



The Fiscal Decentralization Initiative
for Central and Eastern Europe

Property Tax in the Republic of Macedonia

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Property Tax in the Republic of Macedonia

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1. Property Tax in the Republic of Macedonia

The existing Law on Property Tax is a result of the tax reforms implemented in 1994. However, a new Law on Property Tax was needed due to the decentralization process in the Republic of Macedonia. This Law would transfer all competencies related to the assessment and collection of property tax, inheritance and gifts tax and property transfer tax to the municipal administration. It was thought that by transferring these competencies to the local governments, the local authorities would take greater interest in collecting these taxes, which are source revenue in financing municipality activities; and also provide greater citizen understanding between the relation of taxes and public services offered by the municipality.

The new Law on Property Tax is in parliamentary procedure this year. The two-phase adoption procedure should be completed by the end of 2004 and the Law should become effective from 1 January 2005.

I will try to lay out the key changes proposed in the new Law, parallel to the existing one.

1.1 Subject to Taxation

Property tax is paid on the ownership of real estate, including: non-farmland, residential buildings or apartments, business premises, administrative buildings, leisure buildings and apartments, garages and other structures, excluding the exceptions separately listed in the part referring to tax exemptions.

Property tax is also paid on the ownership of movable property, including: passenger motor vehicles exceeding 1.8 liters of engine volume, buses, freight motor vehicles, articulated lorries, tractors, combines, vessels and planes. Property tax on such movable property is paid only if it is not used directly for performing an activity.

The new Law envisages property tax to be paid not only on the ownership of real estate, but also on its utilization. At the same time, it fully excludes taxation

of movable property, since it will be covered by the new Law on Utility Fees, which is also a result of the decentralization process in the Republic of Macedonia.

1.2 Taxpayer

A property taxpayer is legal entity or physical person, whereby the new Draft Law also provides for the user of the property to be a taxpayer, in cases when the owner is unknown or unavailable, as well as in cases when a legal entity or physical person uses state-owned property. A taxpayer in certain cases may be the person who usufructs the property. If more than one person owns the property, each of them is liable for property tax proportional to their share of ownership. It should be emphasized that the government cannot be subject to taxation under any circumstances according to this Law.

1.3 Tax Base

The market value of the real estate is the tax base for property tax, such value being reported by the taxpayer in his/her return submitted to the Public Revenue Office. This means self-assessment in some sense.

However, if the public revenue authority concludes that the market value reported in the tax return is unrealistic, it determines the property value by comparing it with the value of same or similar property owned by another taxpayer. According to the new Draft Law, municipalities will determine the market value of the real estate with their own commissions, pursuant to the Methodology for Assessing the Market Value, passed by the Government of the Republic of Macedonia upon proposal by the Ministry of Finance.

This Methodology should be passed by the end of 2004. The Ministry of Finance will control and audit the assessment of the market value by the municipal commissions to determine whether the elements and criteria contained in the Methodology were properly applied by the municipal commissions.

1.4 Tax Rates

Property tax rates are proportional. According to the existing law, the rate is 0.10%, while in the new law it is envisaged to range between 0.10% and 0.20%, according to the type of property, i.e. the suggested alternative is 0.10% to 0.30%, depending on how Parliament votes. In the new law, the rate level is set in a decision by the municipal council and it will range within the frames set therein. The tax rates on agricultural land not used for agricultural production can be increased by three to five times in relation to the stipulated rates. This measure was undertaken to promote the utilization of farmland, thus increasing the agricultural output, for which there are natural conditions in the Republic of Macedonia.

