected by direct universal suffrage with a four-year mandate. He/she represents the municipality and is at the head of the local administration.

The responsibilities devolved to municipalities under Chapter 2, Article 13 and 21 of the Local Self-Government Act are the following:

- Firefighting;
- Education (pre-school, primary);
- Primary health care;
- Childminding facilities;
- Family and youth assistance;
- Rest homes;
- Social welfare;
- Housing;
- Urban planning;
- Spatial planning;
- Water and sewage;
- Household refuse;
- Cemeteries;
- Environmental protection;
- Culture (libraries);
- Sport and leisure;
- Promotion of agriculture;
- Economic development of the municipality;
- Promotion of tourism.

Article 142 of the Slovenian Constitution determines that a municipality is to be financed by its own revenues and that only those municipalities unable to fully fund their own functioning, due to weaker economic development, are to receive additional funds from the state in accordance with legally determined principles and criteria. The principle of self-financing is thus a fundamental principle of financing municipalities.

In fact, shared personal income tax is the single most important revenue source for municipalities. According to administrative and legal provisions, the appropriate amount of income tax is weekly transferred to municipalities from the central budget.

## **Revenues of Slovenian local governments**

Revenues of Slovenian municipalities include the following groups:

- Tax revenues, including 54% shares of personal income tax (PIT), and local taxes, such as property tax, domestic tax on goods and services.
- Non-tax revenues, including entrepreneurial income (income from municipal companies), property income (income from rent of municipal property), fees and charges, fines and forfeits (penalties for violations of laws), sales of goods and services.
- Environmental charges, which are prescribed on the basis of the law governing environmental protection due to the pollution of the environment with wastewater and due to waste disposal in landfills, which are infrastructure intended for the implementation of the mandatory municipal economic service of environmental protection, an environmental burden has arisen which results in an environmental tax being imposed.
- Municipal fees for advertising, organizing exhibitions and events, parking and performing other activities that differ from other intended use and mean a special use defined by a municipal decree.
- Transfers from other government units, mainly from the national budget and from the European Union.

The share of the personal income tax is the main revenues source of Slovenian municipalities. For municipal finance, personal income tax collected in the year preceding the budget year is used, augmented with inflation rate. The funds from 54% of locally collected personal income tax are divided into two pools. The first pool, 70% of the total, is directed to the municipalities based on registration of the taxpayers. The second pool, the remaining 30%, are allocated to poorer municipalities through an equalization mechanism. For that reason, the funds for equalization are not included in transfers from other government units.

Below one can find a breakdown of revenues of Slovenian Municipalities in 2016.

***Table 8 Breakdown of revenues of Slovenian Municipalities in 2016***

Tax Revenues	71.4%
Non-Tax Revenues	16.8%
Capital Revenues	2.6%
Grants	0.1%
Transfers from Other Government Units	8.9%
Other Income	0.1%
Total	100%

Source: Ministry of Finance of Slovenia

As above Table indicates, 71.4% of all revenues are tax revenues with the composition of;

- Personal Income Tax:55.2%
- Property Tax:13.5%
- Domestic Tax on Goods and Services:2.6%
- Other Taxes: 0.2%

### **Collection of Taxes in Slovenia and The Equalization Mechanism**

All taxes that constitute a part of Slovenian Municipal budgets are collected by the Central Tax Authority and transferred periodically to the Municipalities. There are no commission and/or services fee charged by the Central Tax Authority to the Municipalities for this service. Municipalities only collect certain fees charged for services. To get an insight on the collection of local taxes in Slovenia, an interview was held with the representatives of Ministry of Finance of Slovenia.

The equalization mechanism used in Slovenia assumes that personal income tax shares, as the largest revenue stream of Slovenian municipalities, is the main source for financing key tasks of municipalities and is used to determine equalization transfers to individual municipalities. For equalization purposes, Slovenia presently uses a specific system of appropriate expenditures and appropriate revenues. Appropriate expenditures are normative (assessed, not actual) expenditure needs of municipalities. The formulas for appropriate expenditures and revenues are prescribed in Law on Financing of Municipalities and are calculated every budget year by the Ministry of Finance.

### **SUMMAR and EVALUATION**

Evaluations regarding the Slovenian municipalities are mainly based on our interview with the officials of Ministry of Finance.

- The share of the personal income tax is the main revenues source of Slovenian municipalities. For municipal finance, personal income tax collected in the year preceding the budget year is used, augmented with inflation rate. This tax is also used for equalization purposes.
- Municipalities only collect certain fees charged for services. All taxes that constitute a part of Slovenian Municipal budgets are collected by the Central Tax Authority.
- There are intensive discussions in Slovenia concerning the functioning of local governments and the adequacy of financial mechanisms. A good example of these discussions is the review and reforms of the equalization system. Slovenia has many serious academic experts working on issues of local government finance. It seems that sustainability of Slovenian municipalities is in part related to cautious progress of decentralization.
- A potentially good practice is represented by Supervisory Council (nadzorni odbor). This specific Slovenian institution at the municipality level is in line with practices in other developed countries. The Supervisory Council should act as an apolitical auditor of municipal activities, supervisor of the disposition of municipal property, controller of the purposefulness and efficiency of budget spending, and supervisor of the financial operations of all budget users within the municipality.

## 9. SWEDEN

Sweden is a unitary state composed of municipalities (kommuner) and regions (regioner). The **municipal assembly** (kommunfullmaktige) is composed of members elected by direct universal suffrage for a four-year term. This assembly is the municipality's decision-making body but can delegate important decision-making powers to the municipal executive committee and to the specialised committees. It also levies taxes and adopts the municipal budget.

The **municipal executive committee** (kommunstyrelsen) is composed of members appointed for a period of four years by the municipal assembly based on the share of seats obtained by each party within the assembly. The municipal executive committee heads and coordinates the municipal administration, supervises the activities of the specialized committees, drafts the municipal budget as well as prepares and implements municipal council decisions. It is presided over by a chair, the highest political representative of the municipality, which can be referred to in other countries as the "mayor". However, in some Swedish municipalities, the head of the municipal executive committee is the highest authority to represent the municipality and is hierarchically above the elected councilors.

The **specialized committees** (namnder) are composed of members appointed for a four-year mandate by the municipal assembly. The committees are responsible for assisting the municipal executive committee in the preparation and implementation of decisions made by the municipal assembly.

