DIAGNOSTIC STUDY OF PROPERTY TAX

IN THE OCCUPIED PALESTINIAN TERRIOTRY (OPT)

Funded By:
The Government of Japan (GoJ)

Implemented By:
The United Nations Development Programme / Programme of Assistance to the Palestinian People (UNDP/PAPP)

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Background

The property tax legal frame in the occupied Palestinian territory (oPt) is inherent from the British Mandate on the oPt where it developed into Jordanian property tax No. 11 for 1954 law in the West Bank and Egyptian / British property tax law No. 5 for 1942 in the Gaza Strip. These laws remained valid after 1967 when Israel occupied the oPt and were kept by Israel without upgrading.

The Jordanian property tax law no. 11 for 1954 was designed to collect the property tax from within the municipal boundaries only. The property tax staff capacities and resources were designed to serve 30 municipalities that existed in the oPt prior to the establishment of the Palestinian Authority in 1994.

In 1994, and upon the establishment of the Palestinian Ministry of Local Government (MoLG), 483 local government units were created and the number of municipalities increased from 30 to 132 (107 in West Bank and 25 in Gaza Strip) which is more than four times the number of municipalities that the existing property tax staff capacities can serve. Moderate efforts were exerted to enhance and develop the property tax staff capacities in order to be able to meet the challenge of serving the increased number of municipalities in the oPt.

One of the major property tax operations is the valuation of properties, which includes lands and buildings in terms of its rent value in the market. The last valuation of properties in the oPt was carried out in 1986 only in 30 municipalities which existed at that time. Evidently, the value of the properties in the oPt rose significantly ever since.

In 2008, the property tax department at the Ministry of Finance put forward a well determined plan (2008-2011) to conduct the valuation of the properties in 132 municipalities in order to update its records of the properties values and to enable the collection of property tax for the first time in the ninety eight (98) municipalities that were created by the PA after its establishment. This will enable a genuine source of revenues for these municipalities for the first time.

In March 2008, upon receiving an official request from the Palestinian Prime Minister/Minister of Finance at that time, the UNDP Local Governance Support Programme (LGSP) with funding from the Government of Japan (GoJ), laid extensive efforts in assisting the Ministry of Finance to collect more property tax for local governments. Within this context, UNDP provided the Department of Property Tax at the Ministry of Finance with field vehicles, computers, trainings through its capacity development component, software, and recruited number of staff to conduct the properties valuation initiative. In addition, the LGSP conducted a comprehensive assessment of the property tax system and operations in order to provide widespread improvements to the property tax system in the oPt.

This property tax assessment report aims to identify policy recommendations to a) revise the law on property tax in the oPt; b) harmonize the approach driven in Gaza and the West Bank; c) identify the existing capacities of the property tax staff in the Ministry of Finance and the municipalities on property valuation, tax management and collection, and d) provide system analysis of five case studies of property tax systems in five countries and new scenarios for a new legal frame and property tax system in the oPt.

1. Executive Summary

The administration and collection of property tax is a comprehensive process and requires considerable efforts of various parties en route for success. It involves close cooperation amongst authorities in charge of the administration and collection of property taxes. These authorities include: the Ministry of Finance (MoF), the Ministry of Local Government (MoLG), Land Authority, municipalities, judiciary institutions, executive bodies and the local community via its representatives. Weakness or absence of such cooperation will have negative implications on the administration and collection of property tax.

There are 483 Local Government Units (LGUs) in the oPt out of which 132 municipalities are subject to property tax collection. The Department of Property Tax, in cooperation with local governments, conducted a valuation of properties in 2008 in 34 municipalities. The total estimation value of the valuation was around JD 50 million. This was a fivefold increase compared with the preceding property valuation, which was conducted in 1986.

In the West Bank, the total amount of property tax incurred in 2008 was nearly JD 13 million of which around JD 11 million were collected with a collection rate 85%. However, this amount also includes the collection of tax liabilities covering the past ten years. These taxes were collected by the Ministry of Finance from within the boundaries of 26 municipalities in the West Bank while the total amount did not exceed JD 1 million for 25 municipalities in the Gaza Stip.

According to the existing property tax Jordanian law number 11 for 1954, the MoF deducts 10% of the collected amounts as administrative fees. According to its budget of 2008, the operational costs of the Department of Property Tax was less than 10% of the total amount being deducted from the collected property tax in the same year, hence, the excess amount could be utilized to promote the capabilities of the department through the purchase of equipment, software programmes, and conducting capacity development programmes based on the actual needs of the department and its employees, instead it is being used to cover the arrears of electricity and water on local governments.

The Department of Property Tax has 128 officially registered employees in addition to employees commissioned by LGUs which pay their salaries. There are 12 property tax offices throughout the West Bank in addition to the Department of Property Tax within the Ministry of Finance as well as the Gaza Strip office.

This study offers several recommendations and observations aimed at achieving a modern administration structure based on developed principles for the administration and collection of property tax in the oPt. In view of that, the following suggestions should be taken into consideration:

First: The Legal Framework

The section related to the legal framework in this study recognizes that Jordanian Law No. 11 of 1954 - stipulating the tax law for land and buildings within the jurisdictions of municipalities and local governments, and its amendments specifically provisional Law No. 9 of 1967 and amending law No. 11 of 1954 - is the law in force in the West Bank. This law grants authority to the Ministry of Finance to collect taxes on behalf of municipalities only and not from within the boundaries of the remaining 251 village councils and smaller clusters. These laws were inherited from the Jordanian regime. In the Gaza Strip the laws governing property tax were inherited from the British Mandate / Egyptian and remain in force. The laws in the Gaza Strip include the Property Tax Law in Cities No. 42 of 1940 and the Property Tax Law in Villages, No. 5 of 1942. They address the mechanisms of valuation and collection of property taxes in the Gaza Strip, and whose provisions have been amended in accordance with Israeli military orders, specifically Military Order No. 675 of 1980.

Based on the aforementioned, the legal framework governing property tax in the oPt (West Bank and Gaza Strip) should be reviewed and incorporated into one law that should reflect international standards. Some examples of different systems of property tax in selected countries are included in this study. The revised new property tax law should allow collecting and consenting property tax operations in all local governments, i.e. municipalities, village councils, project committees, and properties outside the boundaries of these units.

The legal review of the property tax law should not be in isolation of the remaining laws related to the various types of taxes as well as the law of local government number one for 1997 in the West Bank and Gaza Strip. This would exert efforts to unify a package of laws governing the legislative process for local governance in the oPt.

The property tax experiences of select neighboring and international countries have been addressed in this study. Countries were reviewed in the context of their approach to property taxes in terms of the unification of taxes in general or establishing standards of valuation based on specific equations and principles.

Second: The Financial Framework

A reconsideration of the tax system in general, and the sources of income of LGUs in particular, are necessary due to the financial aspects of property tax. Aspects of property tax include: its value and how it is calculated; its reliance on valuation, terms of this valuation and the consequent inaccuracy and lack of clarity in these terms; the relationship between the property tax and other taxes levied on citizens and the value of the actual contribution of property taxes to the budget of LGUs, as opposed to other sources of income. This review is particularly important for equitable distribution of services for citizens and increasing the sources of income of LGUs to carry out the required tasks in serving the citizens as mandated. It is also necessary to identify expenditure facets and deploying taxes in the development processes, carrying out projects, and providing high quality services corresponding to the aspirations of the Palestinian citizens.

The existing property tax legal frames in the West Bank and Gaza, Jordanian and Egyptian respectively, have not been amended or upgraded since 1967, while in Jordan and Egypt the legal frames were amended after 1967 to reduce the rates of property tax for real estate from 17% to 10%. In the oPt, it is apparent that the percentage of 17% needs to be reviewed and scrutinized to achieve fairness on the basis of overall per capita income and unemployment level in the country. Meanwhile, subjecting private houses to property tax contradicts with the considerations of social justice set forth in the constitution, which stipulates the limited exemptions that the law does not take into account such as the elderly, those with special needs, widows, families of martyrs, wounded, prisoners, and other marginalized groups that require protection and support.

Third: The Current Relationship between Municipalities and the General Administration of Property Tax

It is apparent that the role of LGUs in the administration and collection of property tax protected by the enacted laws provides these units with a significant capacity to cooperate with the Property Tax Department in relation to valuation, providing updated physical plans, property tax collection, and updated information on new buildings within the municipal boundaries which is vital for the property tax operations, especially the property valuation. Yet, in practical terms, this rarely happens. The participation of LGUs in the valuation and collection of property tax is limited. Combined efforts by the staff of the Department of Property Tax and LGUs is a major source of success of the valuation and other mentioned operations to ensure fairness, objectivity, and cooperation in tax collection. These efforts should also ensure transparency in the transfer of receivables through providing the municipality with reports and disclosure of the special accounts in relation to the property tax.

Furthermore, groundwork should be recognized to maintain an explicit legalized relationship that is well defined in the property tax legal frame between the central authority represented by the Ministry of Finance, the Ministry of Local Government and the LGUs that allows a better degree of decentralization through allowing LGUs to play an efficient role in managing the property tax operations.

The LGUs are responsible for the lack of following up their legal rights in the valuation process, which allows LGUs to participate in the valuation committee. Moreover, they are not fully pursuing their role in encouraging the citizens to pay their due taxes through requesting a clearance form issued by the Department of Property Tax to follow up any transaction involving property and real estate. Moreover, LGUs need to be aware of the importance of their role in the valuation process and nominating qualified persons from municipal councils and representatives of taxpayers as important members in the valuation committees.

At the same time, the General Directorate of the Department of Property Tax is requested to exchange detailed reports and disclose information to all municipalities with respect to collected tax amounts and the results of the valuations. In addition, the General Directorate of the Property Tax has not been exerting efforts towards raising the awareness of municipal councils and municipal employees on the importance of paying taxes and cooperating for the benefit of the LGUs.

Forth: Capacity Development (Department of Property Tax)

It is apparent from this study that there is a need for capacity development in the Department of Property Tax to strengthen performance and improve capacity in the valuation and collection processes. This includes, but is not limited to, meeting the infrastructure requirements of individuals through provision of equipment and computerized systems to improve their performance. It is recommended to design an integrated programme that would increase the capacity of human resources and provide a specialized cadre qualified to assume responsibility of all sections in the General Directorate of Property Tax and its district offices in the governorates. Material needs are also essential and include vehicles, offices, modernized equipment, and data software. All of this aim to expedite procedures and increase effectiveness and computerization through the use of networks and the internet. These tools would be useful for inquiries and for citizens and expatriates to pay their due taxes online.

The standards used for valuation rely on extremely broad components, which render the general process and often inaccurate. These components need to be reviewed in a way where specific, digital equivalency and standards are derived to be used in determining the valuation on the basis of a clear mathematical equation. A model, attached in annexes for valuation equations, has been developed for the purpose.

Fifth: Capacity-Development (municipalities)

Municipalities require capacity development in the areas of tax administration and the collection of taxes and fees. It is apparent that the capacities vary from one municipality to another, and the same applies to the collection of fees, taxes, licenses and rent revenues. Some municipalities have been able to collect large sums of local assigned fees and taxes that may exceed the amount collected from the property tax. However, these are limited cases and cannot be relied on as a basis for all municipalities. Still, it would be beneficial to take advantage of these cases and circulate them among other municipalities. It is important to note that the municipalities have different classifications, such as A, B, C, D, and these classifications reflect the different capacities of LGUs in terms of budget, expertise, population, financial resources, and the number of departments and employees. These classifications should be taken into account when discussing issues related to municipalities in general.

In order to identify the actual needs of the municipalities, it is recommended to raise the awareness of LGUs pertaining to tax collection and valuation as well as to tax and fees administration. These are currently within the jurisdiction and authority of the municipalities. Such step would enable them to better manage the property tax and its collection in the event of any transfer of authorities to the municipalities in this field.