1.5 Tax Exemptions

The following is property tax exempt:

- Real estate owned by the government and by local government bodies and utilized by such bodies, excluding the real estate used by legal entities or physical persons;
- Real estate of foreign diplomatic and consular representative offices and of international organizations if owned by such entities, under condition of reciprocity;
- Real estate owned by the National Bank of the Republic of Macedonia; this is a novelty introduced in the new law;
- Buildings and land owned by religious communities and used for their activities or for residence of their official persons, excluding real estate used for commercial purposes; this condition is not envisaged in the new law, meaning that property used for economic activities by the religious communities shall not be subject to property tax;
- Commercial buildings and business premises used for business activity of the taxpayer, excluding administrative buildings and administrative premises. However, we should mention that if the owner leases his business property, it will be subject to taxation;
- Real estate which pursuant to law is proclaimed as cultural monuments; this is a novelty in the new law;
- Facilities for protection of land, water and air, commercial buildings in agriculture;
- Residential buildings in rural settlements in mountainous regions determined by the Government of the Republic of Macedonia;
- Facilities for training, professional rehabilitation and employment of disabled persons;
- Land used for ground and underground excavation in mining and in geologic research;
- Agricultural land used for agricultural production;
- The new law envisages that the urban land is subject to taxation;
- We should also point out that property tax is not paid on facilities of public enterprises and institutions established by the Parliament of the Republic of Macedonia, the Government of the Republic of Macedonia, the municipalities and the City of Skopje;
- Infrastructure facilities such as: roads, railways, ports, airports and their accompanying facilities, if such accompanying facilities are not used for revenue generation;
- State owned land which is not commercial exploited or leased, such as streets, parks, national parks, forests not used for revenue generation etc.; and
- Buildings and land used for educational, cultural, scientific, social, health, humanitarian and sport purposes, excluding buildings, i.e. parts of buildings and land commercially exploited or leased; all these which in the existing law are tax exempt are not envisaged to be tax exempt in the new law. However, we consider that part of these items will be covered with the first tax exemption referring to the real estate owned by the government.

The taxpayer who owns a residential building or apartment where he/she lives with his/her family is entitled to reduction of the calculated tax by 50%. The tax liability for property tax occurs on the day the property is acquired, the approval for its usage is issued by a competent body, or on the day when the taxpayer starts to utilize the property.

1.6 Assessment and Collection of Property Tax

Assessment and collection of property tax is done by the public revenue authority on whose region the property is located; however the new law stipulates that assessment and collection of property tax will be

done by the municipal administration on the territory of the municipality where the property is located. The municipal administration is an administration within the municipality organized as a department or unit that assesses and collects local taxes.

If the property is located on the territory of two or more municipalities, the tax is assessed by the public revenues authority for the value of the property located on the territory of the relevant municipality.

Property tax is assessed on the basis of data in the tax return, business books of taxpayers and other data available to the public revenues authority.

We should mention that the new law obliges the municipal administrations to keep a registry of real estate and a registry of movable assets subject to taxation. This is also an obligation to be transferred with the decentralization process. The municipal administration should harmonize its registry of real estate with the registry kept by the State Geodetic Bureau on regular basis. Each year by 30 December at the latest, the municipal administration will submit the data from the registries on real estate and movable assets to the Central Registry of the Republic of Macedonia and to the Public Revenue Office—General Directorate.

The taxpayer is obliged to submit their tax return by 31 January in the year for which the tax is assessed. The taxpayer who submitted a tax return is not obliged to submit a new tax return if there are no changes in the data contained in the previously submitted tax return that can influence the level of tax liability. However, for property that a taxpayer acquires or begins to use during the year, or a tax liability that occurs on another basis, the taxpayer is obliged to submit a tax return within 15 days from the day the property was acquired, the day the property started to be used, i.e. the day the tax liability occurred. The tax return is submitted to the public revenues authority on whose territory the property is located, and starting in 2005 it will be submitted to the municipal administration on whose territory the property is located.

The public revenue authority is obliged to reach a decision on the amount of property tax by 31 March, at the latest, in the year in which the property tax is assessed and send the decision on the assessed tax to the taxpayer. The new law envisages that the Mayor is obliged to reach a decision on the amount of property tax. If property is inherited, the court is obliged, within 15 days from the day the decision on inheritance comes into effect, to submit such decision to the public revenue authority on whose territory the inherited property is

located. The public revenue authority is obliged, within 30 days from the day it received the tax return, to assess the tax on inheritance and to send a decision on the assessed tax to the taxpayer.

