

THE WAY OF INCREASING THE ABUNDANCE OF PROPERTY TAX IN THE REPUBLIC OF SERBIA

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Abstract: *Property tax is a local income, which is applied in all modern tax systems. It is a part of direct taxes with personal income tax and corporate income tax. Property tax has a low level of the abundance, but it is represent one of the most important tax form. Presenting the institutional and legal framework and individual findings on the fiscal importance of the property tax, the aim is to emphasize the great importance of this tax levy in the tax system of the Republic of Serbia, especially under the influence of fiscal decentralization and give recommendations for local government revenue to become more plenteous and more efficient. Taxpayers' respect for the legislation, greater coverage of taxpayers and objects of taxation are just some of the ways that will contribute to the improvement of property taxation in Republic of Serbia.*

Key words: *fiscal decentralization, local government, property tax, abundance*

INTRODUCTION

The property tax is one of the oldest tax forms. This tax has no large fiscal abundance, but it has important implications on the economy of a state. There are two forms of the property tax: static property tax, when the property shows the existence of economy power and dynamic property

tax, when the property moves from one to another owner.

The property, in the time, can be changed and increased without any actions of its owner. If the property is basis for taxation, then we will talk about nominal property tax. It is regular tax which is paid periodically from tax. On the other hand, property may be a source for paying tax. It is real tax.

In the case of dynamic tax, property moves from one to another owner. If this transfer is with compensation, people should pay tax for transfer property (in Serbian legislation this tax is tax known as absolute right transfer tax).

On the other hand, if the property is transferred without compensation then we will speak about two tax forms: heritage tax and gift tax.

Tax on the increased value of the property is tax on property growth caused by exogenous factors. It can be general (when the whole value of property is increased) or special (when the part of property is increased). Importance of property tax is in the fact that this tax is own revenue of local governments.

It provides a large amount for lower authorities and it takes a big part in the local budget. The first part of this article will be about the fiscal importance of property tax in the Republic of

Serbia. The fiscal importance will be presented with share of the revenues of property tax in Serbian GDP from 2005-2015.

In addition, revenue from property tax flows will be shown in the Republic of Serbia and in the local government

The second part of the article will relate to the way of increasing abundance of this tax in Serbia.

This part will be about problems that local governments face with collecting of tax revenues. Later, ways to resolve these problems will be presented. They can be organised in the following way:

- 1) Obeying legislative rules by the taxpayers;
- 2) Increasing the range of property tax payers and
- 3) The policy of tax rates as a source of income increase.

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the Republic of Serbia and in the local government.

All these way will be discussed in the rest of the paper. In the end, the conclusions will be made as well as bibliography.

Fiscal importance of the property tax in the Republic of Serbia

Property tax becomes local tax in 2006, when the tax authority adopted the Law for financing of local government.

This law established jurisdiction of local government for determining the level of tax rates in the legal limit and for the tax collection. The moving from central to local level was very difficult. The local government had two years for realization of this process and for defining the organizational structure for completing these activities.

Only five local governments took on the obligation of property tax collection in 2007 (Belgrade, Kragujevac, Vranje, Vrnjačka Spa and Žabari) because tax administration has not given the data to local government on time (Arsić, 2012, p.24).

If we look at the trend of revenues from property tax and its share in some variables, we will conclude that they don't have a great fiscal importance.

This tax was neglected before 2006. Share of the property tax in GDP of the Republic of Serbia from 2005-2015 was ranging from 0.8% to 1%. Decline in the share of this revenue can be seen in the period from 2006-2010, but after this period its growth has been noticed.

Graphic 1: Share of the property tax in GDP in the Republic of Serbia, 2005-2015



Source: Ministry of finance - Republic of Serbia, *Bulletin of public finance*, December 2015. Available on: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-136%2018032016.pdf>, (19/10/2016.)

Based on the data from Treasury administration of Ministry of finance, in the table 1, trend of share of revenues from property tax in total current revenues has been showed.