The mandatory services of Municipalities are;

- Social services
- Childcare and pre-school
- Primary and secondary education
- Care for the elderly
- Support for the physically and intellectually disabled
- Primary healthcare
- Environmental protection
- Spatial planning
- Refuse collection and waste disposal
- Rescue and emergency services
- Water supply and sewerage
- Road maintenance

Optional competences

- Culture
- Housing
- Energy
- Employment
- Industrial and commercial services

Regarding the taxes, the Constitution does not specify what type of taxes may be imposed by municipalities and counties, this is regulated in national legislation. According to this legislation, Swedish local administrations may tax the personal labor income of citizens. This includes not only wage income, but also pensions and payments from health and unemployment insurance. This tax is the main source of revenue of both municipalities and counties and constitutes around 95% of the tax revenues.

### **Revenues of Swedish local governments**

In Sweden, the following are the main types of revenues of local governments:

- Local tax. Local taxes are basically personal income tax and property tax. The Corporation tax on the other hand is directly collected by the central government.

The rate of personal income tax is decided by each local government, both municipality and region. However, central government sometimes intervenes when it considers that local taxes are too high: in early 1990s there was a freeze on the personal income tax rate (local authorities could not raise it), in other years local governments which did not raise their local tax rate received additional grants. Nevertheless, average local tax rate increased from 20% in 1970 to nearly 32% now (the sum of municipal and region tax rates).

The property tax rate is set by the parliament and there is a relatively low ceiling of around 800 Euros for residential properties.

Additionally, the municipalities may opt not to collect fully or partially the property tax in particular years. 1/3 of the property tax revenue collected by the Municipalities are transferred to the regional authorities.

- Grants from the central government. Initially, there were several earmarked grants for specific sectors and purposes, which in 1993 were unified into a single state grant, whose allocation to individual local governments was based both on differentiated tax base and on differentiated costs of providing local services. These grants were reformed several times.
- Contributions for the pharmaceutical benefit is a specific grant, directed only to regions, to cover the costs of prescribed drugs. Prices paid by Swedish citizens are well below the market prices, the difference is picked up by the national budget, transferred to county budgets in the form of grant, and distributed to region citizens.
- Fees and charges. Local governments may charge fees for some of the services they provide. However, the cost-price principle states that the fees cannot be higher than the cost of providing this service.
- Financial revenues (revenue from interest in commercial banks).
- Extraordinary income from the sale of shares in municipally owned company.
- Income from services performed by one municipality for another one.

Below one can find a breakdown of revenues of Swedish Municipalities in 2016.

**Table 9 Breakdown of revenues of Swedish Municipalities in 2016**

Tax Revenues	65.2%
General Government Grants	13.4%
Specially Defined State Subsidies	8.7%
Fees	5.2%
Sales of Business and Premises	0.8%
Rents and Leases	2.9%
Other Income	3.7%

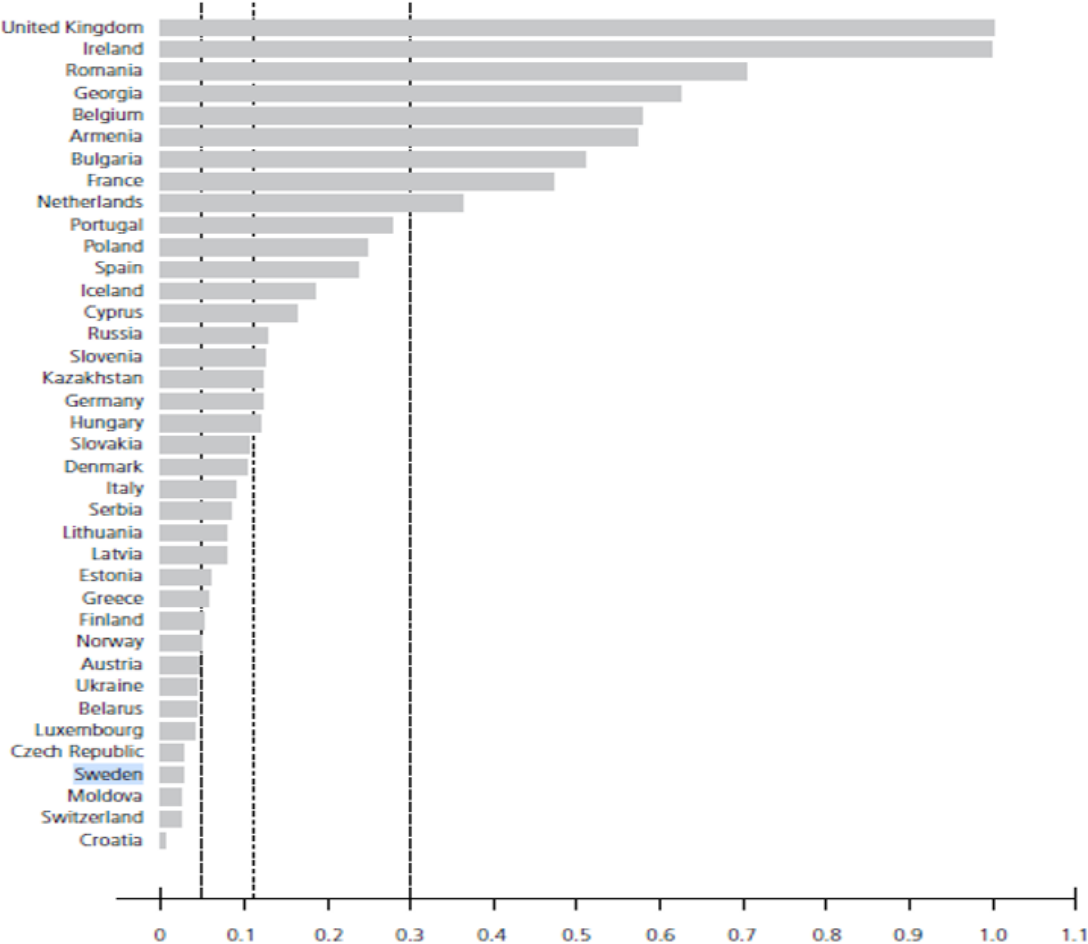
Source: SKL (Sveriges Kommuner och Landsting) 2018

As above Table indicates, tax revenues (whose more than 90% is personal income tax) dominates the revenues of Swedish municipalities. Despite the rate of personal income tax may slightly change from one municipality to the other, it is around 32% on average. Almost 20% of this tax is received by the Municipalities and the rest 12% is received by the regional governments.