One of the unique models in this regard is Doura Municipality, which, until today and along with the Department of Property Tax, collects the property tax. This is an exceptional case in the West Bank, which is a result of special circumstances that took place since 2005.

Sixth: Transfer of property tax to the municipalities

The possible options for the administration and collection of property tax should not be confined to the two choices of either maintaining this task in the Ministry of Finance or transferring it to the LGUs. Each of these options has advantages and disadvantages and requires the study of models in other countries that may be more effective and appropriate for the administration of this type of taxation. These models deal with the topic of taxation policy and reform in general as one issue and with reviewing each tax individually. Additionally, there is a connection between this issue and the vision of the legislators in respect to the role and authority of LGUs in development and the relationship of such endeavors with local financial sources and ways of investing these funds in infrastructure and service projects.

The option of transferring the property tax to LGUs for the time being is definitely not an easy process nor will it necessarily lead to its development. This is due to the Lack of performance of municipalities, which, in general, is not successful in the area of financial administration, though some are capable of carrying out this task. Hence, there is a need for these units to develop their capabilities in many areas. Conversely, the current legal framework prevents the transfer of the property tax to municipalities. This framework is very outdated with discrepancies between the West Bank and Gaza.

It is recommended to carry out a thorough review of the legal frameworks governing the property tax in other developed countries, such as valuation, tax rates, methods of tax collections, etc... in order to choose the best model for a legislative policy for the property tax in the oPt. This would be followed by the formulation of a new legal framework for the administration and collection of property tax, which ensures justice and comprehensiveness in the valuation process, efficiency in collection and integrity in the use and disbursement of funds generated from this tax.

Until the achievement of a new, advanced, and unified legal framework for the administration and collection of property tax, with or without amendments to other taxes, the following actions are recommended in this transitional phase:

1) Implementation of valuations in all municipalities, especially new ones formed since the establishment of the Palestinian Authority in the West Bank and Gaza Strip. This occurs in preparation for the collection of property tax, which will ensure a new source of income for these municipalities.
2) Revitalize and apply an active role for municipalities to valuate and collect property tax as they are acquainted with the properties located within their borders.
3) Ensure an explicit, honest, and transparent mechanism for the transfer of funds collected by the Ministry of Finance from the Department of Property Tax to the municipalities. This can be achieved through the creation of mechanisms for financial reports prepared by the Ministry of Finance whereby a copy of these reports is provided to the Ministry of Local Government and Municipalities on a regular basis.
4) Develop the capacity of Property Tax staff in district offices and municipalities in the aspects mentioned in the section on capacity building of this study in order to ensure effective cooperation in the valuation and collection of property tax. In addition, to ensure the capacity development of selected municipalities to be part of the transfer of authority as a pilot test for judging its capabilities to manage and collect property tax.
5) The Department of Property Tax currently carries out transactions other than the valuation and collection of property taxes, such as the issuance of certificates of land registration entries and records keeping of land ownership and other tasks. Therefore, the tasks and matters previously discussed to be transferred to the municipalities should be reviewed to ensure efficiency and integrity. For example, are municipalities eligible to issue certificates of land ownership proof? In all cases, these arise within the jurisdictions of government departments and should remain within these departments, even if the collection of property taxes is transferred to LGUs.

Seventh: Property Tax and Non-Municipal Bodies

Under the supervision of the Palestinian Authority Office of the President, a study on local administration was prepared presenting models and scenarios for proposed regulations for the administration of local affairs, including inside and outside the boundaries of LGUs. It is well understood that the property tax should be collected from outside the boundaries of LGUs as well. Therefore, it is recommended that a new framework be formulated to establish a relationship between the property tax in terms of administration, collection, and facets of expenditure, to regulate the relationship between the LGUs on one hand and between the central authority and administrative rulers or the governors, on the other.

Eighth: Property Tax and the Municipal Development and Lending Fund

The Municipal Development and Lending Fund exists to serve the LGUs in several aspects, and for the importance of identifying long-term sources of funding. For this fund to ensure sustainability and continuity, the relationship should necessarily develop between the Department of Property Tax and the Fund as well as all the LGUs (not just municipalities). The Fund should also be reviewed in order to identify sources of revenue for the Fund, which will supposedly lend money to municipalities in the coming years.

Ninth: Identification of Roles

There is a need to identify the main characteristics of the LGU system in the oPt due to the major impact in determining the roles of all players and the level of financial decentralization or centralization that will evolve, of which the property tax will necessarily be part. Without a clear idea of how to deal with domestic issues in terms of the degree of the administrative and financial decentralization permitted, it will be difficult to determine how to manage local affairs. This will also allow room for personal speculation by officials who deal with local affairs at all levels.

Incontrovertible, the property tax and its collection is a major source of income for LGUs, which necessitates methodical objectivity and accuracy when deciding how will it be administered and collected. Indeed, regardless of the method selected, what should be considered is whether this method will be fair to the taxpayers and will it increase its own revenues, such a method would increase the income of all LGUs in the oPt who face financial crisis in administering their affairs and mandated duties.

Tenth: A Study Tour

A brief survey was conducted in five countries, Chile, Poland, Egypt, Jordan and Lebanon, to explore and identify different property tax regulations and to propose a study tour to one selected country to benefit from its experience in this field.

If the general attitude is toward adopting a decentralized system, then a visit to Poland should be considered, owing to its decentralization policy for property tax. Otherwise, a study tour to Chile is recommended if the general outlook rests towards a centralized system, which is the current case in the oPt.

2. Introduction

A comprehensive diagnostic study of the local governance sector was completed in December 2004. This "Diagnostic Report", formed the basis for developing a detailed "Reform Action Plan for the Palestinian Local Governance System" in 2005, which was endorsed by the Ministry of Local Government and approved by the Palestinian Authority Cabinet in May 2005. This action plan developed four strategic objectives and recommended thirteen (13) separate projects of reform accordingly. One of these projects was to maximize options for increasing local revenues to help (LGUs) achieve sustainability.

The Diagnostic Report concluded that the transfer of property tax responsibilities to LGUs would be a good starting point in demonstrating the ability of LGUs to raise own-source revenues for purely local and operational expenditure needs.

Given the numerous legal, administrative and capacity-related obstacles involved in transferring the property tax collection authority to LGUs at this time, coupled with the necessity of increasing local revenues, the Prime Minister approved that it is more important to keep the authority of collecting property taxes with the Ministry of Finance (Department of Property Tax) in the meantime while improving the procedural methods of this department. Subsequently, the Prime Minister requested, via the Palestinian Authority Cabinet, to conduct an assessment to the property tax in the oPt through UNDP/PAPP.

The Office of the Prime Minister and UNDP agree to the fact that the property tax system can be more efficient and that revenues of this system can be increased in a short-term period.

Earlier studies, including the Action Plan, recommend that the collection of property tax should be transferred to the municipalities, which would then enable the increase in revenues and ultimately resolve the issue of Property Tax discussed here above. Nevertheless, prerequisites for such a transfer can be summarized in amending and unifying the existing legal frames for property tax and simultaneously developing the capacities of LGUs.

In order to achieve the desired objectives from this shift, and prior to any legal change in legislation, the process of transferring the authority of property tax should be first evaluated in a selected sample of municipalities. As a testing approach, the recommendations and assumptions on how to collect property taxes may differ from the original recommendations. The pilot phase will clarify the advantages and disadvantages in large, medium and small-sized municipalities.

The current task is complementary to the above mentioned analysis and focuses on the current situation in the MoF offices, which are accountable for collecting property taxes in the West Bank while in Gaza it is the responsibility of the MoF Property Tax office. The task at hand also focuses on the capabilities of the municipalities, their ability to bear the set responsibilities and collect taxes in the best possible manner.

UNDP contracted "New Vision Administration Consulting and Capacity Development Firm" to carry out a complementary diagnostic study of the property tax in the oPt. The aim of the study is to assess the legal aspects of the law and tax procedures governing the execution of the law and the adopted mechanisms in accordance with the issued laws and regulations. Also, to carry out an assessment of the capabilities and needs of property tax offices in various cities along with the capabilities of the targeted municipality in this study in order to determine the best methods and proposed scenarios to revitalize and increase property tax collection. Finally, to submit a summary of some global models in this field to rely on when recommending conducting study tours to some countries adopting these models and benefit from their experiences to develop and modernize mechanisms of valuation and tax collection vis-à-vis all aspects of property tax in the oPt.

3. Methodology:

The Contractor Firm, New Vision, formed a team of consultants in different areas of expertise to study all angles of the subject. The team included lawyers whose specialties are in laws and regulations, particularly Palestinian laws and legislation, in addition to consultants specialized in taxes, particularly in Palestinian taxes and those who have extensive experience in the field of financial and economic studies and research. The team also included consultants in administration, operational procedures, administrative regulations and survey research.

The working group reviewed the studies and research previously conducted concerning property tax in the oPt and neighboring countries, as well as some foreign countries in order to make a quick comparison between the philosophies of property tax in these countries, in addition to related studies.

A comprehensive review of laws in relation to property tax in the oPt was conducted, which included Jordanian laws, Israeli military orders, and Palestinian laws.

A review of all types of taxes in the oPt was conducted to determine the relationship between these taxes and the property tax in addition to the amount of financial resources collected from these levied taxes and other financial resources as well as their linkage to property tax.

An exclusive questionnaire was developed for municipalities to determine their ability to collect fees and taxes, and specifically their needs and inclinations in the short and long terms with regards to property tax collection.

An exclusive questionnaire was developed for central and branch property tax offices to determine the amounts to be collected from the property tax, and the ability of these offices to collect fees and taxes as well as to identify their needs in the short and long terms with regards to the property tax. The collected information was analyzed using the SPSS programme for data analysis. Field tours to sample branch offices and some municipalities were carried out to discuss with the concerned the study subject and the information being gathered by the research team.

Several meetings were held with the Director of the Property Tax Department and its staff to obtain relevant information and benefit from their expertise.

A series of meetings with representatives from the United Nations Development Programme (UNDP) were also held to discuss the study subject, work out the details of the action plan, and the progress in the draft study.

The study was divided into three major parts, including assessing the current situation, identifying the needs and capacities of municipalities and the property tax branch offices, and proposing a study tour to one of the five selected countries. The second part of the study covers the legal aspects while the third part deals with tax and economic aspects.

4. Evaluation of the tax, needs assessment, and the proposed study tour

The first part of the study is divided into three sub-categories:

a. Tax overall evaluation.
b. Identifying the needs and capabilities of municipalities and tax offices.
c. Summary of tax systems in five countries in addition to recommending a study tour.

4.1. Tax Overall Evaluation

There are a number of factors that influence the assessment of the property tax system in the oPt, which makes it a complex process given the interrelatedness of a group of factors, some of which are subjective and others are objective, which are beyond the will of the Department of Property Tax, the municipalities and even the taxpayers. The administration and collection of property tax is a multifaceted process and requires remarkable efforts of various parties to be accomplished. It requires close cooperation among the competent authorities in charge of the administration and collection of property tax such as the Ministry of Finance, the Ministry of Local Government, the Land Authority, municipalities, judiciary, executive bodies and the local community via its representatives. Definitely, any weakness or absence of such cooperation will have negative implications on the administration and collection of property tax.

The total amount of property tax incurred in 2008 was nearly JD 13 million of which JD 11 million were collected. However, this amount includes the collection of tax liabilities covering the foregoing years. Indeed, these taxes were collected via 26 municipalities in the West Bank while the total amount for Gaza Strip and its 25 municipalities did not exceed JD 1 million.

Around 90% of the total amount of collected property tax in the West Bank is returned back to the LGUs while the remaining 10% is deducted by the MoF as expenses and salaries of the Department of Property Tax employees and workers.

The Department of Property Tax offers a 20% discount on cash payments at the beginning of the year to encourage citizens to pay their accrued taxes, while under the Israeli military orders, the discount rate used to be only 10%, which was raised by the Palestinian Minister of Finance to become 20%.