We can see total revenues from the property tax had growing tendency from 2005-2015, which is a good indicator (graphic 2).

Table 1: Revenues of property tax in the Republic of Serbia, 2005-2015

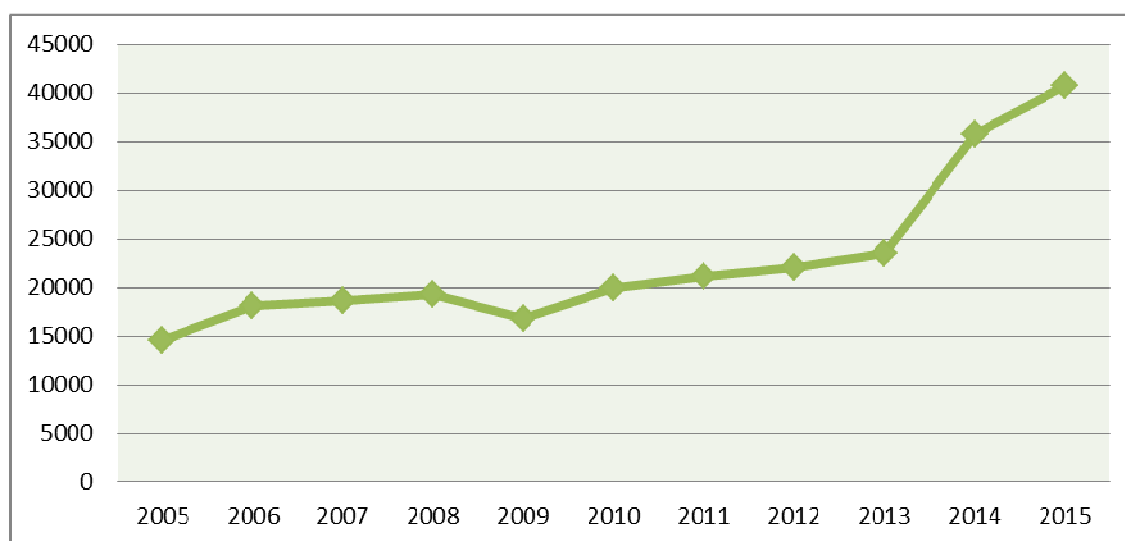
Years/ Revenues	Current revenues	Local revenues	Property tax		
			In the millions RSD	Share in the current revenues (in %)	Share in the local revenues (in %)
2005.	753128,2	107040,9	14480,0	1,9%	13,53%
2006.	904553,9	139502,2	18109,2	2,0%	12,98%
2007.	1045542,0	162723,6	18660,9	1,78%	11,47%
2008.	1191933,1	190605,3	19268,2	1,62%	10,11%
2009.	1194303,4	168244,8	16832,3	1,41%	10%
2010.	1271045,0	193040,5	19962,5	1,6%	10,34%
2011.	1359994,7	217734,3	21172,6	1,56%	9,72%
2012.	1469173,0	249490,0	22002,1	1,5%	8,82%
2013.	1534984,4	241825,8	23541,6	1,53%	9,73%
2014.	1611811,8	234192,0	35672,7	2,21%	15,23%
2015.	1687613,7	247867,1	40769,1	2,42%	16,45%

Source: Ministry of finance - Republic of Serbia, Bulletin of public finance, December 2015. Available on: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-136%2018032016.pdf>, (24/10/2016)

The reason why there is the increase in the revenue is the property tax has become the own revenue from local government from 2006 and its administration on this level has started. Local administrations become more interested in increase its abundance and improvement its tax collection.

They have made numerous efforts: tax rates growth, increasing the range of tax payers, expansion of the tax base etc. The only one exception is in the period 2008-2009, because local tax government started to administrate this tax.