Property tax is paid quarterly and is due in the middle of each quarter or within 15 days from the day the decision is submitted.

I have mentioned above that the property tax is assessed on the basis of data in the tax return, business books of taxpayers and other data available to the public revenues authority. More specifically, the tax return comprises several parts:

- Part 1 is filled in with data on the taxpayer, the person who submits the tax return, the type of taxpayer is indicated: physical person, legal entity, domestic entity and foreign entity. The physical person should write the unique registration number, name and surname and address of residence; the legal entity should write the unique tax number, name of the company and address; the foreign physical person should enter the passport number, date and country of issuance, name and surname and address.
- In Part 2, Data on Real Estate, the taxpayer indicates the type of property (nonagricultural land, residential building where he lives, residential building where he does not live, administrative buildings, business premises, garages, apartments for leisure and recreation, buildings for leisure and recreation and other facilities) for which the tax return is submitted, and the number of attachments if several types of the same real estate are declared.
- In Part 3, Data on Movable Assets, the taxpayer writes all data on each separate type of real estate, trade mark/type, engine number, number of chassis, engine volume, year of production and the value.

If several taxable items are declared, the tax return is accompanied with an attachment separately for each piece of real estate. If the property is owned by one person, only his/her data should be written. If the property is owned by several persons, data on all owners should be written and their share indicated.

The tax return attachment contains a part, **classification of tax return**, where the purpose is indicated, depending on whether a property is declared, data has changed or previously declared property is deregistered.

In the part **legal grounds**, the taxpayer should indicate the grounds for acquiring property and the

document showing the property has been acquired, as well as data indicating any change of value of property and ownership.

In the part **type and address of property**, the taxpayer should indicate separately the type of real estate and address where the real estate is located.

In the part **elements for assessing the value of property**, the taxpayer should indicate separately the elements for assessing the value of construction facilities, and regarding the courtyards the area is indicated in square meters, as follows:

- **area**, expressed in square meters or hectares;
- **age of the facility**, year of construction or year of last reconstruction;
- **construction type**, building made of baked bricks, shack, prefabricated building (wooden, tinplate), building made of mixed material, building made of hard material etc.;
- **installations**, water supply pipeline: water supply network, well – hydro-transformer, sewerage: sewerage network, septic tank, electric installation, gas installation, heating: central heating or other type of heating, telephone installation, sanitary facilities: inside the facility or outside the facility;
- **data on the location of the facility**, type, individual residential building or collective residential building, business facility or trading facility (hall, warehouse), number of floors, ground floor plus number of floors plus attic, elevator, the floor where the residential or business premises are located, basement, mezzanine, orientation of premises: towards the outside of the facility or towards the inside of the facility, towards the main street or far from the main street.

At the end of the attachment the declared value is indicated as the taxpayer declares it. On the basis of that value, the public revenue body should determine the property tax. However, if the body considers the value to be unrealistically reported, it shall compare it to the value of a similar facility or send onsite teams to determine the accuracy of the aforementioned elements on the spot.

We should emphasize that the new law envisaged keeping the form and contents of the tax policy without entering data on the value reported by the taxpayer, since that will be a task of the commissions for determining the market value of the property.

1.7 Complaint Procedure

Pursuant to the Constitution of the Republic of Macedonia, one of the basic principles is the guarantee of civil and political freedoms and rights, thus guaranteeing the right to complain against separate legal acts adopted by a first instance court, managing body or organization or other institutions having public authority.

To provide the constitutional principle of a two-instance procedure, the tax legislation provides a right for the unsatisfied party to lodge a complaint against the decision of the public revenue authority to the Ministry of Finance within 15 days from the day the decision was received.