This discount applies to all accumulative liabilities without discrimination either during the current year or from accumulative years. Consequently, citizens with liabilities will get a 20% discount if they pay in January, 15% if they pay in February, 10% in March, and 5% in April.

In the West Bank, the collection of property taxes, certificates of profession licenses, lie under the authority of the Property Tax Offices, while in the Gaza Strip, the LGUs are in charge of collecting these taxes. The Department of Property Tax collects the fees of certificates of profession licenses in the same manner as the collection of property taxes.

The Department of Property Tax, in cooperation with the local authorities, conducted a comprehensive valuation of properties in 2008 in 34 municipalities whereas the preceding comprehensive valuation was conducted in 1986. The total value of the valuation estimation was JD 50 million, i.e., fivefold increase compared with the previous estimation made in 1986.

The Local Government Units subject to property tax are the municipalities whose lands are legally settled and hold record certificates along with land cadastral and site maps within the boundaries of these municipalities. These lands form nearly 30% of the overall occupied Palestinian territory. The Department of Property Tax is directly responsible for the remaining 70% of unregistered land, in terms of the documentation of any changes to the ownership. Additionally, the department collects the fees of issuing profession certificates within the municipalities in the same manner applied for the collection of property tax.

The total number of registered taxpayers in the Department of Property Tax is approximately 850,000.

There are 107 municipalities in the West Bank, of which only 26 (22 old and 4 new) pay property tax. This amounts to 24% of all municipalities that pay the tax, keeping in mind that the total number of LGUs and municipalities in the occupied Palestinian territory is 483, of which only 5% (26 LGUs) pay property tax.

The study concluded that the municipalities' capabilities to collect the assigned local taxes and fees are limited, particularly municipalities classified as 'B, C, and D'. Municipalities classified as 'A', whose capacities and resources are extensive compared to smaller municipalities, were excluded. Those classified as 'B, C, and D' have limited tax collection capabilities due to their size and the availability of considerably limited technical and financial capabilities.

The Department of Property Tax is preparing a document called "the historical document" stating the number of taxpayers, apartments and buildings, which will be published and made available to all competent parties as a sort of public relations bid by the Department of Property Tax with LGUs and partner institutions.

Based on the budget of 2008, the operational costs of the Department of Property Tax was less than 10% of the total amount being deducted from the collected property tax. Hence, the excess amount could be utilized to promote the capabilities of the department through the purchase of apparatus, equipment, software programmes, and conducting capacity development programmes based on the actual needs of the department and its employees, instead it goes to support the Palestinian Authority's running budget.

The Department of Property Tax has 128 officially registered employees in addition to employees commissioned by LGUs who pay their salaries. Property tax offices are distributed throughout the oPt where 12 property tax offices are distributed all over the West Bank in addition to the department general administration offices in the Ministry of Finance and Gaza Strip office headquarters.

Tax offices usually send detailed reports to municipalities to update them on additions pertaining to buildings and construction records as well as the amount collected during the present or past years. The reports also include information and clarifications on any discounts granted for previous debts, etc.

In return, LGUs must update the records of buildings and apartments in the Department of Property Tax, by sending notifications, specifically the Engineering Departments in municipalities, on new constructions or buildings that obtained licenses or buildings that were recently linked to water/electricity networks, so that the Department of Property Tax can add and valuate them in their records. The role of municipalities in the valuation committees is an essential and decisive role.

Valuation committees consist of one of the members or a representative of the municipal council, a representative of taxpaying citizens nominated by the municipal council, and one property tax office employee. The municipal council or the LGU should selects its own qualified representatives and taxpayers for the valuation and arbitration committee who have experience, knowledge, and the ability to deal with all citizens with transparency and equality.

The municipality and the Department of Property Tax should work together to minimize the load on the citizens, to facilitate the provision of services, and provide the information using up-to-date technology which optimizes time, accelerates execution and minimizes mistakes where possible. The role of LGUs pertaining to property tax is one of a recipient vis-à-vis collections from the Department of Property Tax. Hence, this role should be rectified to become a partnership with the Department of Property Tax and where LGUs support the Department by distributing payment notifications to taxpayers via its offices, messengers or tax collectors. It should be clarified that this refers to the distribution of payment notifications to inform citizens of their due taxes and not the process of tax collection. Furthermore, municipalities should tie municipal clearance forms with that of the Department of Property Tax. LGUs are to assure that no citizen is granted a clearance form unless they pay their due property taxes.

The level of coordination and collaboration between municipalities and property tax district offices is currently extremely limited and needs to be improved through the exchange of relevant information between both parties. All information available to the district offices should presumably be available to municipalities and should be updated regularly.

The Department of Property Tax should also directly coordinate with the Land Authority and the Notary Public to ensure that no selling/buying of properties take place unless a clearance form issued by the Department of Property Tax is obtained.

Proposed scenarios for property tax can be summed up as follows:

<u>Scenario One:</u>

The legal status quo remains in place with a restoration of the partnership between municipalities and the Department of Property Tax. The current law grants municipalities a large role and involvement in decision-making as long as this role is properly executed. This scenario requires a huge degree of coordination and collaboration between both parties including sharing necessary information as well as encouraging citizens to pay their tax liabilities and raising their awareness to the importance of paying their taxes in order to enable municipalities to implement new service projects in their area.

<u>Scenario Two:</u>

This scenario proposes the amendment of the existing legal frame in a way that gives municipalities the authority to valuate and collect property taxes. This requires new legislation and appointing new and qualified employees since most municipalities lack qualified, well-trained and specialized staff, particularly in the areas of valuation, financing and accounting and collection. Nevertheless, most employees in the Department of Property Tax would remain in their positions to carry out other tasks related to lands, issuance of land registrations entries, transfer of ownership, etc.

Scenario Three:
This scenario proposes the amendment of the existing legal frame in a way that gives municipalities the authority to valuate and collect property taxes. This requires new legislation and appointing new and qualified employees since most municipalities lack qualified, well-trained and specialized staff, particularly in the areas of valuation, financing and accounting.

Furthermore, all other issues related to lands and issuance of land registrations' entries will be transferred to the Land Authority as a competent authority to follow up the registered and unregistered lands in case all the documents available in the Department of Property Tax are made available to the Land Authority.

In this case, the Department of Property Tax will no longer exist following delegating its duties to municipalities and the Land Authority.

Following are the reasons the researchers of this study have selected the first scenario as the best choice given the current situation:

- A Review of the overall taxation processes and tax burdens on companies and individuals is required and to be tackled from the perspective of the total amount of taxes based on the general rather than individual taxes level. It is a necessity to conduct a comprehensive review of all types of taxes and to unify them in specific areas much like what is being done for unifying taxes in several other countries.

- Municipalities, even the larger ones requires rehabilitation and capacity development to improve their capabilities in financial administration and the collection process, taking into consideration the results of this study and the capabilities of municipalities in collecting municipal fees.

- Over the years, municipalities have accumulated experience and knowledge in their fields of work through raising the competencies of their employees through attending capacity development courses or developing the financial and information systems in various aspects. Municipalities are continuously working to further update and develop these systems.

- The cost of the current system will be lower than the cost of the other three proposed scenarios, due to the economic utilization of employees and offices (economies of scale).

- Taxes are always linked to government bodies and bureaus. Hence, paying property taxes to the MoF differs from paying them to a municipality with an elected council, whose purpose is to alleviate burdens on citizens (voters), and who wishes to keep voters satisfied so as to succeed in the next elections, with the knowledge that satisfaction and taxes are contradictory.

- The Department of Property Tax can coordinate with other governmental bodies, like paying government rent to investors, which would be linked with a commitment to pay property tax, tariffs, and other taxes.

4.2 Needs Assessment and Identification of Tax Offices and Municipalities

a. Department of Property Tax

The property tax is a major financial source for LGUs. According to Law No. 11 for 1954, the MoF "Represented by the General Administration of the Department of Property Tax and its district offices" administers and collects property taxes in the West Bank. In Gaza, this is the function of municipalities rather than the MoF.

This section of the study aims at measuring the current capabilities of property tax offices in the following fields:

1. Technical capabilities: including required computer systems, field equipment for valuation, and necessary office equipment. In addition to the current buildings of district offices, extra work space is needed.
2. Administrative and accounting skills of employees, and hence the need to advance their capabilities, and to measure the extent of the current employees' qualifications to carry out the required tasks.
3. Capabilities needed to increase property tax revenues.
4. Skills of communicating with the public through easing procedures for taxpayers and dealing with citizens professionally and courteously.

A field study on the property tax district offices was carried out aiming at assessing the capabilities of their employees to administer and collect property taxes. The study covered all 11 MoF offices in the West Bank (at the time this study was conducted in 2008 there were plans to open a new office for Tubas), the Gaza Strip office, and the general administration office in Ramallah. The results of the study showed that:

I. 92.9% of respondents answered that there is an official administrative structure for the district offices, which is considered part of the Ministry's overall administrative structure.

II. 71.4% said that the current job descriptions are understandable and beneficial to the offices.

III. 85.7% of respondents expressed the need to hire new employees due to a lack in the required staff for valuation, collection and other duties.

IV. 72% of the sample said their employees received an ICDL course, where 46% said their employees received a financial excel course; 38% said they received GIS courses, in addition to courses in public relations, administration skills, computer proficiency, data entry, and English language skills. Furthermore, 15% attended capacity development courses in China on issues related to the Chinese economy.

V. 72% of the property tax offices answered that their employees needed capacity development courses in the fields of administration and financing; 53% answered they needed courses in skills of dealing with the public, public relations, public awareness and advanced computer skills. 46% said they needed courses in valuation basics and techniques, in addition to courses on property tax, legal procedures, land law, and on the experiences of other countries.

VI. The respondents agreed that discounts offered to citizens either on the running year's taxes or accumulated liabilities, would largely have positive effect on increasing collection. The sample also mentioned that linking the granting of clearance form from government departments and municipalities with paying the property tax would also increase collection. Respondents also mentioned several other points, most importantly, the revitalization of field collection, hiring collectors, motivating employees and raising their efficiency through capacity development courses. In addition, raising awareness on taxation among taxpayers through the media will also increase collections.

VII. <u>Obstacles confronting collection</u>: The following have been considered the most significant obstacles for offices in reaching optimum collection:

1. The poor economic situation of citizens in general.
2. The state lands law is not well implemented.
3. Lack in the number of employees.
4. The current land and buildings tax law is outdated and considered unsuitable to the Palestinian situation.
5. There are no clear valuation procedures.
6. Lack of cooperation between related institutions and departments.
7. Centralization and routine.

VIII. <u>Field work requirements</u>: following is a sample of basic needs according to property tax employees:

a) New master plans and maps of cities and neighborhoods.
b) Vehicles
c) Laptops to be used in the field.
d) New G.I.S systems
e) Special mobile phones to keep inspectors and collectors in contact.

IX. <u>Technical Capabilities</u>**:** Here it is apparent that some technical equipment is available while others are not. 71.4% of the workers said that information management systems are available to them while 85.7% said they have a computerized database, noting that while the current systems where recently updated, the General Administration is still planning to upgrade these systems towards a unified and network one.

64.3% of respondents said they have a computerized but not updated archiving system for documents of land ownership, collection, and valuation.

X. <u>Logistics Capabilities</u>: There are 13 property tax offices distributed around the West Bank and Gaza Strip districts including the General Administration. Some of these offices are owned by the Palestinian Authority and 71.4% are rented. 85.7% expressed that their offices need field equipment like laptops and G.I.S systems. Regarding property valuations, 78.6% said they needed an advanced computerized valuation system which could help to minimize errors. A model for valuation standards was developed, in accordance with universal standards and is attached in an annex.

Regarding the MoF's ability to collect property taxes, 64.3% of property tax employees consider the rate of collection to be very good; 21.4% consider it to be good, and 7.1% considered it acceptable. This indicates that the level of collection is relatively high.