Graphic 2: Revenues of property tax in the Republic of Serbia, 2005-2015 (in %)

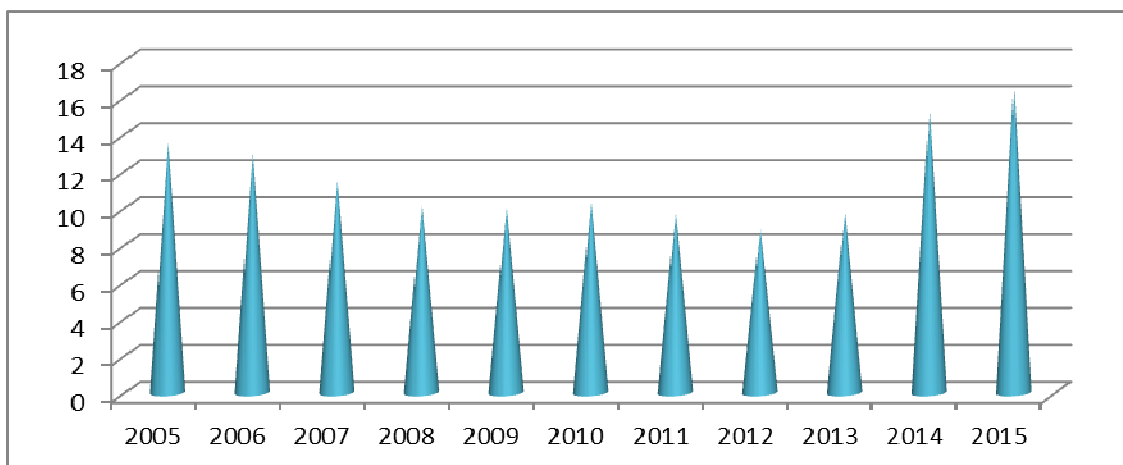


Source: Ministry of finance - Republic of Serbia, Bulletin of public finance, December 2015. Available on: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-136%2018032016.pdf>, (24/10/2016)

Based on the data about the share of this fiscality in the total current revenues, we can see its oscillations. From 2005 to 2006 we can see growing trend, but in 2009 falling trend is noticeable. From 2010 to 2013 we can remark

constant oscillations in growth or decline in the share. These oscillations are very minor. After 2013 this share started to grow which is a good indicator about property tax.

Graphic 3: Share of property tax in total local revenues in the local governments, 2005-2015. (in %)



Source: Ministry of finance - Republic of Serbia, *Bulletin of public finance*, December 2015. Available on: <http://www.mfin.gov.rs/UserFiles/File/bilten%20javne%20finansije/bilten-136%2018032016.pdf>, (27/10/2016)

In the graphic 3 we can see the trend in the share of the property tax revenues in the total local revenues. We can notice rapid growing tendency of these revenues in the local budgets. The property tax abundance has increased a lot after the moving from central to local governments. Until this period, we can see low share of revenues from property tax in total revenues. The reason is high share of revenues from another taxes in the local budgets.

THE WAY OF INCREASING THE ABUNDANCE OF PROPERTY TAX IN SERBIA

The abundance is one of the numerous principles of taxation which tax authorities obey when they introduce new tax forms in their tax system. They tend to have more plentiful taxes and choose tax forms for collecting a large amount of money for financing main states functions. This attitude has been represented by Adolf Vagner, Germany financial theoretician (Stakić and Jezdimirović, 2012, p.176). He created 4 groups of tax principles. One of them is abundance principle.

However, there are fiscal revenues which are not abundance in the modern tax systems and in the Republic of Serbia and these taxes have no large fiscal importance. Therefore, these states take a great number of measures for increasing their significance. One of these tax forms is the property

tax. This tax has higher abundance in developed countries than in developing countries. But some developed countries don't have such abundant revenues. In the OECD members, the revenues of property tax has been 1.85% from GDP and in Serbia 0.6% in 2013. Low level of abundance is related with evasion of property tax. In this part of article we will about tax evasion and ways for increase abundance.