The public revenue authority that adopted such decision is obliged to forward the complaint together with all accompanying acts to the Ministry of Finance within 15 days at the latest from the day the decision was received. The complaint does not delay the collection of the assessed tax.

Interest in the amount of 0.05% per day is paid on tax not paid within the stipulated deadline.

A decision on a complaint must be adopted and submitted to the concerned party within 60 days from the day the complaint was lodged.

This decision becomes effective in the administrative procedure, which means that there is no possibility to apply the regular legal instrument. The decision taken on the complaint is the only administrative dispute that can be initiated in front of the Supreme Court of the Republic of Macedonia.

To implement the decentralization of power, the new Law on Property Taxes will be adopted which provides that the assessment and collection of property tax, tax on inheritance and gift and tax on sales of real estate will be transferred from the public revenue authority to the municipal administration. The decision regarding these affairs will be adopted by the Municipal Mayor.

A complaint against a decision by the Mayor can be lodged within 15 days from the day the decision was received to the body competent for supervision of decisions of the Mayor adopted upon administrative affairs under the competence of the municipality.

The Law on Local Government contains a transitional solution which stipulates that until the law regulating supervision over the decisions by the Mayor adopted upon administrative affairs under competence of the municipality is adopted, the supervision will be done by the Commission for deciding second-instance administrative procedures for separate administrative areas in the Government of the Republic of Macedonia,

and the Ministry of Finance will decide upon the tax decisions.

The Republic of Macedonia has not yet adopted a law that regulates this issue in a unique manner. There are considerations and proposals to the Law on Courts to establish administrative courts that will decide upon complaints against decisions in this area or such courts to adopt second instance decisions in all administrative areas. If this is the case, the second instance commissions of the Government of the Republic of Macedonia will cease to exist.

For decisions in second instance administrative procedures, the Government establishes commissions for separate administrative fields in the area of: defense, internal affairs, judiciary, state administration, local government, religious matters, economy, trade, statistics, games of chance, securities, transport and communications, urbanism, civil engineering and urban planning, education, science, culture, archiving, sport and information, labor, social policy and health, agriculture, forestry, water economy and veterinary medicine, land survey, cadastre and registering the rights to real estate, ownership and legal affairs and award of urban land, pension and disability insurance, denationalization and labor relations.

1.8 Infringement Proceeding

Infringement is an illegal act whose features are set in the law. The Law on Infringement regulates the infringement proceeding and sets the conditions for infringement liability and announcement and enforcement of infringement sanctions. Both legal and physical persons can be liable for infringement only if specially determined in the law that envisages the infringement.

Infringement sanctions are contained both in the existing Law on Property Taxes and in the new one which is being adopted. The legal entity, responsible person at the legal entity and the taxpayer-physical person will be fined for infringement if they fail to submit the tax return for property tax by 31 January in the year for which the tax is assessed. The tax return for the inheritance and gift tax and the tax on sale of real estate must be submitted within 15 days from the day the tax liability was incurred.

The amount of the fine depends on the type of entities who perpetrated the infringement.

If during the enforced collection the taxpayer hinders the collection procedure and if the status of property left for safeguarding is changed, a request for initiating

an infringement proceeding will be submitted and the perpetrator will be relevantly punished.

The responsible person will be sanctioned by a government body or court if he fails to submit a copy of the decision for inheritance to the municipal administration and fails to submit a copy of the approval to transfer the right of ownership within the certain deadline.

Fines for infringement are also envisaged for the responsible person in the municipal administration if he fails to apply the Methodology for assessing the market value of the real estate and if he fails to adopt a decision for the amount of property tax within the stipulated deadline.

To collect tax debts, the Mayor may adopt a decision prohibiting the tax debtor to use funds from their accounts, personal earnings and may order the bearer of payment operations, to collect from the debtor of the tax debtor, i.e. to the employer of the tax debtor to pay the funds for the account of the tax debt.

If the bearer of payment operations, the debtor of the tax debtor or the employer of the tax debtor fail to adhere to the order, the collection will be performed via enforced procedure at the expense of their funds.