92.9% said that transfer of due property taxes to municipalities take place regularly and in the proper manner.

XI. <u>Transfer of collection jurisdiction to municipalities</u>**:** 92.9% believe there are legal obstacles to the transfer of valuation and collection jurisdictions to municipalities due to the absence of law provisions that authorize such a transfer.

92.9% of property tax employees believe that municipalities – given their current capabilities and circumstances - are incapable of handling this task. 85.7% showed their support for maintaining this jurisdiction with the MoF.

One hundred percent of polled parties were in consensus that transferring these authorities directly to municipalities would not yield positive results for the following reasons:

A. Municipalities do not have qualified employees for this task given their lack of experience.
B. The failure of municipalities to collect their due fees from water and electricity bills, lore tax, waste collection tax, and profession licenses.
C. The nature of work of the municipalities is mostly providing services to the public.
D. The law does not give municipalities the authority to collect taxes; on the contrary it grants the MoF this authority.
E. Tax district offices are government bodies that have executive authorities unlike municipalities.
F. Tax offices have the advantage of being able to inhibit force taxpayers into paying their liabilities by hindering the process of any application whether it is transfer of ownership documents, power of attorney documents or a like until they do pay their liable taxes.
G. This transfer of jurisdictions gives mayors more authority that could be exploited for political purposes.
H. Because taxes should represent a main resource of the state's treasury revenues.

85.7% expressed the need to revise and develop the current property tax law; 85.7% said municipalities were in need of capability building in the fields of administration, valuation, and collection before transferring these authorities.

Results and Recommendations:

According to the study conducted on property tax offices in Gaza Strip and the West Bank, it is clear that assistance is needed in the following areas:

1. Update the IT systems currently in use for data administration, archiving, valuation, bills notifications, and the database so that the taxes could be calculated for each year.
2. Boost the number of employees, especially those working in valuation and collection, besides developing the capacities of the current employees in the fields of :
    i. Valuation and the geographic information system "G.I.S"
    ii. Management of information system "M.I.S"
    iii. Collection through a computerized system to issue billing notifications.
    iv. Public and government accounting.
    v. Financial and administrative report writing.
    vi. Proposal writing (for the central department)
    vii. Advanced use of computers and related programs for day-to-day work in the department.

3. Provide district tax offices with the necessary equipment for valuation and collection, especially:
    I. Field Vehicles.
    II. Field Laptops.
    III. Survey equipment and maps used for property tax valuation.
    IV. Maintain and enlarge current district offices that are inappropriate to the work setting. Also, rent of new buildings that meet the architectural standards suitable for the nature of tax offices' work, which will in turn lead to increased productivity.
    V. Study the current allocation of employees among different district offices based on work needs, since some offices have excess worker numbers while others suffer shortages.
    VI. Encourage cooperation between district offices in municipalities generally and specifically large ones in main governorates to utilize and maximize the employees' efforts whose number in many cases exceeds the needs of municipalities.
    VII. The Department of Property Tax strategic Plan included conducting a comprehensive valuation of all municipalities in the West Bank and Gaza Strip. This implies enhancing and developing the capabilities and abilities of the general administration of property tax and its offices so as to efficiently implement their strategic plans in the years to come.

Attached annexes show the results of the Property Tax Offices questionnaire of the different districts.

b. Municipalities and LGUs

It is a fact that many municipalities, especially the older and larger ones, have advanced capabilities in administration, finance and engineering due to the extensive experience and qualifications of their employees. For example, based on the survey conducted for this study, it was concluded that the percentage of employees in the finance department holding a BA university degree ranged from 15% to 71% except in the Abu Dies Municipality where there was only one employee with a BA. Contrastingly, in the property tax offices the results ranged between 25% and 80%, except in Abu Dies where there were two employees with a Bachelors degree. As for the number of employees in the finance and accounting departments, it ranged from seven in Bethlehem, Salfeet, and Doura, to 183 in Nablus. In comparison to the number of employees in the property tax district offices in these districts, in Bethlehem there were nine and four in both Salfeet and Doura. This means that the number of employees in Bethlehem's district office is more than the number of employees in the finance department in its municipality. In Nablus's property tax district office however, the number of employees was 31, half of whom were assigned to the office by Nablus Municipality.

It is well known that municipalities have the authority to collect and administer several taxes and fees including, but not restricted to - lore tax, profession licenses fees, and construction fees. While surveying municipalities included in the study, we found that the percentage of collection from the profession licenses fees ranged from 20%-54% with some exceptions like Jericho, where collection reached 96%. This shows that the percentage of collection is low in all municipalities except for Jericho.

It was also found that the percentage of collection from electricity bills ranged from 50%-70%. At the same time, it was clear that most municipalities do not pay their liabilities to the Israeli Electricity Company (provider), in spite of the high rates of collection according to the study. This means that municipalities are using electricity revenues for other purposes, indicating to an ambiguous method of financial administration, which should be based on the distinction between different accounts. This allows decision makers in municipalities to assess the work and performance of different departments so as to improve their performance on the one hand and to take rectifying measures on the other.

In terms of the other fees like waste collection for example, it is clear that the fee collection is relatively low in some municipalities and high in others. For example in Doura, it is 16% while it is 85% in Salfeet. This indicates the ability and the willingness of some municipalities to ensure collection, since Doura and Salfeet are similar in size and capacity, but Salfeet has a much higher fees collection rate than Doura.

The lore tax is founded on the same basis as the property tax, which is valuation and estimated rent value. Municipalities have the authority to collect lore tax directly. When surveying municipalities we found that the percentage of collection from the lore tax ranges from 17%-80%, again indicating to the discrepancies between municipalities in the collection and administration of lore taxes. For example if we look at the collection of the lore tax by the Nablus Municipality in 2008, we find that it was only 17.8% even though the number of employees working in the finance department was 183. This begs the question of why the collection rate is so low.

Contrastingly, the Qalqilia Municipality collection rate of the lore tax for the same year was 55.3%, even though there were only 15 employees working in the finance department. Also, in Doura the collection rate was 65% with the same number of employees.

Recommendations and suggestions:

It is clear that most if not all municipalities have more than enough personnel in all departments. It is also clear, however, that these employees are in need of developing their capacities in a number of areas including:

1. **Collection of Fees and Taxes**

   All municipalities in the study have sufficient and experienced financial cadres. However, if we take into consideration the discrepancies in the collection rates between the different municipalities, we find that municipalities with low collection rates suffer from the absence of a sound collection system. Regarding the municipality itself, we feel there is a need for capacity-building in the area of financial analysis along with a need for a computerized collection and billing system. Furthermore, there must be a serious effort to collect and use legal procedures against those who fail to pay their bills on time such as fines. On the contrary, we have encountered municipalities that offer a 30% discount to people who are late in paying their bills and 20% to people who pay on time! This is not an incentive to paying bills on time because financially it is more profitable to pay late because then you pay less on your accumulated debts than if you paid on time.

Furthermore, in many municipalities, both council members and employees need to develop their capacities in the areas of preparing budgets, financial analysis and planning, so as to help decision makers to adopt the best measures and decisions for improving the financial performance of the institution.

2. Computerized Financial Management

In many municipalities, there is no computerized mainframe financial system that links different departments with each other and allows for a comprehensive view of all financial inputs and outputs of the municipality. This would allow for a complete overview of the municipality's financial situation and therefore give the opportunity to adjust and modify tasks and procedures. It highlights the need for a computerized financial system that links the different departments and distinguishes between the different accounts. It would also issue reports about the collection percentages of each department versus the actual receivables. This makes it easier to pinpoint the malfunctions in the financial performance of any department.

81% of municipalities answered that accounting and finance department employees are in need of capacity building; when asked about the fields in which capacity-building is most needed, they answered as follows:

1. Preparing Budgets
2. Financial Analysis and Planning
3. Use of Accounting Software Programmes
4. Government Accounting
5. Assets Computerization
6. Assets Assessment and Administration
7. Cost Accounting
8. Writing Financial Reports

3. Equipment and Office Supplies

It was realized that various departments in most municipalities are in need of developed equipment that would allow for more advanced procedures such as computers or software for a more advanced billing system, which would positively affect the performance of employees.

4. Capacity Building of Employees, Mayor and Council Members

To guarantee consistency and integration among decisions, it is crucial to develop the capabilities of employees, council members and the mayors in important areas such as financial analysis and planning, financial management, report writing, problem solving, follow-up and coordination skills and decision making. It is essential to hold capacity-building courses for employees who work with the property and lore taxes in municipalities, in order to be able to valuate properties and calculate their taxes accordingly. There is also a need to help to establish coordination between different municipal departments since each of them feeds the other with information in this regard.

81% of municipalities demonstrated their willingness and desire to transfer the property tax to municipalities for the following reasons:

1. To improve municipalities income; 50% of municipalities said that municipality collection of the property tax would provide near-daily liquidity in addition to the municipality benefiting from 10% of the value tax levied by the finance ministry.
2. To increase collections; 25% of municipalities polled believe that if municipalities were to collect property taxes, the rate of collection would increase significantly since they would be the primary beneficiary.
3. Municipalities have better capabilities and qualifications to manage, assess and collect taxes than the MoF /Department of Property Tax.
4. The Ministry does not take legal action against those who fail to pay the tax.
5. Tax collection is the municipality's right by law.
6. It saves time and effort for taxpayers since they can pay all their taxes in the same place.
7. Linking it with paying other fees.
8. Linking it with obtaining a clearance form.

90% of the sample said municipalities had the ability to manage the property tax and had sound collection techniques, as well as the required experience and qualified staff.

90% of the sample opposed leaving the tax collection under the authority of the Ministry of Finance, because of the low collection rate, the absence of sound collection methods, delays in transfers by the ministry, in addition to poor valuation.

More Recommendations in relation to the involvement of Municipalities in property tax:

Based on the study conducted on a sample of various municipalities in the districts of the West Bank and Gaza Strip, the need for assistance is clear in the following fields:

1. Updating the current computerized systems used in areas such as budget administration, cost calculation and administration of general accounts. Furthermore, the interrelated relationship between different systems needs to be developed.

2. Improving the capacities of current employees in the following:

    A. Valuation and Geographic Information System (G.I.S)

    B. Management of Information Systems (M.I.S)

    C. Collection through a computerized billing system

    D. Public and government accounting

    E. Writing financial and administrative reports

    F. Advanced computer skills and programmes related to the daily tasks of the department

3. Providing municipalities - particularly the finance and accounting departments - with the necessary equipment for valuation and collection, most importantly:

    A. Field Vehicles or motorcycles for collection in the field

    B. Laptops

    C. Financial and accounting systems linked with other systems

    D. Increasing the number of employees with a BA or Masters degree in the accounting and finance departments

    E. Rehabilitating the existing personnel in the finance and accounting departments within municipalities, through courses and continuing education centers in universities; providing incentives to those who want to continue their higher education in universities or other institutes based on the municipality's demands.

    F. Raising public awareness on the importance of paying taxes and fees so that municipalities can continue to provide services and to reactivate the building of an up-to-date infrastructure to serve the general population.

4.3 Summary of Property Tax Systems in Five Countries and Study Tour Recommendations

There are many property tax models that are used around the world, which take on different approaches regarding the main components of the property tax:

1. **Evaluation committees** are formed to evaluate properties, either real estate or buildings. This depends on the value of the real estate in some cases, or on the estimated rent revenues from it, since each method has its own tax philosophy.

2. **Collection:** Is the method in which receivables are collected as a result of valuation. In some models, the central government carries out the collection whereas in others LGU handle this task; in other countries a separate independent competent entity is in charge for collection.

3. **Administration:** This refers to administrative operations related to property taxes whether in regards to valuation, collection or the percentage of tax revenues returned back to municipalities. The method of administration differs according to the tax approach adopted in that country.