In theory and practice, most authors think that tax evasion of property tax reduces its abundance. Evasion and abundance are in an inverse relationship. If there are high level of abundance and tax collection, than tax evasion will be reduced. Tax evasion is related with: inexplicable data in the Real Estate Cadastre, a small number of taxpayers, inefficiency of local tax administration in collecting data about taxpayers, disobeying the law; the numerous illegal estate etc. These problems are the biggest for local governments. However, the increase of revenues of property tax is noticed when local government started to use these revenues.

The problem of illegal construction has existed for few decades but it is achieved the highest level in the 90's. There was mass illegal construction caused by large migration of the population from the war zone. The second reason is the lack of control in construction field. Finally the third reason is non-existence of planned documentation for legal construction. According to the latest data

which public Ministry of construction and infrastructure there have been about 771.000 applications for legalization in the Republic of Serbia. While Republic Geodetic Authority had public the data about the number of illegal construction works without building and using permit is 1.5 million (Ministry of construction, traffic and infrastructure, The report about

legalization. Available on: <http://www.mgsi.gov.rs/cir/ozakonjenje>, 24.12.2016). For one year, 2.8% of constructions are legalized after the Law for legalization was passed. It is estimated that share is more than 1.5 million of illegal constructions works and in the Republic of Serbia the legalized number is 1.5%.

Table 2: The assumed number of illegal objects in the Republic of Serbia, 2016

<i>Description</i>	<i>Data</i>
Total number of requests submitted	771 000 requests
Number of legalized objects	21 964 decisions
Total number of illegal objects	1.5 million objects
Percente of legalized objects	1.5%

Source: Ministry of construction, traffic and infrastructure, The report about legalization. Available on: <http://www.blic.rs/vesti/ekonomija/legalizacija-na-cekanju-770000-zahteva-ozakonjeno-tek-tri-odsto-objekata/kxl49v7>, 24/12/2016

The biggest problems about property tax have been: disobeying the law by taxpayers; big percent illegal property which isn't in the tax system; small number of taxpayers; taxpayers uninformed about the importance of property tax; bad data flow among authority; inefficient tax administration etc. (Popović, p. 425).

These problems can be resolved in the different ways. Some of the activities completed by tax administration are: organizing the files of taxpayers; strengthening their capacities, adjusting tax rates to local conditions. All this had influence on the increase of balance importance of property tax. We can divided these ways for increasing abundance like this:

- d) Obeying law by taxpayers;
- e) Increasing of the number of taxpayers and tax objects;
- f) Tax rates policy.

a) Obeying law by taxpayers

The base of legalization in taxation is the Law of tax procedure and tax administration which passed 2002 and had many modifications. This law regulates rights and obligations of taxpayers, but it arranges procedure of determination, collecting and control public revenues, then registration taxpayers and penalties (Official gazette of the Republic of Serbia, no 15). Disobeying the law by taxpayers (failure tax registration timely, applying incomplete tax registration with incorrect data etc) will be punished (Item). Companies and entrepreneurs will be sanctioned if don't pay tax in the legal deadline, or apply a smaller tax and with incorrect data. The law provides penalties for taxpayers which use tax evasion. This is a criminal offense. If taxpayers late in paying tax, local tax administrations will resolve this problem with enforced collection.