If the bearer of payment operations fails to act in accordance with the order of the Mayor, it will be sanctioned for infringement and the responsible person at the bearer of payment operations is subject to both fine and imprisonment of 30 to 90 days.

1.9 Other Procedures

The law regulates other procedures, such as the following:

- Procedure and manner of securing the payment of tax arrears, i.e. tax liability when the taxpayer submits a request to postpone the execution of the decision, i.e. a request for payment of the tax liabilities in installments. The Mayor shall decide upon the request, whether the taxpayer should submit a bank guarantee, pay a cash deposit or provide another instrument for payment security.
- Procedure for refund of tax paid in excess or incorrectly paid tax.
- These procedures shall be initiated upon request by the taxpayers.
- Enforced collection procedure, implemented by the municipal administration as a measure for collecting its claims by enforcement in all cases when

the taxpayer failed to pay the tax, the fines and the interest within a determined deadline.

- Before commencing enforced collection, the municipal administration is obliged to submit a written warning to the taxpayer, and then notification of enforced collection, indicating the total liability, the

manner of execution and a notice that the costs of the procedure will be borne by the taxpayer.

All these procedures are envisaged in the new law as well, and their implementation will be a responsibility of the municipal administration.

2. Realized Revenues from the Property Tax in the Last 4 Years

Assessment and collection of movable and unmovable property tax for the years 1999 and 2000

in (000) denars

Number	Regional PRO	1999			2000		
		Assessed tax	Collected tax	%	Assessed tax	Collected tax	%
1	2	3	4	5	6	7	8
1	SKOPJE	134.509	48.709	36,21	118.154	55.449	46,93
2	BITOLA	23.917	22.248	93,02	24.659	18.966	76,91
3	Resen	4.161	3.766	90,51	4.228	4.741	112,13
4	D.Hisar				709	631	89,00
5	Ohrid	14.443	13.570	93,96	15.350	11.161	72,71
6	Struga	7.320	4.705	64,28	7.613	5.983	78,59
	Total	49.841	44.289	88,86	52.559	41.482	78,92
7	PRILEP	7.382	6.644	90,00	7.404	5.499	74,27
8	Veles	5.302	3.413	64,37	5.401	4.499	83,30
9	Kavadarci	5.081	4.083	80,36	4.915	3.773	76,77
10	Krusevo	1.211	977	80,68	1.220	898	73,61
11	M.Brod	851	629	73,91	853	893	104,69
12	Negotino	2.356	2.036	86,42	2.368	1.696	71,62
	Total	22.183	17.782	80,16	22.161	17.258	77,88
13	STRUMICA	8.977	7.476	83,28	9.058	6.381	70,45
14	Berovo	1.713	1.322	77,17	1.705	1.312	76,95
15	Valandovo	1.001	944	94,31	1.009	735	72,84
16	Gevgelija	4.467	4.302	96,31	4.537	2.561	56,45
17	Radovis	2.393	1.553	64,90	2.663	1.222	45,89
	Total	18.551	15.597	84,08	18.972	12.211	64,36
18	TETOVO	20.135	11.167	55,46	19.125	10.363	54,19
19	Gostivar	12.376	7.827	63,24	12.581	8.490	67,48
20	Debar	1.387	596	42,97	1.525	637	41,77
21	Kicevo	5.925	3.014	50,87	5.908	3.299	55,84
	Total	39.823	22.604	56,76	39.139	22.789	58,23
22	STIP	7.776	4.856	62,45	7.955	4.243	53,34
23	Vinica	1.206	986	81,76	1.451	1.146	78,98
24	Delcevo	4.042	1.919	47,48	2.067	1.081	52,30
25	Kocani	4.641	2.761	59,49	4.858	2.693	55,43
26	Kratovo	1.063	806	75,82	1.059	806	76,11
27	K.Palanka	1.779	1.189	66,84	1.786	1.226	68,65
28	Kumanovo	11.003	9.772	88,81	11.466	8.706	75,93
29	Probistip	1.861	1.838	98,76	2.003	1.436	71,69
30	Sv.Nikole	2.040	1.724	84,51	1.778	1.970	110,80
	Total	35.411	25.851	73,00	34.423	23.307	67,71
	Total in RM	300.318	174.832	58,22	285.408	172.496	60,44