4. **Percentage of Tax Revenues Returned Back to Municipalities:** This differs from country to another based on the local governance system and according to the duties assigned to LGUs and their financial obligations. In other words, the percentage of tax revenues returned back to LGUs is set in accordance with the services offered by the LGU to citizens versus the cost and type of services offered by the central government.

5. **The Nature of Tasks assigned to the Body that Administers the Property Tax: I**n some systems, the Department of Property Tax has additional duties, such as issuing ownership vouchers and collecting the lore tax, which is based on valuation.

Property Tax Prototypes:

Based on the previously mentioned information, administrating and collecting property taxes differs according to the financial system adopted by the state and according to the different local governance systems. Following is a summary of the main components of the property tax in five countries whose systems and laws on the property tax were studied in an attempt to identify property tax systems and laws that may be beneficial in developing property tax in the oPt.

4.3.1 Property Tax in Lebanon

Property tax is considered a direct in-kind tax, whose revenues comprise a major component of the general government budget, given its comprehensive imposition on all buildings regardless of their construction material, location or construction additions. The legal framework governing property tax in Lebanon is the law issued on 17\06\1962 and its annexes from 1994 to 2004, especially law 366 issued on 1\08\1994.

The property tax is imposed on owners and investors or anyone who assumes their position. It is imposed on the cumulative net real or estimated earnings of the year proceeding the year of maturity. This is the case whether the building is vacant or occupied, for rent or free of charge, except in the case where they were benefiting from the provisions on tax exemption or tax cancellation.

Characteristics of the Property Tax:

1. It is a direct tax
2. It is imposed on income not on capital
3. Mostly it is imposed on estimated not actual income
4. It is an annual tax
5. It is imposed on net income

Citizens Charged with the Property Tax:

Citizens charged with this tax are owners of a building or investors or those considered the owner or investor by virtue of the law.

By law, anyone who either holds a state-owned real estate, benefits from a real estate, or who bought real estate through installments is considered a building owner as from a legal standpoint, the seller of real estate in installments remains the real owner of the property.

Furthermore, an investor is defined by law as any person or corporate that invests in real estate owned by others.

Establishment of Taxation Right

According to Article (48) of the property tax law, the right to property tax begins from the first day of the month in which the building is able to generate earnings. This happens when the building is ready for use, which is contingent upon obtaining a habitation license. The tax is imposed at the beginning of the year after establishment of the right of taxation.

Tax levels

Law Number 366 of 01\08\1994 cancelled the proportional and escalating tax and replaced it with new stipulations.

The property tax is imposed on the total annual net earnings of the taxpayer, for all his/her properties in each district separately. The main feature of property tax in Lebanon is that it is an escalating tax, meaning that the tax rate increases as the earnings increase from 4% to 10%.

4% - if earnings are less than $13.388
6% - if earnings range between $13.388-$26.776
8% - if earnings range between $26.776-$40.164
10% - if earnings are above $40.164

No premium is added to the original tax

These percentages are applied from the beginning of earnings for 1993

Administration and Collection of Taxes:

The Lebanese Ministry of Finance, the Department of Property Tax in particular, is responsible for managing and collecting property taxes and all revenues returned to the general budget of the government.

The property tax in Lebanon is an in-kind tax imposed on the owner of the real estate (or land) and the investor (tenant or proprietor). It is a tax on income and not on capital and is based on an estimated income from the previous year and not on actual income.

It should be mentioned that the central government by way of the Ministry of Finance is the body that directly manages the property tax.

4.3.2 ***Property Tax in Chile:***

Chile has a strong centralized administrative system, inherited from the Spanish occupation period. For more than two decades, successive governments introduced several changes and initiatives towards decentralization. One of the results of these changes is that today 50% of public expenditure is adapted locally.

In Chile, property tax is a national tax, administrated and evaluated by the general tax administration. The collection process, however, is the responsibility of the state treasury. All of Chile benefits from property tax revenues, despite the fact that all revenues go to municipalities; 40% of revenues are directly transferred to municipalities, whereas the remaining 60% is transferred to the joint municipal which is then distributed among municipalities according to a socio-economic equation.

The tax on real estate is low percentage-wise, but it represents 35% of municipalities' income. In fact, many properties – even big ones - are completely exempt from the property tax.

Experts say the taxation system in Chile is organized, sound and fair.

The government assesses properties and on the basis of this valuation, the tax is paid after it is determined and approved by the taxation office in Chile according to the regulations of the real estate taxation law. The tax rate depends on the official value of properties as determined by the tax office or the real estate association in Chile. The official value of properties does not represent the market value. Since the tax office sets the official value with consideration to components like selling prices, size, construction material, construction type, construction year, and the use of properties. Mostly the official value is less than the market value in some fields, and should not be used as a means of determining the market value when buying real estate.

Regulations related to estimating taxes vary in accordance with the use of land. The major categories are properties in urban areas and properties in agricultural areas. Properties in cities are also classified as either commercial or residential. This does not necessarily mean that land is a construction area or used as such but is simply a categorization used for taxation purposes.

Tax Exemption in Chile:

All urban properties valued at less than $14,655 are fully exempt from property tax. Also, all agricultural properties with valued at less than $53.066 are tax exempt.

Property Tax in Chile in Effect Since 2006

Properties in urban areas: non agricultural-non commercial properties:
0% if its value is less than $14.655
1% if its value ranges from $14.655-$52.342
1.2% if its value is above $52.342

Properties in urban areas- commercial properties

1.2% of the tax is paid in addition to 0.025% in four installments in April, June, September, and November or one in one installment.

In January 2006, the Chilean Tax Bureau re-ed all urban property in the country. As a result, all property taxes were considerably hiked up. Many properties in Chile had been undervalued for years. Consequently, the new tax rate was applied in phases to reduce the burden on land owners. All property in Chile that experienced a tax increase paid a 25% increase in the first half of 2006 followed by a 10% increase each half-year after that until the new tax requirement is reached.

However, despite the efficiency of the system which links the national level with the regional and local assessment activities, the collection of property taxes has been outsourced to commercial banks. Taxpayers make their property tax plus a minor surcharge payment to a commercial bank, which then makes a small profit from the interest on payments, until it is transferred to the government. In addition to the property tax, there is a Value-Added Tax imposed on any real estate transaction in Chile, excluding inheritance and gift taxes. Real property is not subject to any additional taxes in Chile, which means it has a relatively low property tax.

Although information about due payments were unavailable, the average received rate in 1991 was 96%. This is partially due to exemptions in 1990. The rate of collection for the year before exemptions was only 71%. Notifications for tardy payments are sent out within three months of the date after which judicial notifications are gathered. If the issue is not settled, the treasury could foreclose on the property or put it up for auction.

4.3.3 Property Tax in Poland

Poland is a post-communist country with a population of 50 million. There is an obvious tendency towards decentralization in the political and economic system in Poland, with the belief that this would better match the supply/demand of public services and would promote political stability in the country.

In 1999, sub-national taxes accounted for 24.5% of sub-national revenues in Poland. Sub-national revenues accounted for 28.8% of total government revenues and 12.0% of the G.D.P. In other words, sub-national taxes were 2.9% of the GDP. Since taxes on property accounted for 39.7% of sub-national taxes, property taxes in 1999 thus came to 1.15% of GDP. These taxes in Poland are local (gmina) taxes. They also account for 14% of the municipalities' income amounting to $18 billion, which is the largest percentage among post-communist countries; the total number of taxpayers is 8.7 million.

Local governance in Poland is divided into various levels of governorates and small and large municipalities. Governorates usually include several municipalities or only one, depending on its size. Governorates have more authorities than municipalities except for the larger ones. Governmental offices are distributed throughout all governorates with 16 regional government offices to monitor and collect taxes.

There are three types of property tax; taxes on real estate which were imposed in 1985, taxes on agricultural land imposed in 1986, and taxes on forests which were imposed in 1992. Unlike many other former communist countries, Poland never abolished private property rights; many aspects of property rights are nonetheless still unclear, thus making it rather difficult to establish a market-value based property tax. The real estate tax is thus based not on value but on the area of land and the area of the building; in square meters for real estate, and by hectares in the case of agricultural land and forests.

In 1991, as a result of the collapse of the Soviet Union, 2,487 municipalities and LGUs were formed, and the authority to manage and collect property tax was transferred to municipalities since property tax is considered a local tax and not a national tax where municipalities benefit from all the tax revenues. A taxpayer is the owner of real estate or land, regardless if he/she uses it or not, and regardless of whether he/she is an individual or a corporation. Property tax payments are due every three months for individuals, and every month for corporations.

Tax on Real Estate

In this regard, the real estate tax has three components: land tax, building tax, and the "interior structures" tax.

Tax rates are annually set by the municipality, subject to a prescribed maximum rate, which is itself linked to the inflation rate. In 2001, the rates ranged from USD 0.02 per square meter for residential and other types of land, to USD 0.13 per square meter for land "linked with economic activity." The rates per square meter for buildings ranged from USD 0.11 for residential buildings to USD 3.69 for commercial and industrial buildings.

The land and building records can be found in two central registries. One registry is the Land Registration office and the second one is the Land and Building Information Centre. Since municipalities collect and administrate property taxes, it links tax records with land and building registration records since it has legal authorization to access this information. Still, it is not granted to them automatically: they must collect this information themselves. Government institutions are responsible for assessing and paying their own taxes.

Agricultural Tax

The agricultural tax applies to land used for crop growing on farms exceeding one hectare. It is imposed on individual farmers, cooperatives, and state farms and is in fact the only tax imposed on the latter two. There are two million of these taxpayers. The tax is based on a "conventional hectare" (or "conversion hectare") defined as the actual number of hectares multiplied by a coefficient related to the fertility of the land, the location of the farm, and the type of agriculture. The fertility factor is based on the information in the technical cadastre and the zone allocation is determined by the Ministry of Finance. Four zones depending on economic and production (climatic) conditions have been established, and there are two types of land (arable land and meadows and pastures), and ten usage classes as well as 14 classes of soils. The tax rate is set as the value of 2.5 quintals (a measure of quantity) of rye per conventional hectare (that is, indexed to the average market price per quintal of rye paid on wholesale markets for the first three quarters of the preceding year), but there are various reliefs (for example, for farm improvements and military service) that lower this rate by up to 75%. The agricultural tax is payable quarterly.

Forest Tax

The forest tax is paid by owners of forests and occupiers of state or communal forests on land of at least 0.1 hectare used for the production of forest vegetation. There are 1.2 million forest taxpayers. Like the agricultural tax, this tax is based on a "conventional hectare" defined in much the same way to reflect fertility and the main tree species as set out in the forest administration plan. The coefficient ranges from 2.3 for firs to 0.2 for aspen, and the tax rate is the average sawmill price of 0.2 cubic meters of the timber in question per conventional hectare, except for land without an administration plan and land in national parks, natural reservations, and protected forests, where the rate is set at the price of 300 kg (0.3 quintals) of rye per hectare every six months. Some reliefs are granted for forests that are at least 40 years old and for those that are "historical monuments."

Collection Process

Most large municipalities carry out collection, whereas, small ones are assisted by the national tax office. This office also collects accumulated debts from taxpayers in small municipalities.

Tax Exemption

Exemptions include property used for public purposes (LGUs, schools, hospitals, charitable foundations… etc.) or used by religious groups, railways, other transportation installations (including pipelines), and "historic monuments." In 1997, generating facilities such as electric, gas, and water utilities that were experiencing financial difficulties were exempt. This exemption was cancelled in 2001, but to mitigate the rise of taxes on these facilities (which would normally be the "structure tax" of 2%) the rate was temporarily set at 1%. In addition to the exemptions set in the law for the elderly, veterans and others, LGUs are authorized to grant reliefs, which they appear to be doing to some extent. In addition, there are numerous "special economic zones" intended to encourage investment that provide, among other benefits, exemption from property tax.