Table 3: Number of warning to companies, 2009 and 2010

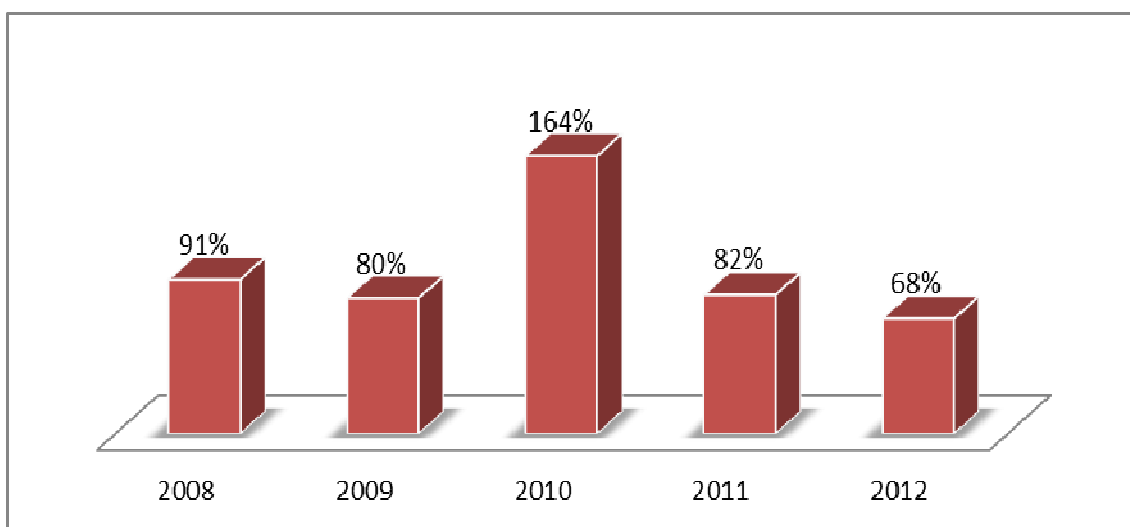
	2009	2010
Number of warning from 1000 rescripts	410	487
Number of enforced collections	169	220

Source: Authors on the basis: Arsić, M. (2012) *Property tax reform- results and perspectives*. Belgrade: Fund for development of economic science , p.9

In the previous period, local tax administrations increase level of tax collection. In 2009 and 2010, number of warning for tax collection increased from 410 to 487, and the number of enforced

collection with 169 to 220. Companies are better taxpayers than individuals. They pay 85% of their obligations, while individuals pay only 76% (tem, p.9).

Graphic 4: Level of the property tax collection in the Republic of Serbia, 2008-2012 (in %)



Source: Authors on the basis: Arsić, M. (2012) *Property tax reform- results and perspectives*. Belgrade: Fund for development of economic science p.38.

It is very interesting information to know that the higher level of tax collection is in 2010, because transfers were low. Financial crisis reduced revenues from transfers and own revenues have got bigger importance.

The most efficiency measure for obeying law is to inform taxpayers about their obligations. It is necessary to explain that property tax is local tax. The revenues from this tax will be use for growing local community.

6) Increasing of the number of taxpayers and tax object

One of key problems in property tax in Republic of Serbia is a large percent of immobility which aren't in the tax system. These constructions don't have building permit and aren't registered in Cadastre. Because it is a problem to register them from taxation.

The Low of the property tax in the Republic of Serbia predicts that taxpayers should pay tax

regardless their own estate is legal or illegal. The legal and illegal objects are equal in property taxation. The new Law of legalization is passed last year. Its aim is to register many illegal objects very simply and in a cheaper way. Legalization is the process of registering estates in Cadastre with the project about real situation. This is the way to get into the tax system. We expect results in update information in Cadastre and increasing taxpayers. There were one million illegal objects in 2015.

Local tax administration had a key role in increasing taxpayers and tax objects. They have to:

- be efficient and have modern gadget;
- cooperate and provide information flows to others institutions which are engaged in construction;
- register tax collection,
- decide about taxation etc. (Levitas , Vasiljević and Bučić , 2010, p.118)

Table 4: Percent of number of illegal estates (in %)

Type of estates	% of illegal estates
Flats	14
Houses	22
Offices	15

Source: Arsić, M. (2012) *Property tax reform in Serbia*. Belgrade: SKGO

When property tax became own revenues for local administration, we can noticed increasing number of taxpayers. From 2009 to 2012, this number has

been increased for 24% for corporations and 21% for individuals. Total increase is 7.5% per year (Arsić, 2012, p.34). Estates registration hasn't

increased the number of taxpayers. The percentage of illegal estates goes from 2% to 40%. The biggest percentage illegal estates is in the category of houses (22%), but for flats and business offices are equal.