Assessment and collection of property tax by decisions of the PRO for the year 2001
in (000) denars

Number	Regional PRO	Number of decisions			Amount		
		Prepared	Distributed	%	Assessed tax	Collected tax	%
	2	3	4	5	6	7	8
1	SKOPJE	135.785	135.212	99,58	109.001	55.066	50,52
2	BITOLA	35.009	28.213	80,59	23.897	16.075	67,27
3	Resen	6.948	6.471	93,13	4.476	3.847	85,95
4	D.Hisar	2.910	2.857	98,18	720	412	57,22
5	Ohrid	19.094	19.094	100,00	14.616	9.655	66,06
6	Struga	11.356	9.365	82,47	7.263	3.059	42,12
	Total	75.317	66.000	87,63	50.972	33.048	64,84
7	PRILEP	21.727	21.727	100,00	7.559	4.400	58,21
8	Veles	17.159	16.656	97,07	5.339	3.592	67,28
9	Kavadarci	10.065	10.035	99,70	4.884	3.149	64,48
10	Krusevo	2.533	2.516	99,33	1.199	89	7,42
11	M.Brod	2.480	2.480	100,00	851	640	75,21
12	Negotino	5.377	5.282	98,23	2.392	1.462	61,12
	Total	59.341	58.696	98,91	22.224	13.332	59,99
13	STRUMICA	18.812	15.992	85,01	9.500	5.076	53,43
14	Berovo	3.626	3.626	100,00	1.709	1.314	76,89
15	Valandovo	3.598	3.598	100,00	1.024	761	74,32
16	Gevgelija	8.622	8.622	100,00	4.403	2.960	67,23
17	Radovis	6.545	6.321	96,58	2.765	1.521	55,01
	Total	41.203	38.159	92,61	19.401	11.632	59,96
18	TETOVO	28.090	28.090	100,00	23.199	6.384	27,52
19	Gostivar	15.180	15.180	100,00	13.154	4.821	36,65
20	Debar	3.937	3.937	100,00	1.543	470	30,46
21	Kicevo	9.955	9.955	100,00	5.926	2.040	34,42
	Total	57.162	57.162	100,00	43.822	13.715	31,30
22	STIP	13.684	12.933	94,51	7.623	3.479	45,64
23	Vinica	3.896	3.896	100,00	1.416	1.177	83,12
24	Delcevo	3.985	3.985	100,00	2.184	1.423	65,16
25	Kocani	12.464	12.464	100,00	5.050	2.435	48,22
26	Kratovo	2.652	2.652	100,00	1.092	762	69,78
27	K.Palanka	5.557	5.333	95,97	1.728	966	55,90
28	Kumanovo	28.785	19.146	66,51	11.356	7.589	66,83
29	Probitip	4.704	4.628	98,38	2.127	1.348	63,38
30	Sv.Nikole	6.580	6.580	100,00	2.168	1.338	61,72
	Total	82.307	71.617	87,01	34.744	20.517	59,05
	Total in RM	451.115	426.846	94,62	280.164	147.310	52,58

