

PROBLEMS OF TAXATION ON IMMOVABLE PROPERTY IN ALBANIA

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Abstract

The biggest problems faced by the Albanian in the last years relates with the formalization of the country's economy. In this context, the tax system is of great importance. Specifically, the taxation of immovable property. As one of the most unpopular tax instruments it has a great impact on the formalization of the country's economy. But, countries like Albania, with a high level of informal economy faces a lot of problems, that are the scope of this article. This paper offers an overview of the taxation system in Albania, with the related classification. By describing the levels of classification in different cities, we have tried to compare the data with other countries to point out the possible adjustment that could be taken. In the paper, also, are included some recommendation that in our point of view may increase the taxation base and can help in the formalization of countries economy.

Keywords: Immovable property, taxation, classification, economy

INTRODUCTION

Taxation on the property has been one of the biggest problems in the last decades for Albania. In a country where immovable property has been unregistered still in the present days, it is quite difficult to implement a long-term strategy on taxation. This issue is treated by various scholars and public institutions for a long-term, but most have failed to offer a clear view of the problem and the way how to resolve this issue.

The Real Estate Structure, owned by Albanian population in the last 20-25 years has had ample and significant changes. These changes have been dictated due to a number of factors. One of the most important among them is the inherited property-related change occurred in the early nineties. Due to this change, there has been always a problem on the taxation on immovable properties. In this paper, we will try to point out an overview of the problem and to offer some considerations related to this problem by analyzing some taxation systems used in other countries.

CATEGORIES OF CLASSIFICATION OF BUILDINGS IN ALBANIA

Over the course of a century, Albanian property relations have changed three times. According to the Law "On Income Tax" in the Republic of Albania, the tax based on buildings consider the area of construction (land) per meter square of a building or part thereof, above and below the ground level, and the surface of each floor of the building in square meters. The owner-occupied area is assessed on the basis of the ownership documents he owns. The classifications of buildings and categories, for the effect of the taxable base, are as follows:

City Halls			
Zone 1	Zone 2		Zone 3
Tirana Durres	Vlore Fier Sarande Pogradec Korçe Elbasan Berat Lushnje Gjirokaster Shkoder Kavaje Lezhe		All other City Halls
All/ m ² in year			
Residential Buildings			
Constructed before 1993	15	10	5
Constructed during and after 1993	30	12	6
Other Buildings			
For merchandise and services	400	300	200
Others	100	60	40
Buildings owned or in use, in approved territories as touristic villages.	400	400	400

The tax levels indicated in the table are valid for buildings in urban areas (municipalities) as well as for buildings in all (urban and rural) areas of section III of the table "Buildings owned or used in the territories of approved as tourist villages ".

In rural areas, the tax rate level for each minimal category of the building (excluding Section III) is the second of the respective indicator level of the minimum category of the building in the central district municipalities in which the municipality is located.

For buildings owned by construction companies that are intended for sale, but which are still unsold, the tax will be determined according to the destination of use of the building's premises. Mortgaged environments such as:

1. Residential apartments will be subject to a tax on buildings in the category "Residential buildings";
2. Business buildings will be subject to a tax on buildings in the category "Other Buildings for Trade and Services".

According to the Law "On the Organization and Functioning of Local Government and Power", the Municipal Council may approve the subcategories of construction for each minimum construction category in the territory covered by the respective municipality. The tax rate is set in ALL per meter square. The tax liability is calculated by multiplying the tax rate with the taxable base.

CONSIDERATIONS IN FAVOR OF PROPERTY TAX

All the studies and analyzes that are subject to property tax emphasize the fact that this tax should utilize with full potential taxation opportunities. Immovable property is included as the main tax base. Immovable property tax (land and buildings) is considered by all countries as the most efficient of all tax types in terms of its effect on the economy (little impact on labor and innovation supply decisions). The most sustainable in real estate is the land. While buildings include elements such as capital investments (movable in the concept of immobilization) and in this perspective property taxation at high levels can affect capital deviation in countries with lower taxation levels. A land tax can promote its effective use, as it becomes a cost to be paid by its owner or user.

An example of this is Namibia, which has shown that land tax has promoted an incentive to develop agricultural land. In this regard, this tax is considered progressive because it is based on the *land owner*.

SOME OF THE SYSTEMS USED FOR PROPERTY APPRAISAL

1. Transaction rating system. It is used in many places (generally the former colonial countries of Great Britain). The tax base is defined as a value expected to occur in an honest market transaction. Countries that have used it are very different from each other (India, Nigeria, Malaysia, Trinidad and Tobago). If it may seem simple to perceive, in practice, there are serious problems (lack or inaccurate data, since not all properties, are traded on the market).