Grants and subsidies from the national budget account for only 22% of their total revenues. Rents and leases include the revenue from rent of communal housing, which forms a large part of Swedish housing stock (there are strict rent controls, keeping the rent levels below the market value).

Real estate tax, which is a major revenue item for many European municipalities does not have an importance in the budgets of the Swedish municipalities as the below chart that shows "Taxes on Immovable Property/All Local taxes" indicates.

**Figure 9 The rates (as percentage) of property tax in overall tax revenue in various countries**



Source: United Nations Property taxes in Europe. (United Nations Human Settlements Programme /2013)

Local authorities are also able to charge fees for some of the services they provide. Services for which fees are charged include childcare, elderly care and health and medical care. Charges are normally decided by the local authority assembly. According to the cost-price principle local authorities are not allowed to charge fees that are higher than the costs of the services they provide. This is the general rule for all activities that local authorities undertake.

Local authorities have a number of other revenue sources in addition to taxes and charges. Financial income (mainly interest income) and “extraordinary income”, such as the sale of shares in an authority-owned company, can be mentioned as examples of other revenue sources. In addition, local authorities sometimes sell services to each other.

**Collection of Taxes in Sweden**

All taxes that constitute a part of Swedish Municipal budgets are collected by the Central Tax Authority and transferred periodically to the Municipalities. During the interviews it has been mentioned that there are no commission and/or services fee charged by the Central Tax Authority to the Municipalities for this service.

Municipalities only collect certain fees charged for services and there is no significant issue in terms of collection of these fees.

Having said this, in cases of late or nonpayment, the collection procedures (i.e. reminders, notifications etc.) are carried out and the receivables can be transferred to private debt collectors.

### **Review of Swedish equalization system**

Swedish municipal governments have been relying on tax revenues for many years. Due to unequal distribution of the tax base it has been recognized long time ago that poorer municipalities need some additional support to ensure that all Swedish citizens have the right to equal services. For that reason, some transfers to poor local governments have been used for most of the 20th century.

However, proper equalization system was introduced only in 1966. It was reformed repeatedly, and after reforms of 1996 became exceedingly complex, taking into account the local tax base and local costs of providing different services.

The purpose of the income equalization grant is to ensure that if adjusted tax capacity in a municipality or county is low in comparison with the national average, local governments will still have the necessary resources to provide services at the acceptable level. Obviously, they will not receive income equalization grant if they simply set their personal income tax rate low: for the calculation of the equalization grant, national averages of personal income tax rates are used.

As discussed above, personal income tax is the main revenue of local governments in Sweden. Therefore, differences between tax capacity (average income per inhabitant) in municipalities will significantly affect their revenues. Personal income tax capacity differences are driven by two factors: differences in average salaries (highest in the capital), and differences in level of employment (due to unemployment level and demographic structure of populations, for example if a municipality has more elderly inhabitants).

Municipalities receive income equalization grant if their adjusted tax capacity is below 115% of the national average tax capacity and pay income equalization charge if their adjusted tax base per capita is above 115% of the national average. For regions, the relevant limit is 110%.

Additionally, cost equalization grant applies to those difference in costs of providing services, which municipalities and regions cannot influence. Only obligatory services are considered for equalization. For both municipalities and regions, methodology of standard costs is applied. These standards costs are calculated for specific services, and the relevant calculations are called service models (or sub-models). By using these models, the cost equalization grant can account for different cost differences in different sectors (for example, cost differences in education are driven by different factors than cost differences in health).

However, this leads to more complex formulas. For municipalities, nine service models are used, and for regions – three. One service model is used for both tiers (public transportation). For each service model, different objective factors are considered. 4 groups of these factors are considered, namely age distribution of population, ethnicity, socio-economic conditions, and geography.

## **SUMMARY and EVALUATION**

Evaluations regarding the Swedish municipalities are mainly based on our interview with the officials of Vallentuna Municipality, Stockholm.

- Sweden introduced a very complicated, highly professional and just equalization system, but over time decided to move towards a much simpler (though still not very simple) approach.
- Sweden delegates large autonomy to local governments in important social spheres, such as education and health. Municipalities and regions may decide on how to best organize and Finance educational and health services. However, these spheres are quite well regulated through different norms and procedures. In particular, Sweden maintains a system of oversight of local government finance.
- The Municipal taxes are collected by the Central Tax Authority and transferred periodically to the Municipalities. Municipalities only collect certain fees charged for services.
- Sustainability of Swedish municipalities is in part ensured by their consistent and stable revenues, and in part by their autonomy in the provision of social services.
- Although the Swedish system is quite complicated and has a fairly long tradition, the logic of its five components (income equalization grant, cost equalization grant, structural grants, transitional grants, and regulation grant) can be a good basis or a useful guide.
- The municipalities in Sweden have great autonomy in adopting their own regulations in many spheres, as well as in setting the rate of taxes. However it must be noted that the Swedish national government intervenes quickly and decisively in cases of local mismanagement. This suggests that with each progress of the decentralization process it is necessary to further strengthen the national system of monitoring and control, and to build up available policy tools for taking effective action.
- As Sweden decentralized, it begun to collect more and more data on local governments, on the services they are providing, on the operation of different areas of public sector. Over time, several interlinked databases were developed.

## 10. DENMARK

Denmark is a unitary state composed of municipalities (kommuner) and regions (regioner). A new municipal structure came into force in January 2007, based on which the number of municipalities was reduced while their overall sizes were increased. This model now requires municipalities to have a minimum of 20.000 inhabitants, although those with a population of less than 20.000 are accepted as long as they establish a legally binding cooperation with a larger municipality.

The municipal council is composed of members elected by direct universal suffrage for four years and by a system of proportional representation. It is in charge of the municipal budget, the running of local institutions and the adoption of local policies.

The mayor who is elected for four years by the municipal council heads the municipality's administration and the municipal council.

Municipalities are responsible for

- Primary and lower secondary schools
- Elderly care,
- Child day-care,
- Social services,
- Primary healthcare,
- Waste management, environment protection,
- Local infrastructure, including local roads,
- Culture, including libraries.

### **Revenues of Danish Municipalities & Local Taxation**

The following are the main sources of municipal revenues:

- Taxes
- User fees and charges
- Central Government funding, including equalization.