Tax Revenues in Poland

Business buildings reportedly produce over half of property tax revenues, although they constitute less than 5% of the total capital value of real estate, while residential property, which accounts for over 70% of the value, accounts for less than 10% of property tax revenues. A study concluded in 2000 estimated that, for smaller cities in Poland, business buildings provided 36% of taxes (and were taxed at 7.8% of the capital value), while business land provided another 23% (but was taxed at only 1.4% of its value). In contrast, residential land (7.8% of collections) was taxed at only 0.05% of the market value and residential buildings (3.4% of collections) at 0.06%. The main difference in larger cities was that much of the real estate tax (64%) came from business buildings and less than 11% from business land: residential buildings accounted for only 3.7% and residential land for only 2.1%. Moreover, within the business sector, it appears that industrial companies with large areas of land are taxed relatively more heavily than commercial enterprises (which have generally done much better in the transition economy).

Reform Proposals

As in most post-communist countries, there has been no shortage of proposed reforms for the property tax system described above. Although, as illustrated above, property taxes are important sources of local revenue in Poland, they have been decreasing in importance over the past five years. This decrease has been attributed largely to the lack of elasticity in the area-based assessment system. Unsurprisingly, a move to a more conventional ad valorem property tax has thus been at the top of the reform list. In 1994, the national government ordered the Ministry of Finance to create a national fiscal cadastre, to serve as the basis for mass al of property for an ad valorem tax by 1999. The original idea was to have a national cadastral office. By 1996, when a detailed proposal was prepared, it provided for local administration of the cadastre by the larger cities and by municipal unions designed to achieve sufficient scale, with an implementation date of 2001. In 1998, a Department of LGU Taxes and Cadastre was established in the Ministry of Finance to move matters along, and in 1999 a new proposal to replace the three existing taxes by a new tax based on a unit value system was presented. Subsequent discussions, and explorations of how the proposed system would work in several selected cities, have continued. The most recent strategy under consideration appears to be to use an area-based formula for land, modified by location coefficients reflecting market factors. Buildings would at first be taxed as now, but would subsequently be taxed on a depreciated replacement cost basis for nonresidential structures. As elsewhere in central and Eastern Europe, it thus appears that Poland still seems to have some distance to go before it achieves anything close to a market-value based property tax system.

4.3.4 Property Tax in Egypt

Egypt is the largest Arab country in terms of population and one of the most densely populated areas in the world. This gives Egypt a huge taxation base with 21 million real estate units. But according to the latest survey conducted by the government only 8 million real estate units are subjected to property taxes, due to the massive amount of exemption stipulated in Law 56 of 1954. Hence, in the fiscal year 2007/2008 property tax revenues accounted for 450 million Egyptian pounds, while the wages for the real estate tax institution reached 435 million Egyptian pounds; the revenues also account for a small percentage of the total tax revenues for the same fiscal year, where those revenues reached 114.3 billion Egyptian pounds.

The real estate tax institution (RTA) is responsible for administrating the property tax; the RTA was established in 1883, being the first taxation institution in Egypt and the most prevalent one. In addition to all Egyptian cities, 6,000 villages are covered by the RTA.

For over more than a century, the RTA was responsible for administrating and collecting the property tax, disregarding the final beneficiary of tax revenues, whether this was the government budget or the districts.

In 2008, as part of the taxation reform process in Egypt, a new law was issued to organize the collection and administration of the property tax in the form of Law 196 of 2008. This law, specifically Article 2 clearly cancelled all previous laws, among them Law 56 of 1954. This law created much debate from the minute it was proposed before parliament for approval. Supporters of the law argued that it would allow the collection of huge amounts of revenues for the government budget, which could help with public expenditures, as well as developing the administrative bureau of the RTA. They said the aim behind this was "the government's desire to make certain reforms in taxation laws and procedures" while taking into consideration the economic, social, and humanitarian impact on taxpayers and optimizing government's resources when setting the tax rate in addition to moderating exemptions.

Others criticized the new law, saying it uses the market value of real estate as a basis for imposing taxes, which is far removed from the essence of the property tax, since we are not talking about selling real estate or about a tax imposed on capital profits. Furthermore, subjecting private houses to property taxes contradicts with considerations of social justice stated in the constitution.

The new law defined the property tax as "an annual tax imposed on all real estate regardless of their construction material, their use, permanent or temporary, whether they are over or under the ground or on water, or whether it is completed and inhabited or completed but not yet inhabited, or inhabited before its completion. Taxpayers are defined by law as "the owner or anyone who has the right to benefit from the real estate, whether this is a person or a legal entity."

The new law decreased the tax rate from escalating clusters that reached 46% to a fixed percent of 10% only. The tax is due once a year on January 1 and may be divided into two installments; the law also stated that the rent value must be re-evaluated every five years.

Article 28 of the new law also determined the beneficiaries of the tax, whereby the tax revenues go to the government budget; 25% of the revenues are allocated to districts on condition that the amount is not less than what it received the previous year while the Prime Minister has the jurisdiction to adjust this percent according to a proposal from the Finance Minister Regarding al, Article 13 stated that a committee should be formed in each district named the al committee; the committee is formed upon a decision from the Finance Minister in coordination with the Housing Minister, the RTA representative in the district with representatives from the MoF, and MoH along with two taxpayers chosen by the governor.

4.3.5 *Property Tax in Jordan*

The legal framework of property tax in Jordan is Law 11 of 1954 and its amendments, which is the same law applied in the West Bank with some amendments, since many were introduced to the law between 1963 and 2004. At present, there is an ongoing debate in Jordan about a new proposed law for a unified taxation system.

Jordanian law addresses all aspects of the property tax including its administration, al, collection, beneficiaries, taxpayers, tax percentages, and exemptions.

The law determined the tax rates in Article 13 as follows:

a. 10% of the net rent value on buildings including the area on which it is located and that which surrounds it.
b. 2% of the net rent value of land with no construction on it.

Tax revenues, in addition to all fines within the boundaries of the municipality, are this municipality's right. The MoF collects taxes and fines on behalf of municipalities after which the MoF transfers the share of total earnings of each municipality after deducting its operational costs.

Concerning tax collection, Article 14 states the following:

1. The tax is due at the beginning of the year.
2. The tax is collected in accordance with the rules applied in collecting state "Amiri" funds. Moreover, the tax is considered to be initially insured by the property; no transaction can be registered for any property unless it pays all (or some if the Ministry of Internal Affairs agrees) taxes that are due.

Concerning al, Article 5 states the following:

1- The Minister of Municipal Affairs shall assign one or more al committees for each region.
2- The committee consists of two official members – one for the presidency and the other as a member - in addition to a third non-employee member selected by the Minister of Municipal Affairs from among three persons nominated by the municipal council; the selected third member must be a taxpayer in the region.

Amendments of Law 11 for 1954:

It should be noted that this law was subject to several amendments over the years, the most significant amendment was Number 55 of 2001. It is worth mentioning that this amendment was a result of a similar project between UNDP Jordan, the Jordanian MoF and the Greater Amman Municipality, which is currently ongoing and in phase three.

Amendment 55 of 2001

This amendment grants the Mayor of Amman most of the authorities of the Finance Minister. Furthermore, the Greater Amman Municipality, which includes 99 municipalities, conducts the collection of taxes and fines from Amman district municipalities after which the Greater Amman Municipality pays each municipality a share from the taxes and fines.

This amendment also grants the authorities of the Finance Minister to any mayor but with coordination between the Finance Minister and the Minister of Municipal Affairs. This shows an apparent tendency towards the transfer of collection authorities from the MoF to municipalities. What reinforces this approach is the approval of this temporary amendment, which is to be considered as a law through the amendment of Law 27 of 2004.

Summary of the unified taxation draft law

This draft law for unified taxation, which was proposed in 2009, can be issued and applied in Jordan this year. All types of taxes including income, sales, and taxes on property transactions will be subject to the law according to its stipulations. It also addresses the establishment of a "First Instance and Appeals" taxation court. It furthermore addresses the types of objections including administrative and judicial objections. Its clauses stipulate that over and above any other law, this law controls all types of taxes. It specifies all types of incomes subject to taxation including incomes as a result of the use of properties and the transfer of their ownership.

We are mostly interested with how this law addresses the tax on real estate; we found that it gives collection authorities to the land and landscaping department or any other body in its place.

The law also mentioned that al committees must be assigned by the Finance Minister, upon nomination by the General Director of Land and Surveying Department in the registration departments, where the al standard is set by the Finance Minister.

Lastly, it is worth mentioning that the foundation on which property tax is based is the al of real estate and land according to its rent market or actual value in the case of an official rent contract. It is still collected by the government through its MoF which deducts 10% of the collections as operational expenses.

5. The Legal Framework of the Property Tax in the occupied Palestinian territory and Comparative Arab Law

The legal status in the oPt is considered one of the most complicated and uncommon statuses. This is due to the different parties that have ruled the oPt throughout history, which has led to a variety of legal regimes who left their imprints on the Palestinian legal framework. This affected the legal system because of the different legal legacies left behind much of which is still in effect in the PA-controlled areas.

Due to the different regimes that ruled the oPt, and specifically between the West Bank and Gaza, different laws were imposed in some cases in the West Bank inherited from the Jordanian rule while in Gaza many laws are inherited from the British Mandate era, all of which have left their impact.

Similar to other legal issues, the property tax has suffered in the oPt, the most important issue being the authorized party for collection and al. What are the foundations upon which al is based? Is the law always followed in this regard? What are the applicable laws?

Property tax is usually collected from the owners of real estates for the services they receive from the State, such as the paving and maintenance of roads, street lighting and the building of museums, libraries, clubs, etc…

Regardless of the party responsible for the collection of the property tax, money collected through this tax should be devolved to the body charged with providing services.

The collection of this tax in the West Bank is conducted solely by the Department of Property Tax as a representative of the Ministry of Finance. The collection of this tax in the Gaza Strip is sometimes carried out by the MoF only, while in other cases it is conducted directly by the LGUs; sometimes both parties collect the tax for the same property. In all cases, there are discrepancies in the mechanisms of al and collection, in addition to an absence of clear and sound foundations for valuations.

The starting point for any study of the legal framework must be based on the Palestinian reality and Palestinian laws, especially the protective fence for rights and freedoms, including the tax issue. The Basic Law laid the foundation for the issue of taxation, Article 88 in particular, which stated, "*the imposition of taxes and fees; the amendment or cancellation of these taxes and fees can only be through the law; no one is exempt from all or some of them, except in cases stipulated by law*."

As set by this law, the collection of unpaid taxes is referred to the "Miri (state)" funds collection law.

As for the framework governing the property tax in Palestinian Authority territory, we can see that there are many legislations and laws governing the property tax of land or buildings. Most of which are residual from the Jordanian and British Mandate periods; this law, in turn regulates the taxation of property holders and collection mechanisms. While Mandate legislation was abolished in the West Bank and replaced by Jordanian legislation we can see that the same Mandate laws addressing the property tax in the Gaza Strip are still in force to date.

In the West Bank, the law governing the property tax and its collection and al mechanisms is Law 11 of 1954, called the tax law for land and buildings, which governs areas within municipal and local institutions. This includes amendments to the law, specifically Provisional Law No. 9 of 1967 amending Law No. 11 of 1954, which stipulates the necessity of the Ministry of Finance to collect taxes on behalf of the municipalities. These laws are inherited from the Jordanian rule.

The law governing property taxes in the Gaza Strip is inherited from the Mandate period and continues to be in force till today. This is the law for urban property taxes No. 42 of 1940 and the rural property tax law No. 5 of 1942. These laws address the mechanisms for collection of property taxes in the Gaza Strip, many of its provisions which have been amended under military orders, specifically Military Order 675 of 1980. It should be noted that many military orders were issued to amend these laws in one form or another.