The best way to increasing number of taxpayers and tax objects is external control which realizes tax officers. They should note all estates. External control is activities for the screen level of legality and taxpaying. It is necessary to collect data about estates before tax authority goes to control. They compare legal and real states. If the deviation exists, tax authority note and taxpayer give a new application. The biggest non-taxation objects are in the rural area. In 2015, tax control achieves the best results.

Germany organization for international cooperation gave a great support to Serbian Government for administration of property tax. This organization created some projects from 2006 to 2012 called "Support to reform in public finance system in the Republic of Serbia" (Arsić, Altiparmakov, Randelović, Bučić, Vasiljević and Levitas, 2010, p. 112).

в) Tax rates policy as a way for increasing of abundance in the property tax

Germany organization for international cooperation gave a great support to Serbian Government for administration of property tax. This organization created some projects from 2006 to 2012 called "Support to reform in public finance system in the Republic of Serbia" (Idem, p. 112).

There is a possibility for differential tax rates for property tax in the local authority, but law prescribes that this rate has a value law than official rate. The local governments in the Republic of Serbia determine the highest rate on 0.4%, but some of them use the rate from 0.3 and 0.2% only in Leskovac and Kragujevac.

Process of determination rate of property tax is very difficult and it takes a lot of time. This process depends of the budget amount in this year. The local parliament decides about tax rates, based on the analysis of data. In the end of tax year, they determine medium price of square meter of estate for the next year. After that, they analyze tax rates.

The procedure of determination property tax rate in local administration is very difficult. It needs a lot of time.

Then, local government determines rates depending on the amount of planning budget. The

decision was made by local parliament used the data and analyzed them.

Table 5: Property tax rates in cities in the Republic of Serbia, 2016

City	Tax rate
Belgrade	0.4%
Subotica	0.4%
Novi Sad	0.4%
Niš	0.35%
Kruševac	0.35%
Kraljevo	0.3%
Kragujevac	0.2%
Vrnjačka spa	0.3%
Leskovac	0.2%
Jagodina	0.4%
Čuprija	0.38%
Pančevo	0.4%
Vršac	0.3%

Source: The regulation of property tax rate: available on official websites of cities, 23. 10. 2016.

There are many ways for increasing abundance of property tax in the Republic of Serbia, but the most important is increase of the number of taxpayers, obeying law and tax rates policy.

CONCLUSION

The first importance of property tax in the Republic of Serbia was increased in 2006, when the property tax became own revenues for local governments. The revenues of this tax increased in 2014 too, because some fiscal revenues was abolished. In 2015, the revenues from property tax were 1% of GDP and 15% of total tax revenues which cities collect. These data are the important indicator for fiscal independence of local collectivities. We assume this percent will grow from year to year. In the previous year, the growth tendency in the motivation of local authority was noted.

Local administrations have the main role for increasing abundance of property tax. They should be responsible and efficient in the data collecting. Tax administrations had to increase awareness of taxpayers about the importance of collecting taxes for local government and for all citizens. One of measure for increasing revenues of property tax is

organization of the informative campaign and education of the public about the importance of paying taxes and using these revenues.

However, there is an increasing tendency of non-taxable objects. There are many causes for this problem: bad record, "slow" law, etc. The Law for legalization permits a simple procedure. But local administrations will have many obligations. The external control is needed every year.

In the end, tax rates policy is a big cause for increasing abundance in taxation. Official tax rate is 0.4%. Many of cities use this rate, but there are some cities which have lower rates.

For revenues growth, it is necessary:

- to increase the awareness of taxpayers about tax collections and their right and obligations;
- to increase capacities for efficiency in local administrations for the future period;
- to increase tax rates;
- to provide large number of taxpayers.

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