There are two main types of tax revenues:

1. Municipal (own) taxes, whose rates are determined by the local governments. These are personal income tax, land tax, church tax. Danish municipalities rely heavily on local income tax. Additionally, municipalities set tax on public and private business properties (up to 1%).
2. Shared taxes, in which the government defines the rate. These include property value tax (rate set at 1%), company tax (set at 28%). Property value tax flows fully into municipal budgets, while company tax is shared between the municipalities (17%) and the national government (83%).

Below Table provides the breakdown of the main revenue items of Danish municipalities in 2017.

**Table 10 Breakdown of the main revenue items of Danish municipalities in 2017**

Revenue stream	Amount	Share
Sales of goods and services	31 769	4,4%
Income on wealth, earned income etc.	3 299	0,5%
Taxes on income and wealth	229 272	31,7%
Other taxes	28 436	3,9%
Transfers for health	98 015	13,5%
Transfers for social protection	268 961	37,1%
Other transfers	56 498	7,8%
Other	7 905	1,1%
Total	724 155	100,0%

Source: Danmarks Statistik (2017), Table 292

As stated above, the municipalities have the authority to determine the local tax rates. Rates of selected municipal taxes are shown in the following table:

**Table 11 Local Tax Rates in Denmark**

Tax	Average	Minimum	Maximum
Municipal income tax	24,91%	22,50%	27,00%
Church tax	0,87%	0,41%	1,30%
Land tax	2,62%	1,6%	3,4%

Source: Danmarks Statistik (2017) for municipal income and church taxes, Økonomi- og Indenrigsministeriet (2014) for land tax

The collection of municipal income tax is provided by Central Customs and Tax Administration either via withholding tax or declaration. The relevant share is subsequently transferred to the accounts of municipalities.

Property tax is a tax property owners have to pay to the state based on the value of the property.

The main types of property (land and buildings) can be taxed differentially. Denmark is an example of a country that, in effect, taxes buildings at a lower rate than land. The chief rationale for taxing land at a (much) higher rate than buildings is more efficient land use. The argument has two elements. First, as land essentially is fixed in supply, a uniform tax on land value cannot be avoided. If the effective tax rate on land is high, speculation or hoarding land becomes uneconomic. Second, taxing buildings is a disincentive to development. It also is argued that land value taxation is easier to administer than land and building taxation, because cadastral record keeping is simpler.

The property tax is included in the tax card information of the employees and included in the withholding rate. In case the taxpayer is self-employed, the municipalities send a giro transfer form.

Approximately 80% of the Danish population are members of the Danish National Evangelical Lutheran Church (Folkekirken), and the members pay church tax. This tax covers the running and

maintenance of the churches in the municipality. The size of the church tax varies from municipality to municipality, and it is collected together with the other direct taxes.

The municipality has the right to modify the details for the collection of local charges and has the authority to specify the charge rate.

### **SUMMARY and EVALUATION**

- Denmark is a rich country, and it has put a lot of trust in the local governments. This high level of trust is indicated, among others, by high share of local government revenues in GDP. For example, Danish municipalities perform nearly all the public functions in social protection, and Danish counties perform nearly all the public functions in health.
- The high level of trust is also evident in the power to set tax rates, delegated to Danish municipalities.
- The high degree of budgetary and financial autonomy of Danish local governments was preceded by a consolidation effort, when the number of municipalities fell considerably. Larger municipalities are more capable to manage their own affairs, have access to better experts, and have higher fiscal capacity.
- Whereas the collection of almost all of local taxes is provided by Central Customs and Tax Administration, the collection of local and administrative fees, on the other hand, is provided by the municipalities themselves, in accordance with the relevant legal regulations.

## 11. GERMANY

Germany is a federal state composed of the federal and the regional level. Municipalities (Gemeinden), cities (Städte) and counties (Kreise) are a constitutional part of the regions (Länder).

The mayor (Bürgermeister) is also elected by direct universal suffrage for a mandate that can vary from four to nine years. The mayor chairs the local council and heads the municipal administration.

The local council (Gemeinderat) is the municipality's central body. It is elected by direct universal suffrage for a mandate that can vary from four to six years. The local council is the legislative organ and makes most of the decisions, all the while holding a monitoring and controlling function vis-a-vis the mayor and local administration.

Municipalities are mainly responsible from:

- Urban planning
- Municipal taxation
- Public security and order
- Municipal roads
- Public transport
- Water supply and wastewater management
- Flood control and management
- Fire fighting
- Social aid and youth
- Childcare
- Housing
- School building and maintenance
- Cemeteries

The main municipal taxes in Germany are;

- Property tax
- Trade tax and
- Local excise duties and expense taxes.

### Property Tax

The property tax is based on fiscal value, which for residential and commercial property is determined as a multiple of the average rent per m<sup>2</sup> that could have been obtained for a comparable property. The multiples vary with such factors as size of community, age of structure, exterior construction, and use. Industrial properties are appraised using a summation approach.

A distinction is made between

- Property tax A for businesses in agriculture and forestry, piece land and
- Property tax B for all other properties.

Construction costs are figured on a cubic meter basis. Usage and construction quality are taken into account. Urban land values are based on average prices per m<sup>2</sup>.

Although the law requires values to be updated every six years, the values are based on 1964 values that were indexed to 1974. Farmland is valued on the basis of soil classifications established in 1935. Fiscal values usually are lower than actual values. Valuers use officially adopted manuals.

In Germany regional governments (länder) have authority to limit rates chosen by local authorities. The objective of an upper rate limit is to prevent a level of taxation that is deemed excessive. The objective of a lower limit often is to encourage a certain minimum level of property taxation and reduce the magnitude of central government grants.

The rate in Germany is a combination of the federal basic rate (Steuermesszahl) and the locally determined municipal coefficients (Hebesatz). In Germany, building values of new residences under certain size limits (particularly low-cost housing) are exempt for ten years. Germany also had a ten-year exemption for certain houses located in the five East German lander.

The responsible tax office must first determine the unit value of the property according to the valuation law. The unit value forms the basis for the tax base. The municipality decides on the assessment rate with the budget charter and issues the property tax assessment. The tax base multiplied by the assessment rate forms the tax to be paid. If the tax office does not have a standard assessment, the substitute assessment is used.

The municipality in which the property is located is responsible for issuing the property tax assessment and collecting property tax.

## **Trade Tax**

The tax subjects of the trade tax are the business enterprise and its objective earning power. This is what distinguishes business tax from so called personal taxes (e.g. income tax and corporation tax), which are linked to the existence or economic efficiency of a taxable person.