There are many laws related to property tax laws, or which overlap with them in one form or another. These include the Law for Collection of "Miri (state)" funds, which specifies ways to collect the tax and procedures to be followed in the event the tax is not paid. Some of these procedures include seizing wages or rent pay or debts due to the person in question, or the seizure of immovable property. Article 15, which may be of importance here, gives financial authorities the authorization to halt the payment of any dues to any person indebted to "Miri state" funds until they pay their dues within ten days of the date of notification. Their income is then restricted as a kind of "clearance". The financial official then deducts this money from debt owned by the person.

There is also the LGU Law in which Article 23 states that "*This tax is charged in accordance with the provisions of the law of buildings and land taxes within the areas of LGUs in terms of al, reference, collection, exemptions and fines.*"

It should also be noted that Law No. 11 of 1954 approved some exemptions for certain categories as follows:

1. The following buildings and lands are tax exempt:

a. Properties of the King.

b. Properties of the Agricultural Bank.

c. Properties of the Hijazi Railway Line.

d. Properties of the Government of Jordan.

e. Properties of municipalities or local councils.

f. Properties of a foreign country which are used as an office or consulate and if that country exempts the Jordanian Consulate on their country from property taxes.

g. Archaeological sites.

h. Any building or land located within the walls of Jerusalem.

i. Buildings held by members of nomadic tribes if this has been their place of residence for a period of six years from the year after the structure was built.

j. Properties belonging to sports, cultural, social, or otherwise recognized clubs.

k. "Properties of any religious institution, charitable, educational or medical organization recognized by the government on condition that they shall not be exempt from tax if the land is not used for the stated goals of the institution." The words "sectarian" and "religious" were removed under the amendment mentioned here which is the Law of Tax Exemption for "Waqf" Institutions No. 36 of 1973.

l. Any buildings used as homes inhabited by owners with a net value of an annual rent less than two Dinars. In all cases, these buildings are not exempt from tax if they generate income. This was amended by Law No. 42 of 1963, which stipulated the rent at 25 dinars within the boundaries of the capital and to JD5 within municipal areas.

3. The Minister of Finance shall partially or completely exempt any region or territory of their due taxes for any year; he shall also decide to return back the tax paid for any year to the taxpayer if it becomes apparent that the tax was imposed by mistake or was doubled. This article was amended by Law No. 42 of 1963 amending Law No. 11 of 1954.

As for the scope of the tax, and when it is implemented, according to the law it starts from the date of transfer of ownership, the date of construction or the date of changing the construction description, which is similar to other Arab laws.

3. Consistent with the provisions on vacancy, the right to taxation is established from the first day of the month in which the buildings or their sections become capable of generating earnings, increase their previous earnings or when they no longer meet the standard for exemption.

- Buildings or their parts become able to produce earnings when they are completed and ready for use.

- Buildings become able to earn more profits when they are invested in through "secondary leasing".

- Buildings become able to increase their pervious earnings when repairs or modifications on them lead to their improvement or renovation.

Law No. 11 of 1954 notes that any changes or additions must be reported, including a change in ownership. The evaluation committee has the right to make any adjustments to the evaluation list due to a change in ownership, on condition that the tax is imposed on a new taxpayer from the year after the transfer of ownership.

Pertaining to the due date, it is the first month of the fiscal year, which is the situation in the oPt. In some countries however, the tax can be paid in two equal installments throughout the fiscal year.

Regarding the competent authorities in evaluation and its mechanisms, Law No. 11 of 1954 applied in the West Bank, as well as Law No. 24 of 1940 and Law No. 5 of 1940 both applied in Gaza, all explain the method in which the al committees should be set up and their jurisdictions in addition to methods of contesting among other issues.

Law No. 11 of 1954 applied in the West Bank states that:

1. *The Minister of Finance shall appoint one or more valuation committees for each region.*
2. *The valuation committee is comprised of three members; one employee appointed by the Finance Minister who shall be the head of the committee; a representative of the municipal council, whereby the council nominates three persons one of whom is chosen by the Minister of Finance and who will be paid from the council budget; the third member is a representative of taxpayers in the region, appointed by the Finance Minister from among three persons nominated by the governor and paid from government coffers.*
3. *The Minister of Finance shall appoint one or more valuation inspectors.*

Law No. 42 of 1940 applied in Gaza stated the following about the formation of valuation committees:

1. One or more valuation committees shall be formed in each city where this law applies.

2. The committee shall consist of two employee and two non-employee members.

3. The governor of the region shall appoint one of the two employee members as the head of the committee.
4. The two non-employee members must be taxpayers in the region.

In comparative law, like the Jordanian, it states that the committee shall consist of two employee members, one of whom shall be head and a third non-employee member from the municipal council. The Minister of Municipality Affairs shall appoint these committees; the only difference is that the Minister has the right to replace these committees.

In Egyptian law, valuation committees are formed in each district, which estimates the rent value of real estate by classifying these properties based on their type and according to certain standards like the construction classification, the geographic location and the connected utilities. The Finance Minister, in coordination with the Housing Minister, forms these committees.

These committees are chaired by the representative of the "Real Estate Tax Association R.T.A" and comprise of representatives from both the Ministry of Finance and the Ministry of Housing, in addition to two taxpayers from the district nominated by the popular council in the district and chosen by the governor. The executive charter specifies the method and working procedures of these committees.

In Lebanese law, the Financial Department within the Ministry of Finance is responsible for estimating the net revenues depending on the information in its possession, in addition to the rent value written in the contract they received from the tenant or the landlord, since Lebanese law requires the registration and approval of the rent contract by the municipality, a copy of which is deposited at the Finance Ministry.

Law 11 of 1954 regulated the procedures followed by these committees in Article 6 of the Law, which states:

1. Buildings and land owners or their inhabitants are obligated to allow the valuation committee or the inspector access to the property up for valuation at any time of the day until the end of the valuation period.

2. The valuation committee or the inspector has the right to ask any person to present any documents essential for the completion of the valuation process, in addition to the right to photo copy these documents.

3. The valuation inspector has the right to check over the work of the valuation committee.

In terms of contesting and appealing the decisions of the committees, the law stipulates the following:

1. The valuation inspector and any other competent person may inform the valuation committee through a written notification about his objection 30 days after the announcement of the valuation list.

2. When receiving a notification of objection, the valuation committee must inform the complainant about the date set to discuss his/her objection, so he/she could either attend personally or send a proxy.

3. The valuation committee may amend the valuation list according to its decisions regarding the objections.

4. The committee must send a written notification explaining its decision to the complainant by hand or by registered mail; the date of the notification is considered the date of the decision on the objection.

It should be mentioned here that the valuation committee is the same committee which discusses the objection and takes a decision concerning its content.

Article 10 also organizes appeals against the decision on the grievance made by the valuation committee, stating:

> ’The valuation inspector or any person who feels that he was treated unjustly as a result of the valuation committee decision regarding an objection to the valuation list, has the right to appeal this decision within 14 days of the decision notification to an appeals committee formed by the Minister of Finance comprising three people ....."

In Egypt, Law No. 196 of 2008 and Article 16 in particular, addresses the issue of appeals against al committee decisions, stating, *"The taxpayer has the right to appeal the valuation committee decision within 60 days of the valuation announcement"*. An application is submitted to the Directorate of the Real Estate Association, through a committee called (The Appeals Committee) formed by the Minister of Finance. It should be made clear that the decision of the appeals committee is considered final.

Furthermore, Lebanese law, according to the amendment of Law No. 27 of 1980 gave stakeholders the right to object: *"Stakeholders may object to the relevant Finance Department (Department of Property Tax) on these valuations within two months of notification; the chairman of the imports association will study the objection and take a decision, which is considered final"*.

Concerning the valuation procedures followed in the West Bank and Gaza Strip, the Department of Property Tax in the West Bank Ministry of Finance calculates the value of the tax through valuation committees formed by LGUs and the department according to the provisions of Article 5 of Law No. 11 for 1954 applied in the West Bank. The tax is collected annually as 17% of the annual net rent value of buildings, and 10% of the annual net rent value of land, according to Article 3 of provisional Law No. 9 of 1967, which is an amendment of Law No. 11 of 1954, which states the tax percentages as follows:

A. 17% of the annual net rent value of buildings including the area on which it is located including surrounding land.

B. 10% of the annual net rent value of land which is not a building space.

Article 7-3 of Law No. 11 of 1954, specifically pertaining to the 6% value, means that it is intended as a basis for valuation and estimation and not as tax percentage.

According to the Department of Finance and the Legal Department in the Ministry of Finance during an interview, 90% of property tax revenues collected by the Ministry of Finance is transferred to local LGUs, while the remaining 10% is deducted as operational expenses. Upon review of Article 3, referred to previously, we find that it gives the Ministry of Finance the right to deduct operational expenses. The Law also gives the Ministry of Finance the authority to collect this tax.

As for the situation in Gaza, the Department of Property Tax is in charge for this function and in accordance with the laws applied in Gaza which are: Law No. 42 of 1940, and Law No. 5 of 1942. According to a report published by the Independent Commission for Citizens' Rights in 2003, the Department of Property Tax collects property tax as 10% of the annual net rent value of the real estate, but it does not follow provisions regarding the formation of valuation committees. As a result, this led the department to introduce fixed percentages for all cases, which consequently resulted in a situation where the valuation is not based on principles of accounting but on arbitrary estimation. Hence, they do not take into consideration clear and specific standards such as: the location, the rent value, and the size. For example, the tax is estimated according to the number of rooms but ignores the size of each room, its location, and rent value.

This is contrary to the provisions of the law applied in the Gaza Strip, which stipulates certain procedures for forming valuation committees and their work mechanism, as well as setting valuation standards, which are not all implemented on the ground.

In addition, the Department of Property Tax in Gaza does not have a clear mechanism for collection. Only a small portion of citizens pay the tax; the collection process usually includes sending a notification of payment from the abovementioned department to the citizen who has an application of some sort at the department since the citizen cannot proceed with any applications or documents until due taxes are paid. However, citizens who have no pending applications do not pay the Ministry anything.

Gaza Strip municipalities do not have a unified system to estimate property tax; instead, each municipality estimates the property tax using its own standard. For instance, the Gaza City municipal council began to prepare a list determining the value of property tax on houses and shops in different neighborhoods of the city. This of course is in contravention with the law applied in Gaza, since the law stipulates the collection of 15% of the annual net rent value.

Regarding the party responsible for collection, Article 16 of Law No. 11 of 1954 stipulates the following:

1- *Taxes are due at the beginning of the fiscal year.*

2- *The tax is collected in accordance with the provisions of laws applied in collecting "Miri state" funds. Moreover, the tax is primarily insured with property.*

What is significant about these amendments is the modified land and buildings law No. 9 of 1967 which gives the Ministry of Finance full authority to collect the property tax, as stated specifically in Article 3-3 of the law: *"The Ministry of Finance shall collect taxes and fines on behalf of the municipalities and shall pay each municipality its dues after the deduction of actual collection expenditures"*. This procedure is followed in the West Bank.

Regarding the situation in Gaza, Article 7-2 of the Urban Property Tax Law No. 42 of 1940 specified the mechanism by which the collection of property tax in cities takes place, stipulating that, *"The tax is levied as a government tax and is collected by any means stipulated in legislation regarding the collection of government taxes…".*

In reality, the situation is different in terms of the mechanism followed in collection between the West Bank and Gaza Strip. In the West Bank the Department of Property Tax within the Ministry of Finance collects the tax and forms the valuation committees in accordance with the provisions of the law previously mentioned, in addition to the amendment of the provisional law No. 9 of 1967 which states that, *"The MoF collects taxes and fines on behalf of municipalities and pays each municipality its due shares after the deduction of actual collection expenditures"*.

In reality, the Department of Property Tax collects the tax once a year, according to the decisions of the valuation committee. Usually the MoF forms these committees from three members: "a representative of the LGU, a representative of the Department of Property Tax, and the chair of the valuation committee in that department."