Assessment and collection of property tax for the year 2002
in (000) denars

Number	Regional PRO	Assessed tax	Collected tax	%
	2	3	4	5
1	SKOPJE	115.845	51.689	44,62
2	BITOLA	25.952	17.409	67,08
3	Resen	4.386	3.131	71,39
4	D.Hisar	662	410	61,93
5	Ohrid	15.235	11.403	74,85
6	Struga	7.909	3.293	41,64
	Total	54.144	35.646	65,84
7	PRILEP	7.536	5.332	70,75
8	Veles	5.491	3.295	60,01
9	Kavadarci	4.863	3.148	64,73
10	Krusevo	1.199	784	65,39
11	M.Brod	906	427	47,13
12	Negotino	2.264	1.348	59,54
	Total	22.259	14.334	64,40
13	STRUMICA	9.541	4.570	47,90
14	Berovo	1.694	996	58,80
15	Valandovo	1.026	809	78,85
16	Gevgelija	4.347	1.678	38,60
17	Radovis	3.060	1.460	47,71
	Total	19.668	9.513	48,37
18	TETOVO	23.743	7.567	31,87
19	Gostivar	13.059	6.449	49,38
20	Debar	1.584	371	23,42
21	Kicevo	5.912	3.010	50,91
	Total	44.298	17.397	39,27
22	STIP	7.708	3.855	50,01
23	Vinica	1.386	708	51,08
24	Delcevo	2.120	1.395	65,80
25	Kocani	5.560	2.210	39,75
26	Kratovo	1.003	691	68,89
27	K.Palanka	1.727	1.132	65,55
28	Kumanovo	11.845	7.769	65,59
29	Probistip	1.986	1.062	53,47
30	Sv.Nikole	2.240	450	20,09
	Total	35.575	19.272	54,17
	Total in RM	291.789	147.851	50,67

3. Pilot Project for Collection of the Property Tax and the Land Fees

If one analyzes the tables for realized revenues from the property tax in the period 1999-2003, it will be immediately noticed that the realization level is low, i.e. in 1999, it was 58%, in 2000 - 60%, in 2001 – 52% and in 2002 – 50%. Such low rates of realization are mainly ascribed to the PRO which does not undertake additional measures to improve collection, since it assigns its personnel for collection of the other taxes bringing higher profit, primarily VAT, excises, profit tax and the personal income tax.

It is planned for the realization of the revenues from the property tax to be 100% with the process of decentralization, i.e. by devolution of the administration of the property tax to the local government, to come into force on 1 January 2005.

Taking into account the pending decentralization process at the end of 2003, the Ministry of Finance concluded a Memorandum of Cooperation with four pilot municipalities to prepare the local government to assume the competencies of financing the local government.

The purpose of the Memorandum of Cooperation was to introduce a project via which the pilot municipalities would be able to collect the revenues, as a delegated competence pursuant to the Local Government Law, on the basis of the property taxes and land fees as genuine revenue following adoption of the Law on Local Financing.

- Broadening the scope of taxpayers, updating data and increasing the efficiency when collecting the property taxes and land fees in the pilot municipalities
- Determining the existing capacity and estimating the future needs of the municipalities for administering the revenues and defining the necessary measures for their preparation to assume the obligations that will arise from the fiscal decentralization.

Pilot municipalities have been authorized by the Memorandum of Cooperation to assess and collect the property taxes and land fees pursuant to the existing Law on Property Taxes and the Law on Land Fees. The municipal administration, rather than the tax authority, will be the competent body, and the municipal mayor will reach the decision on tax due. The Memorandum of Cooperation also prescribes the obligation of the competent state bodies and institutions to: 1) provide data for the real estate cadastre, 2) issue construction

licenses and records on motor vehicles subject to taxation and 3) provide data on the registration of taxpayers to update the records necessary for actual assessment and collection of the property taxes and land fees from the taxpayers.

The Memorandum allows temporary transfer of the employees from the PRO regional office in the administration of the respective municipality, being fully responsible to the Mayor for the performance of the works.

The four pilot municipalities (Gostivar, Veles, St. Nikole and Struga), when implementing this project, have encountered major problems with respect to the access to the database of the Ministry of Internal Affairs for registration of motor vehicles subject to taxation, as well as to the database of the State Geodetic Office, i.e. to the cadastre data.

When talking about the cadastre data, it is worth mentioning the cadastres in the Republic of Macedonia.