2. Property valuation relies on surveys and surveys in various areas, addressing the most difficult case with experts, the expected value of a property (given by recent sales) and crossing it with expected earnings estimates from the sale of the property. This system summarizes the current use of a property and may not represent the best way to tax property under Albania's conditions.

3. Open market rating system. This system is based on the value of the property market under the conditions of an open market. This system is used in many OECD and Latin American countries and looks like a method that is getting even more spread than that. Many countries use a separate land valuation separately from buildings. This system avoids some of the system's problems above and is considered as an impartial method. Problems, however, remain the same in terms of incorrect data and prices below the real market value. Even this system does not look more optimistic for Albania.

4. Land evaluation system (land). The system measures the value of land by the market. It is used in several countries (Australia, New Zealand, Denmark, Estonia, Kenya, Jamaica). In addition to increasing fiscal revenue, this assessment system is promoted as a strong incentive for effective land use. This tax imposes lower administrative costs on taxpayers compared to the capital tax. The evaluation issues are the same as those above. This system also does not favor implementation in Albania.

5. Surface-based assessment system. It is the simplest method because it charges each land surface at a specific tax rate per unit of land and per m² of the building used in many Central and Eastern European countries, but also in developing countries (in modified forms used in Vietnam and Nigeria).

This system is also used in Albania. It is simple, transparent and easy to administer, allowing taxation even in areas and cities where there is no property market. The system is implemented starting from a pure taxation form based solely on the physical surface following hybrid forms aimed at better and fuller taxation of capital by introducing zoning categorization, quality indicators (used in varieties of forms Albania, Serbia, Poland, Chile and Indonesia). The problematic of this system is that it is generally not considered as an honest taxation, arguing the logic of changes in tax rates but this system does not follow changes in market prices.

In principle, the laws or sub-legal acts included in a Fiscal Rules change package should be transparent, simple to implement and understandable by taxpayers. But with regard to the amendments that are required to be made in the taxation of immovable property in many cases, it is accompanied by great uncertainties.

TAXES ON PROPERTY IN ALBANIA

According to representatives of the International Monetary Fund in Tirana, "Albania lags behind many other countries in the collection of property tax. This partly reflects the lack of a proper real estate registry, which has made it difficult to fully implement the existing property tax law.

Thus, the Albanian government is focused, first, on the establishment of a fiscal real estate registry, improvement of property coverage and implementation of property tax collection on the basis of current legislation. Thereafter, the value-based property tax presentation process will have to continue with the drafting of the legal framework, have internal political consensus in this drafting, mobilize donor and neighboring support for technical assistance and realize technical and legal issues related to it, "she affirmed.

The IMF has always been a catalyst for changing the tax on immovable property in Albania. According to OECD data for developed countries, Italy's property tax revenues are as much as 2.8% of GDP, in Greece 2% of GDP, in Switzerland as 1.9% of GDP, Austria 0.6%, Slovenia 0.6%, Hungary 1.3%. The highest level is held by Britain and France, which collect 4.1% of Gross Domestic Product from property tax. Our region has this indicator at about 0.7-1% of GDP, while the country with the best performance is Croatia, with about 2% of GDP. Statistics show that Albania has the lowest yield in the region for property tax. Income tax on property is less than 0.3 of Gross Domestic Product.

Based on data from the Ministry of Finance and IMF Report for 2016, total property tax revenue for the 61 municipalities in the country was 3.9 billion ALL, or about 29 million euros, an increase of almost 20% compared to with the previous year where 82% of the income from this tax comes from the building tax and the others from the agricultural land tax.

Income tax revenues accounted for 5.7% of total local government revenue in 2016. The largest efficiency in property tax collection results in the municipality of Vora, which provides nearly 15% of property tax revenue. The second municipality is that of Belshi, with 11.2% and the third of Tirana with 10.6%. The weakest city with the lowest income tax (concerned to the biggest cities) is Shkoder, which provides only 3.8% of the property tax bill. With the lowest level of income, tax collection is the municipality of Bulqiza, on which this tax accounts for just 0.2% of the total income.

In the capital of Tirana, where lives about one-third of the entire population of the country, a total of 1.5 billion of property tax is collected in 2016, equivalent with 39% of the total revenue of the tax of the entire country.

The IMF (International Monetary Fund) suggests that, with a new formula, property taxes bring about an equivalent income of around 0.55-0.6% of the country's GDP. This means that the expected revenue from this voice would reach about 65 million euros, more than double the 29 million euros paid by residents of 61 municipalities in the country.

According to IMF representatives, the major obstacle is the lack of completed real estate registry of buildings in the country. This has been attempted to be solved recently through a project implemented by the Electricity Distribution Operator together with the Interior Ministry to fill in the building's address book. But the government has not yet announced that this work has been completed. Especially, it is difficult to think that it is also met for the most remote areas of the country. According to specialists, still, 60 percent of buildings in the country are still not mortgaged.