The trade tax is levied on every business, provided it is run in Germany and the tax base is the trade income. All commercial business operations in Germany are liable to pay trade tax (*Gewerbesteuer*) irrespective of their legal form.

The trade tax is a municipal tax, is levied by the municipalities and represents the municipalities' most important original source of income for covering their public expenditure. The federal government and the federal states receive a share in the trade tax.

The trade tax is collected by the local tax offices.

The trade tax is set by local authorities which means it can vary from one municipality to the next. However, trade tax is generally the same rate for all businesses within one municipality. Trade tax in Germany is currently set at between 7 and 20 percent.

The corresponding rate of trade tax depends on two components:

- The tax base rate (3.5 percent throughout Germany)

- The multiplier (*Hebesatz*) stipulated individually by every municipality

The taxable income of the company is multiplied with the tax base rate (3.5 percent) which results in the so-called tax base amount. The tax base amount is then multiplied with the corresponding municipal multiplier; which results in the sum total of trade tax which is due.

The multiplier is set by each municipality. On average, it is around 400 percent and there is no upper limit for the municipal multiplier. It is generally higher in urban areas than it is in rural areas, although it does currently not total more than 490 percent in any of the large cities.

Partnerships can offset some of the trade tax they pay against personal income tax - to the total of 3.8 times the trade tax base amount. Partnerships have an annual tax free allowance for trade tax of EUR 24,500.

The amount of tax burden is often a decisive criterion for companies when choosing a location. For municipalities with a very high trade tax multiplier, it is difficult to assert themselves in the interregional but also international competition for locations. Too high burdens are increasingly no longer accepted by companies as an appropriate equivalent for municipal (infrastructure) services and therefore contradict the nature of real taxes. Often it is the already structurally financially weak municipalities that burden companies with high assessment rates. On the other hand, the predominantly moderate level of the assessment rates of the municipalities in Bavaria and Baden-Württemberg reinforces the already favorable location factors in southern Germany.

### **Local Taxes and Fees**

Local fees are a group of fees that are linked to a local fact or process. Commonly applied local taxes in Germany are:

- Dog tax
- Hunting tax
- Horse tax
- Amusement tax
- Liquor tax
- Second residence tax and
- Tourism tax

Local taxes, with the exception of the liquor license tax are by their nature consumption taxes and expense taxes. Some of these types of taxes are not levied in all federal states. Their legal bases are the local tax laws or individual tax laws of the federal states. The municipalities are granted a statutory right that allows them to decide in detail about the collection or non-collection and the structure of local taxes. The state laws can also oblige the municipalities to levy certain taxes.

Local taxes have a total share of the tax revenue of the municipalities of around 1 percent<sup>15</sup>. That is why they are also called “small municipal taxes” or “minor taxes”.

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15 Statistics Institute of Germany / Statistisches Bundesamt

However in individual communities, these taxes are of greater importance because they lead to a considerable addition to the remaining income.

### **Collection of Taxes in Germany**

Municipalities only collect the property tax and certain fees charged for services. There is no significant issue in terms of collection of these fees.

Germany belongs to a group of countries in which the stock of tax arrears is one of the lowest in the European Union. This is also the case for municipal receivables.

In cases of late or nonpayment, the collection procedures (i.e. reminders, notifications etc.) are carried out. Additionally, most of the municipalities outsource the task of receivable collection to private debt collectors.

Germany State Audit Agency ("Bundesrechnungshof"),<sup>16</sup> carry out audits of municipalities on a periodic basis. The receivables collection is also among the issues that are frequently audited.

The State Audit Agency has found out below mentioned discrepancies in the receivables collection processes of various municipalities;

- The failure of application of Municipal Taxes Code,
- The failure in the recording and follow up of bad debts
- The discrepancies in the systematic treatment uncollected receivables.
- Untimely processing and retrieval of fees and taxes
- Difficulties in data management with other governmental agencies
- Non-implementation of compulsory recovery measures due to untimely and / or lack of information
- Limitation of debts due to the expiration of their claim time
- Insufficient assessment of doubtful receivables due to insufficient information
- Insufficient cash flow to meet cash needs

The State Audit Agency has also found that the municipalities often face particular challenges when recording receivables. The following focal points crystallized out:

- Receivables were often not recorded on time in the Financial software and therefore not taken into account during the Budgeting process.
- Payments at significant amounts are received that cannot be assigned by financial accounting. Until this has been clarified, the financial accounting department must record these items as "intermediate parking". This also creates problems during budgeting.
- The State Audit Agency has determined that unexplained deposits are not limited to individual cases. The following reasons were behind the delay in entering the receivables:
  - Indication of incorrect or ambiguous texts on the deposit receipts;
  - Payment of multiple claims with one deposit slip;
  - Missing debit position or acceptance order by the specialist services.

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<sup>16</sup> <https://www.bundesrechnungshof.de/en/veroeffentlichungen>

The audits also showed that the personal master data carry many duplicates for the debtors. The duplicate problem essentially results from the following circumstances:

- Large number of accountants who can change or create new personal master data
- Insufficient research by accountants (e.g. in the case of address changes)
- No uniform requirements for the collection of personal master data (e.g. correct spelling of the name)

Additionally, the reports of Community Audit Institute of North Rhine Westphalia (gpaNRW)<sup>17</sup> have been analyzed.

GpaNRW is an institution under public law of the state of North Rhine-Westphalia and it carries out the supra-local audits for the communities and districts.

According to GpaNRW's report, the main reasons regarding the nonpayment of municipal taxes and fees can be broadly related to below factors:

- Financial hardships, particularly for those living on state/federal benefits
- Irregular income from self-employment, combined with the rules focused on current rather than previous year's income;
- Mismanagement of finances by another member of the household (e.g. preceding relationship breakdown, or in cases of mental illness);
- Low priority of expenditure on municipal taxes for low income households, compared with rent/mortgage, gas/electricity, or children's' clothes; allied to the perception that in many instances the Municipality had limited sanctions;
- Misunderstandings over municipal tax obligations
- Change of liability from landlord to tenant or from tenant to tenant

## **SUMMARY and EVALUATION**

- The municipalities in Germany have great autonomy in adopting their own regulations, as well as in setting the rate of taxes.
- Accordingly the rate of taxes and fees and therefore the total local tax burden on citizens vary from one municipality to other.
- The main income items for municipalities are trade tax, property tax and other local taxes and fees.
- Trade tax which is a major income item for municipalities is collected by the Central Tax Authority and transferred periodically to the Municipalities. Municipalities only collect real estate tax and certain local fees charged for services and taxes.
- Collection rates of municipal taxes are fairly high on average however there are differences in collection from one Federal State to the other.
- The audit reports drafted both by the State Audit Agency and by GpaNRW have been analyzed and it has been found out that the main reasons for non-collection of municipal taxes are;
  - Financial hardships
  - Misunderstandings over municipal tax obligations
  - Lack of effective receivables management (i.e. posting of the receivables in the financial system in a timely and complete manner.