3.1 Land cadastre

There are two different types of keeping records about real estate, i.e. cadastres used for the purposes of taxation in the Republic of Macedonia, the land cadastre (old) and the real estate cadastre (new). The two cadastres fall under the competencies of the State Geodetic Office. The old cadastre is gradually being replaced along with the completion of the new one.

The old cadastre contains records on the ownership of property, land surveys and the base of the buildings. In some cases, the old cadastre also contains data on the life of the buildings. The old cadastre was established in 1940, while in some regions, it was established even earlier. A land survey was made in 1954 to update the cadastre in some regions, while an air survey in 1960 and 1979 was for the purpose of further updating.

The records on ownership in the old cadastre are not reliable evidence for the ownership of the property rights, and the records on a lot of real estate are incomplete. This is a result of poor records over the course of many years, coupled with the heirs not recording the ownership of inherited property. The problem of returning state-owned land to former owners also complicates the ownership rights in the old cadastre.

The old cadastre has no records on illegal buildings erected without building licenses and without technical documentation, including the license to use the building. However, some owners submit the necessary documents and obtain the required licenses, and the building is

afterwards recorded in the old cadastre. The remaining owners submit tax returns for the property tax, pay the property taxes and request registration of their illegal buildings in the old cadastre. However, such requests are rejected.

The new cadastre is based on a complete re-surveying of the real estate, both of the land and the buildings. The new cadastre contains information on the life of the buildings, the construction material, the number of floors and size of the flats, number of rooms and purpose of each room in each flat, and the size of the buildings. The new cadastre is a reliable record for registering the rights to real estate, including certain liabilities arising from the property, such as mortgages. Title deeds can be issued on the basis of the new cadastre.

The new cadastre also contains detailed information on illegal buildings, but the user cannot be issued title deeds for that property until the appropriate licenses and technical documentation are approved by the Ministry of Transport and Communications.

3.2 Fiscal cadastre

Evaluation is a process of supplementing the information on the land cadastre for each property and taxpayer, and it is often called the evaluation or assessment cadastre.

In fact, the fiscal cadastre is a book of special information, a supplement to the land cadastre for the needs of the property tax. The additional information usually includes specific details on the property such as area, value, its purpose and information on the taxpayer, including the right to exemptions or tax relief. The fiscal cadastre defines the tax base and is used for preparing the list of property tax liabilities for tax calculation. However, as we have already stated, the fiscal cadastre needs to be updated on the basis of the data in the land cadastre. Unfortunately, this process in the Republic of Macedonia is being implemented slowly. Although there is data exchange between the land cadastre and the PRO, the fiscal cadastre cannot be described as a book based on the data in the land cadastre. Such a relation between the two cadastres will only be possible in the regions where the new cadastre is completed.

The fiscal cadastre maintained by the PRO serves as a list of assessed value and other related property and information on the taxpayers, and it is also used as a list of tax liabilities, paid taxes and tax arrears and penalties.

Most of the information contained in the fiscal cadastre is contained in the tax returns by the taxpayers due to the inability to carry out a cross check of most of the

data from the other databases, such as the land cadastre or the Ministry of Internal Affairs database. The PRO lacks sufficient resources to carry out onsite controls of the property to verify the information provided by the taxpayer or to detect that certain property was omitted from the fiscal cadastre.

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We hope all the defects we have mentioned with respect to the fiscal cadastre and the land survey will be overcome with the decentralization process, whereby we are confident that the local government will pay due attention when updating the records on real estate based on the land cadastre and the real estate cadastre; and updating the records on movables from the Ministry of Internal Affairs data. To achieve a more effective administration through decentralization of the determination and collection of taxes that will be one of the revenue sources, it is necessary for the local government: to have more resources and training for the assessment and updating commissions; timely printing and submission of the tax calculations and monitoring of taxpayers; as well as a campaign for informing the public. All of this will represent a huge obligation for the local government, but in any case should not be forgotten that with help of the DAI, a number of workshops on different topics are envisaged which will contribute to a more successful decentralization.