The difficulty lies not just here. This would be the first step. The IMF also suggests that political consensus is found among the main forces in the country to adopt the appropriate legal changes related to property taxation expected to be included in Fiscal Package 2018.

Apart from others, there are also technical difficulties. Official sources from the Ministry of Finance show that the project that has already been prepared already foresees the transition from the area's tax and building age to the real-estate tax on its market. So, many experts and tax teams would be engaged throughout the country to evaluate each building separately, as two may be adjacent to each other, but the value would vary, depending on the quality, the depreciation. What does the new project to be implemented?

So far, asset valuation is made, based on the life expectancy of the apartment and the area in which it is located. Thus, it is used as a dividing line in 1991, to tax cheaper older buildings, and allocate municipalities in some areas, taxing less those in the suburbs.

Residents of Tirana municipality already pay the house tax, divided into 12 months, together with the water bill, which is a mandatory executive title to be paid. The oldest buildings are taxed for households with 150 leks per month, while the newest ones pay twice or 300 leks per month. Thus, a family within an urban area pays an average 13 to 27 euro annually for housing tax. Businesses are taxing almost tenfold this payment for the real estate they own, or 130-270 euro per year.

Under the proposed legal amendments, the invoice would change, using some coefficients, which would multiply the value of that property. For this, it would be calculated the

real value that the property would have on the market if it went on sale. This means that, from the fixed tax, which is currently, would be passed on to a "reference" tax.

With the new variant, for a luxury apartment worth 250 thousand euro, the coefficient of 0.114% would be used, from which would result in a property tax worth 285 euro a year or nearly 24 euro divided into each of the 12 months year. So, the owner of that apartment will pay in their bill a monthly added fee of 3.200 leks for the service provided (elevator, water tank, etc.).

If the apartment were to be valued at 120 thousand euro, the monthly fee would be 11.4 euro or 1.525 leks (December 2017 exchange rate). To come down to a tax of only 2.2 euro or 294.36 leks per month for a modest apartment estimated at 35.000 euro. In all these cases we would have a significant increase in the currently paid tax (150-300 leks monthly).

Given the above-mentioned problems, it seems difficult to immediately start applying new housing tax as of January 1 2018. But it is not even impossible to begin to apply in part. Thus, the addresses of the apartments in the capital, especially after the last verification carried out by the OSHEE teams (Operatorii Shpërndarjësë Energjisë Elektrike – Electricity Distributed Operator) are available, at least, for Tirana. Finance sources suggest that it is very likely that the implementation of the new tax will start precisely from here, where most of the country's buildings are located. Subsequently, the extension would be carried out gradually throughout the country, starting from other urban areas to rural areas.

With the implementation of the amended tax, the municipal administration would face a real challenge, taking into account the difficulties mentioned by the IMF.

EXAMPLES FROM SOME COUNTRIES AROUND THE WORLD

Croatia: Croatia is applying a tax on 'ad valorem' property with a tax rate of 1.5%, replacing the "tariff" and the tax on second homes.

Greece: Greece has adjusted at the end of 2011 a tax on m² square at different levels, which is collected with the electricity bill. The reform was carried out within the framework of the anti-crisis package.

Serbia: The Republic of Serbia is planning a profound modernization of the property tax system to replace the property-related taxation system associated with land privatization reform.

Slovenia: Slovenia replaced three existing property obligations with a single, modern, real estate property tax system based on market value valuation and new immovable property registry.

Ireland: Ireland has abolished the tax on 1997 residential property. A property-based property tax has come into effect in mid-2013, replacing the annual obligation of 100 euro per home, as part of the most comprehensive fiscal package.

Latvia: Latvia has implemented by 2010, as part of the reform, a tax on residential property to supplement existing land tax, planning additional measures.

RECOMMENDATIONS

Premises for any significant increase in the value of the tax the building is improving in the most right way to dividing the tax burden. At present, the burden falls not pro-actively over those taxpayers who declare and registers his property, citizens report its features and pay their obligations. Improvements for justice in sharing the tax burden require improvements coverage, value, and collection efficiency. About coverage, the goal is shifting from the current system - based on the measure on owner declarations - in the map based system.

This will enable all taxable assets to be able to be recorded and accounted for as such. Regarding the value, the target is shifting to market value. Basically, this will enable a more accurate calculation of the relative value of the assets different.

Valuation based on market value seems to be difficult in the existing environment, as the prices paid in the transactions of real estate are often below the value real in official documents. However, in current transactions, there is enough information to enable implementation successful of such an undertaking. Also, this information can be supplemented by the standard mass assessment technique property to determine its value.

Increasing the taxable base and taxing on market value can increase the taxable base, but not necessarily increase revenue collection. Income from property tax is the product of a number of factors: 1. The number of assets listed in the assets register; 2. Assessment of any property; 3. Rate; 4. Collection level.

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