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<sup>17</sup> <https://gpanrw.de/de/>

## **C. RECOMMENDATIONS FOR THE EFFECTIVE COLLECTION OF LOCAL TAXES AND CHARGES IN TURKEY**

As per our reviews of local tax legislation and local collection practices in Turkey and in other countries, in this section of the report we have outlined a number of potential measures and actions Turkish municipalities can take to improve the collection of local taxes and charges.

The measures that are recommended should be implemented through improved policy making, planning, management and enforcement of the local taxes with the aim of increasing collection and delivering visible improvement results to the lives of citizens.

The proposed measures are grouped and presented in categories by outlining the measure itself, along with the expected results, necessary activities and resource requirements.

Initially, we have summarized our recommendations regarding action items that the Turkish Municipalities can perform with their own capabilities. Subsequently we have indicated certain issues that require changes in the legislation for their performance by the Turkish Municipalities.

Within this framework, the recommendations for effective the collection of local receivables within the local tax management system of Turkish municipalities can be listed as follows:

### **Increasing Staff Numbers, Improving Audit Capacity and Raising Taxpayer Awareness**

- For effective collection of municipal taxes, it is first necessary to support municipalities in terms of management capacity and qualified personnel.
- Qualified personnel such as tax experts and auditors should be trained to be employed in municipal collection units, these units should primarily employ trained and qualified personnel, and development of existing personnel should be ensured through trainings and sharing of good practices.
- Local taxpayer awareness should be reinforced through efforts such as citizens' budget and tax brochures to be prepared in the layman's terms for the purpose of revealing the relationship between local taxes collected by municipalities and municipal services.
- Legal changes should be made to grant municipalities with extended authority in conducting tax reviews and audits in certain areas. However, with these legal changes, it will be essential to make the necessary arrangements designating how and by whom the said authority will be exercised and to train the personnel who will take on the reviewing and auditing tasks.
- It is observed that in most municipalities, especially the small-scale ones, the tax management system remains substandard both in terms of staff training and qualifications and in terms of procedures and processes that are in place. This underperformance has a negative impact on tax compliance and taxpayer satisfaction. In order to make substantive contributions to municipal capacity building efforts, it is recommended to increase the number of applied trainings provided by central institutions and by the Union of Municipalities of Turkey with a view to meeting the differing training needs of municipalities.

- The adoption of a process-oriented management approach by Municipalities that takes into account the demands and expectations of the taxpayers will not only boost taxpayer satisfaction and tax compliance but also may increase municipal administrative performance, thus improving tax collection. Within this framework, adjustments can be considered to provide comprehensive information and consultancy services to citizens, to cut down waiting times and to adjust working hours during collection periods.
- Other recommendations include regularly informing citizens about municipal tax return and payment periods, responding to their complaints and requests, developing a system to provide feedback to taxpayers and appointing a taxpayer representative to track the demands, expectations and satisfaction of the taxpayers.
- In addition, it is recommended to develop systems that will enable municipalities to quickly adjust through in-service trainings if and when there are amendments to the local tax management legislation in Turkey. These trainings should be supported by experts from the Ministry of Treasury and Finance through interagency protocols.

#### **Increasing Coordination between Municipalities and Other Public Institutions**

- Municipalities have limited access to “TAKBİS” and “MERNİS” portals which are both operated by other public institutions. In addition, municipalities have no access to the “POLNET” portal. The lack of access to or underutilization of these portals results in a constant need for correspondence, which not only leads to a waste of resources (time, labor, money) both for municipalities and the relevant institutions but also causes delays in the collection and follow-up procedures for municipal accounts receivable.
- Establishing coordination between tax offices and Municipalities would ensure the identification of taxpayers who are either not registered for the announcement and advertisement tax, sanitation tax and entertainment tax or who do not have a business and operating license. This practice of mutual information sharing would not only increase central administration revenues but also municipal revenues. Moreover, this coordination would prevent unnecessary accrual entries, thus reducing the waste of resources (labor, time, money) stemming from unnecessary correspondence.
- Alternatively, requesting a tax clearance certificate from municipalities in business shut-down procedures to be carried out by tax offices would significantly improve property tax collection by municipalities.

#### **Improving the Technological Infrastructure**

- The use of e-municipality applications and technologies in tax management should become a standard practice. Methods such as e-notification, e-payment, e-audit and e-enforcement (through taxpayers’ bank records) would not only facilitate the declaration and payment of taxes by the taxpayers but also give easy access to taxpayer records, thus expediting tax audits and follow-up procedures for unpaid taxes.

- In addition, the extensive use of technology by municipalities in tax calculation, collection and audit procedures would also increase efficiency and efficacy in tax management.

### **Auditing**

- External and internal audit system should be improved, and external auditing should become a standard practice applied to all municipalities with a systematic approach in order to ensure compliance of municipal procedures with the legislation, to prevent errors and to improve municipal practices. The personnel performing internal and external audits within the municipalities should be trained on municipal legislation and tax legislation, and the audit system should be transformed in a way to enable municipalities to identify learning and improvement opportunities.
- The report titled “A.1.1.3 Increasing the revenues of local administrations in line with the experiences of other countries and developing recommendations in view of designing a draft legislation” provides a detailed account of the legislative amendments that are required to invest the municipalities with the auditing function in question.

### **Collection Performance Tracking**

- To be able to improve the collection of local taxes and fees, Municipalities should use regularly updated information and analyses and should create a systematic approach to track the collection performance.
- The main objective would be improving the oversight of the tax/fiscal affairs departments of municipalities by regularly monitoring collection levels throughout the year.
- To this end, a municipal officer with access to all reporting tools in the local tax system can generate monthly progress reports on collection and can compare the collections with the accrued taxes and previous debts.
- With this effort, the areas/citizens with high levels of debt (non-payment) can be determined and an action plan can be developed and implemented to contact non-payers directly.

### **Increasing the Tax Compliance Among Citizens**

It is a necessity to take a pro-active approach to encouraging taxpayers to pay their local tax on time, including all or a proportion of accumulated debts.

To this end,

- An enforcement official, or another municipal official in charge of enforcement, should begin to get in contact with taxpayers to ask for payments once the deadline has passed. This should be followed up with a personally delivered first warning notice if no payment has been received after the payment deadline.

- Municipalities should publicly announce the intention to enforce tax collection through press releases on their websites as well as through public service announcements on local radio/TV.
- As per the property tax, municipal tax officers are expected to start inquiries on properties for which the tax has not been paid, and financial and employment information of the property owner is recorded in the database. They are then expected to inform the taxpayer of legal actions that will be taken in case of non-payment.
- Tax collectors and enforcement officers should prepare regular monthly reports on payment deadlines.
- As an example, The Municipality of Budapest considers it an important task to keep taxpayers as up-to-date as possible. To this end, the Municipality continuously publishes all important information related to taxation on the website of the Municipality and draws attention to the changes. One can also find the tax forms and local regulations on the website. In order to check the completeness of the content of tax returns, tax return forms can be filled in electronically.

### **Ensuring Regular Updates to the Taxpayer Registry**

- Considering that in Turkey, much of the economy is made up of “informal” and small-scale businesses, and tax authorities lack the external controls, it can be difficult to maintain an accurate central taxpayer registry.
- To counteract this, registration should be made more rigorous and feedback systems should be introduced to ensure that taxpayers regularly update their information. Additionally, quick and simple control mechanisms can be put in place to raise the alarm if taxpayers fail to comply with their obligations.

### **Enforced Collection**

- Considering that from time to time encouragement and reminders may not be sufficient measures to ensure property tax collection, in order to maintain credibility, and increase the number of regular taxpayers and property tax collection levels and address debt issues, municipalities should take the next step.
- These range from soft measures like issuing demand notices and charging interest or penalties on delayed payments, to harder measures like recovery by action, summary warrants, recovery from tenants and occupiers, or prohibiting the transfer of property with arrears.
- Turkish municipalities should also create strict enforcement policies and follow them so as to increase the compliance of the citizens.

### **Dispute Resolution**

- In most of the countries we have analyzed, the citizens have many options (settlement, negotiation etc.) after a penalty/fine due to municipal receivables. Similar measures are possible as per the legislation in Turkey. However most of the time the citizens are not aware

of these legislative possibilities and the municipalities do not inform the citizens properly about the actions they may take after a tax assessment/penalty.

- Therefore it would be recommended that these procedures should be utilized more frequently to increase the rate of tax collection.

### **More Modern Registration, Filing and Management of Payment Obligations**

- In Turkey, mobile and Internet penetration are comparatively high. Municipalities can therefore introduce electronic channels such as Internet portals, mobile-payment options, and ATMs.
- By using these channels for simple taxpayer transactions (such as declarations and payments), a municipality can increase the level of voluntary payments while conveying a strong sense of its public purpose. Such approaches reduce the length of queues at municipality cash desks while also removing a barrier to compliance.

### **Creating External Checks that Enforce Compliance**

- Often, informal businesses that don't pay taxes nevertheless interact with government agencies as part of normal operations. Municipalities can work with these agencies to verify the tax status of businesses. Such checks need not be overly intrusive but can still effectively encourage formalization.

### **Performance Appraisals for Municipality Officers**

- In some municipalities (e.g. Budaors/Hungary) performance appraisal and incentive schemes for those working in the fiscal department have been developed. Accordingly, a portion of the receivables collected by the efforts of clerks are paid to them as a reward. This procedure is generally carried out thanks to a fund created in the Municipality.
- Similar schemes can be created by Turkish municipalities to foster the tax collection management as well.

### **Centralization of Collection**

- In almost all of the countries under the scope of this study, it has been observed that there is a tendency towards centralization of tax collection.
- In principle, local government authorities should be likely to collect local taxes more efficiently than central governments because they can more easily oversee local residents, have better information about their assets, and monitor their compliance.
- However, various studies show that poor administrative capacity, corruption and political interference in tax enforcement were seen to be the main obstacles for collection of local taxes. Elected local councilors may intervene in tax collection and in the recruitment of revenue collectors. Accordingly, enforcement of the property tax legislation became exceedingly difficult.
- One of the most fundamental barriers especially for property taxation is the sustained resistance it faces from property-owning elites, who tend form a powerful lobby that can block both policy reform and effective implementation. This is a particular problem in large

capital cities, where resources are concentrated, and political and economic elites tend to be closely bound together. Indeed, in such cities, where bureaucratic capacity to overcome some of the administrative challenges is likely to be higher than elsewhere, elite resistance may form the primary obstacle.

- Accordingly, the collection task of local taxes have been transferred to central fiscal authorities in various countries. The minor local fees and charges continue to be imposed and collected by the local authorities.

### **Recommendations That Require Changes in the Legislation**

One can find below our recommendations regarding changes in the local taxation legislation in Turkey so as to increase the management and collection of local taxes.

- First of all, the provisions regarding the collection of municipal receivables stipulated in the Law on Municipal Revenues should be revised and the tax subjects and tariffs should be adjusted to today's conditions.
- Making the necessary legislative amendments to grant municipalities the authority to make adjustments to local tax tariffs within the minimum and maximum thresholds set by the Law would enable municipalities to attain a more financially autonomous and more accountable structure.
- In addition, the amendments foreseen in both the content and the application of the Law No. 6183 would increase the collection capacity of municipalities. For example, revising the minimum threshold for the cancellation of uncollectible receivables and giving municipalities broader discretion in determining the receivables they choose to follow up within the limitations prescribed in the law would not only prevent the waste of time from the perspective of municipal staff but also avoid the general waste of municipal resources as well.
- The conciliation mechanism, which is defined in the Tax Procedure Law and is applicable to Municipal Taxes, has a very limited application area since it is not well-known by the taxpayers and since municipal officials tend not to offer the citizens the option of conciliation. Extending municipalities broader discretion with regard to the application of these two mechanisms provided in the legislation would significantly increase the municipal tax collection capacity.
- As seen in many developed countries including Sweden, Denmark and Germany, tax rules should be clear and simple to understand, so that taxpayers know where they stand. A simple tax system makes it easier for individuals and businesses to understand their obligations and entitlements. As a result, businesses are more likely to make optimal decisions and respond to intended policy choices.
- Curbing exemptions can also reduce the tax system's complexity while boosting revenue by broadening the tax base. Many countries incur a sizable loss of revenue through ill-designed exemptions, such as costly tax holidays and other incentives that fail to attract investment. Additionally discretionary granting of exemptions provides opportunities for corruption.
- A risk-based audit, which links the likelihood and nature of an audit to the taxpayer's inherent risks, is the most effective type in terms of encouraging compliance. In almost all of the countries where the municipalities directly collect the local taxes, the legislation enables the municipalities to carry out audit of local taxes. Therefore it is also crucial to authorize the

Turkish municipalities in terms of local tax audit and provide trained personnel for that purpose.

- In some countries small sized municipalities can get the local tax management services from the central tax administration. For example in Greece, the municipalities whose population is under 10.000 can get collection service from the central government. This should be a reliable alternative for the small-sized Turkish municipalities as well especially for the ones with low tax collection capacity. Additionally, in Greece the most important mechanism for collection of local taxes is through the Electricity Company bills. This should be a reliable alternative for the Turkish municipalities where the use of illegal electricity is minimal.
- In most of the countries analyzed in this report, there is a reasonable and adequate threshold for the collection of municipal taxes and following up these receivables are left to the discretion of the municipal officers. A similar threshold can be provided to the Turkish municipalities in order to avoid the following up of immaterial (i.e. insignificant receivables not worthy of a follow-up procedure) receivables.
- In Spain and Italy the management and collection of the local taxes, charges, fees and local levies can be carried out by the Municipality itself, by delegation to the Provincial Council or by outsourcing the service directly. Currently there is no outsourcing of municipal receivables in Turkey however outsourcing can be a viable option for the Turkish municipalities as well especially for the ones with a low tax collection capacity.
- In Spain and Italy, direct debit method is commonly used for payments and it has many advantages both for municipalities and for the citizens.
- In most of the countries we have analyzed, by examining the reasons of the taxpayers and the economic and social circumstances individually, the Municipalities can provide more favorable payment terms and payment in installments.
- Local business tax is the principal tax revenue for some of the municipalities we have analyzed. (e.g. Hungarian municipalities). Accordingly, local business tax can be also an option for Turkish municipalities where there is a significant business activity. Alternatively it can be applied over certain neighborhoods/districts of a town.
- It is recommended to increase the number of secondary legislation (communiqués, by-laws, advance rulings etc.) available for providing guidance in the enforcement of laws with the aim of ensuring uniformity in tax procedures carried out by municipalities.

In conclusion, with the recommended improvements discussed above, municipalities would not only attain a more financially autonomous, accountable, transparent and citizen-oriented structure but also experience positive developments in terms of management capacity, staff competency and scope of authority. It is envisaged that these steps would increase tax compliance and municipal performance, thus improving municipal tax collection.

## D. Appendices

### 1. List of Municipalities and Officials Interviewed Within the Scope of the Study

Local

Date	Time	Municipality	Participants
24 June 2020	15.00-16.00	Erzincan Municipality	Saffet Erbaş – Director of Business Affiliates
25 June 2020	10.30-11.10	Gerede Municipality	İsmail Gülleci – Acting Director of Financial Services
	11.30-12.35	Akçakoca Municipality	Selma Kurt – Director of Financial Services
	14.30-15.30	Kütahya Municipality	Hasan Korkut – Director of Strategy Development
26 June 2020	10.00-11.00	Konya MM	Yasin İçačan – Branch Director of Strategy Development and Planning Abdullah Baran -
	12.30-13.30	Adana MM	Bahadır Özdemir – Director of Revenue Branch
	15.00-16.30	Bayramiç Municipality	Ferdi Yılmaz – Director of Financial Services
1 July 2020	10.30-11.45	Turhal Municipality	Recep Bozduman – Director of Financial Services
2 July 2020	09.00-10.00	Zonguldak Municipality	Kemal Cangöz – Deputy Mayor
	11.00-12.15	Eskişehir MM	Ali Rıza Özsaltık – Head of Financial Services Department
3 July 2020	11.00-12.00	Altındağ Municipality	
16 July 2020	10.30-11.30	Tekirdağ MM	Müveddet Işık – Head of Financial Services Department

Date	Time	Institution	Participants
8 July 2020	15.00-16.00	Ministry of Finance / Slovenia	Ms. Tina Humar – Acting Director General -Directorate for the System of Tax, Customs and Other Public Finance Revenues Ms. Neva Zibrik -
10 July 2020	10.00-11.30	Thiene Municipality / Italy	Mr. Claudio Poletto – Head of Financial Services Department Ms. Elisa De Pasquale - Interpreter Ms. Laura Crestani – ALDA
15 July 2020	10.30-11.00	Vallentuna Municipality / Stockholm, Sweden	Ms. Annika Hellberg – CFO of the Vallentuna Municipality / President of the Swedish association of municipal accountants
23 July 2020	10.000-11.00	Prague Municipality / Czechia	Ms. Lucie Sedmihradská - City Council Member
27 July 2020	10.30-11.30	Milano Metropolitan Municipality / Italy	Mr. Dario Rigamonti - Head of the Financial Department
28 July 2020	10.30-11.30	Latvian Association of Local and Regional Governments	Ms. Mudīte Priede Secretary General Latvian Association of Local and Regional Governments, Prof. Maris Pukis – Adviser, Ms Sanita Skiltere - Representative of Riga City Council
31 July 2020	10.30-11.45	Barcelona Municipality Finance Department / Spain	Mr. Antoni Fernández – Managing Director, Ms. Carmen Estrada - CIO, Dr. Rafael Olañeta - Director of Tax Inspection, Mr. Martí Sauri Pujol - Department of Revenue Administration and Accounting, Ms. Ana M <sup>a</sup> Cisneros - Tax Inspector
18 August 2020	11:00-12.15	Debrecen Municipality / Hungary	Tamás Vasvári - Research Assistant at University of Pecs, Dávid Tomasovszky
18 August 2020	10.00-11.00	Zabierzów Commune / Poland	Mr. Piotr Budziak - Treasurer
21 August 2020	14.00-14.45	Holstebro Commune / Denmark	Mr. Claus Brandt – Deputy Municipal Director

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