As for the situation in Gaza, both LGUs and the Department of Property Tax collect the tax, which sometimes results in the tax being collected twice for the same property.

Furthermore, the Ministry of Finance in the Gaza Strip considers itself responsible for collecting the property tax, according to enacted Laws No. 42 of 1940 and No. 5 of 1942. This is especially in regards to Law No. 42, Article 7/2 which states that the tax is levied as a government tax. Furthermore, Article 10 mentions the formation of evaluation committees upon a decision by the district governor whereby the committee should include two employee members and two non-employee members, the chairman of whom should be one of the two employee members. This indicates that the authority over collection belongs to the Ministry of Finance and not LGUs. If the law wished to grant LGUs this collection authority it would have granted them the chair of the committee. However, the law stipulates that LGUs are only a member.

Generally speaking, sometimes the Ministry of Finance ignores the provisions of enacted laws regarding the right of LGUs to participate in the valuation committees formed by the Ministry of Finance.

As for the problem of duplication in the collection of property taxes between local government units and the Ministry of Finance, the cause of the problem originated when the department was closed during the first intifada in 1987. During that period, the LGUs were responsible for collecting the property tax as well as its valuation. With the establishment of the Palestinian Authority in 1994, the Department of Property Tax was reinstated and resumed its responsibilities, however, the LGUs, especially in the Gaza Strip, still consider themselves as the authorized body for this function.

It is here that duplication in collection and conflicts of jurisdiction between the Ministry of Finance and LGUs occur. LGUs that assess and collect property tax base their competence on a number of justifications, which they considered legal, according to the following:

A. Municipalities Law No. 1 of 1934 stipulates the jurisdiction of LGUs to collect the property tax since Article 102 of the law states that:

> *"Any municipality with the consent of the governor and with consideration to the provisions of this Law, may impose the following taxes, on all or part of the municipal boundaries:*
>
> *- Municipal property taxes are ed on the basis of the annual rent value of inhabited buildings and land as well as vacant lands that are subject to taxation.*
>
> *- General tax is ed on the basis of the annual rent value of inhabited buildings and land that are subject to taxation, paid by the inhabitants of the buildings or the users of the land."*

LGUs claim that there is no explicit provision in the Law of Local Palestinian Commissions No. 1 of 1997 on the cancellation of the municipal law mentioned above, which means that the jurisdiction of LGUs over the collection of property taxes still stands.

Here we refute this argument by stating that Article 39 of Law No. 1 for LGUs of 1997 stipulates that:"*The cancellation of any law that violates the provisions of this law*." Hence, we understand this to be an implicit cancellation of the provisions of Law No. 1 of 1934 on which the work of these commissions depends. This is in addition to the related laws that allocated the jurisdiction over collection to the Ministry of Finance.

B. Another argument used by LGUs is that Article 38 of Law No. 1 of 1997 on local government units confirmed the jurisdiction of LGUs to collect property taxes. It stated that" *Taxes and fines due according to previously enacted laws and regulations remain due under the current laws*".

To refute this argument, we point out that when linked with Article 23 of the LGUs law, this article expressly stipulates that buildings and land tax must be collected in accordance with the law of taxes on land and buildings within municipal areas in terms of valuation, collection, auditing and exemptions. Hence, this article, Article 38, may be in contradiction with the approach of LGUs.

It is also important to differentiate between the purposes for which such a tax is imposed and determining the party authorized to collect it; the jurisdiction of the Ministry of Finance over collection is not in contradiction with the right of LGUs to their share of these taxes.

C. The third argument that LGUs use in order to prove their right to collecting the property tax is that Article 23 of Law No.1 of 1997 gave LGUs the authority to collect it, stating that "*This tax is collected in accordance with the provisions of the law of buildings and land tax within LGU areas, in terms of valuation, collection, auditing and exemptions according to the enacted laws and regulations*".

What refutes this argument is when revising the laws on buildings and land tax, we find that they grant authority to the Ministry of Finance while giving LGUs the right to participate in the valuation committees.

In Arab laws, Article 28 of the Egyptian law for real estate tax states that, "*Tax revenues and amounts decided in this law go to the general treasury; as for governorates, 25% of the proceeds of collected taxes in each governorate is devoted to districts, which should be no less than the amount collected in the fiscal year 2006/2007*".

Here it is well noted that the authorized party is the Ministry of Finance through the Real

Estate Tax Association (RTA) which retains the right to collect the property tax and which has branch offices in the governorates and other regions and districts.

We also note that the Minister of Finance has authorities over the RTA For example, he approves rent estimations. Hence, practically speaking, the RTA is affiliated with the Ministry, but has independent offices; plus, collected taxes go to the general treasury.

Lebanese law pointed the issue of the party authorized to collect the property tax in Article 62 of the law which stated that the authorized financial party is "The Department of Property Tax" by way of a payment notification, which it sends to the taxpayer.

Upon discussion of the legality of transferring the collection of such a tax from the Ministry of Finance to LGUs several questions arise including: does the law give inherent jurisdiction to the commissions for collection, or is it that the law only granted the right to benefit from these taxes? On the other hand, some questions arise: Do we need a legislative intervention to amend these authorities, particularly those pertaining to collection and valuation? Or is it possible that this can be done without legislative intervention? If so, how could this be done and are there any legislative alternatives that could be utilized in the face of this option?

In order to respond, it should be mentioned that the laws governing property tax in the West Bank is Law No. 11 of 1954 and in the Gaza Strip, Law No. 42 of 1940 and Law No. 5 of 1942. These are old laws inherited from previous periods, which need to be amended in order to fall in line with international standards and legislation in this area and with the rapid progress and growth in the oPt. Furthermore, upon further review of these laws, we see that both laws has given inherent jurisdiction over the collection of funds to the Ministry of Finance, particularly the amended Jordanian law No. 9 of 1967 and the enacted laws in the Gaza Strip. They also give local government units the right to participate in the valuation committees, but no inherent jurisdiction over collection. The outcome is that the tax revenues should revert back to the municipalities.

As a result, there can be no transfer of powers unless by law, neither by amending enacted laws or through new laws. There would have to be legislative intervention for any transfer of authority from the Ministry of Finance to LGUs.

The transfer of this power to LGUs may have some advantages, such as the fact that these units best know their area and the value of its geographical location, which therefore makes them more capable of valuation in this area. However, the question here is whether these bodies are capable materially and in terms of manpower to carry out this task? Are the LGUs employees aware of the task at hand? Do they have the methods needed for collection? What are the guarantees? Could these municipalities carry out the clearance process in the event there is a delay in tax payment? Could there be a direct deduction of the arrears from salaries or not?

5.1 Scenarios for a proposed transfer of authority for the collection of property tax:

5.1.1 Scenario One: the transfer of authority from the Ministry of Finance to LGUs

The fact that the number of municipalities covered by the property tax is 26 out of 94 indicates the existence of a real problem. Nonetheless, it should be mentioned that the collection of municipalities is very weak and in urgent need of administration teams and competencies in this area. There needs to be a complete system created for this, which means starting from zero. According to a UNDP report, municipalities currently use a cash basis for their financial transactions. This means all incomings are considered revenues in a way that, accordingly, they do not distinguish between the types of revenues or financial assistance or any other types of income.

Within this scenario there would be a complete transfer of authority. A number of factors relate to this transfer of authority to LGUs, such as:

1. There must be an amendment of the laws governing the property tax since they grant this jurisdiction to the Ministry of Finance.
2. This amendment must be applied to more than one article in these laws in order to grant direct power to the LGUs.
3. There must be a monitoring mechanism over these commissions. Here it is possible that the MoLG could undertake this role given its supervisory capacity, in coordination with the MoF.
4. A note must be taken to the problem of "state *financial* lands", for which there are no Tabous "registrations" but rather a tax voucher. This is not an ownership voucher. These lands are registered in the Department of Finance, the files of which cannot be transferred to the commissions due to their importance. They can however either remain or be transferred to the land registration office in the same department, or remain within the jurisdictions of the Ministry of Finance. This is due to the fact that approval from the Ministry of Finance is required for any transaction over these lands in terms of tax payment. Hence, we need to find a mechanism of coordination amongst the relevant authorities.
5. The provision of cadres capable and experienced enough to shoulder the responsibilities of this duty in terms of valuation and collection.
6. The necessity to take into account how capable they are in carrying out certain tasks such as, settlement of accounts whether with merchants or even with employees who fail to pay their taxes.

5.1.2 Scenario Two: Transfer of Powers to the Ministry of Local Government

This scenario might end up with failure since it is as if the jurisdiction is transferred from one ministry to another. In addition, the Ministry of Local Government does not have sufficient number of employees to handle this. Neither is it directly linked to taxpayers nor to the nature of the regions. While it does play a supervisory role over LGUs, it is still not recommended to be responsible for collection.

5.1.3 Scenario Three: Maintaining the Status Quo while solving the problem of duplication in the Gaza Strip

In this scenario, jurisdiction remains in the hands of the Ministry of Finance in the West Bank, but with a resolution to existing problems, the most important of which is duplication of tax collection in the Gaza Strip by LGUs and the Ministry of Finance. In this case, legislative intervention may not be needed. The coordination between LGUs and Ministry of Finance in the West Bank need to be enhanced, information dissemination to tax payers and municipalities needs to be strengthened, collection tools and techniques need to be developed.

5.1.4 Scenario Four: Jurisdiction is granted to the Ministry of Finance with the authority to mandate LGUs

This scenario maintains authority in the hands of the Ministry of Finance to develop the collection with possible provisions in the law to authorize or delegate to local government units in collection and valuation. This would be based on a decision by the Minister. Here, the LGUs would be in charge of collecting the taxes for the Ministry of Finance as a first step to test the ability of these municipalities to carry out collection. This is followed by legislative intervention to transfer some authorities to them at a later stage. The right to conduct valuations remains with the Ministry of Finance with a more major and active involvement of municipalities in the al process.

5.1.5 Scenario Five: Adopt a new law on the unified tax

This is what some countries are moving towards at present such as Jordan, which was preceded by Egypt. Thus, with taking into account the exclusivity of the oPt, the most significant benefit of this approach would be reducing administrative costs as part of good governance.

5.2 Study findings and recommendations

The study's illustration of the nature of the property tax from both the legal and methodical aspects has revealed a number of weaknesses and shortcomings in regards to levying and collecting the property tax. This is in terms of the legislative shortcomings or inadequacies in the application of the spirit of the law, in addition to the problem of duplication in the collection of taxes and the resultant problems and conflicts of jurisdiction. Furthermore, there are problems related to the methods of collection adopted methods of al, especially in the Gaza Strip. In the West Bank, it is more organized, and there is no duplication because collection is carried out by the Ministry of Finance. It then pays it to the LGUs with a deduction of only 10% as collection costs. Furthermore, there is a lack of adequately qualified staff to assess and evaluate.

Following are our main recommendations:

1. The necessity and importance of unifying legislation governing the property tax in both the West Bank and Gaza, whether through the adoption of new legislation or through the adoption of a uniform law of taxation.
2. Precise and clear mechanisms of collection and al; keeping away from approximate estimation, and the need to rely on the standards of geographic locations, the commercial value among other matters.
3. Adopting the imposition of the tax in a gradual manner. This means the more the income from the property increases the more the tax increases, rather than a proportional increase, which is the adopted approach in modern legislation.
4. Working on the gradual transfer of authorities of tax collection and valuation to LGUs since these bodies are more capable of estimation because of the nature of their work. Besides, these taxes are returned to them after being collected so why delegate the task to others.
5. An end to tax collection duplication by LGUs and the Ministry of Finance.
6. Involvement of LGUs in valuation committees.
7. Setting a ceiling or certain fees for the categories of taxpayers or to adopt, like previously mentioned, the increasing payment method.
8. Payment of the property tax should be imposed on all without exception, and is non-negotiable. However, the percentages should be known and fixed according to methodical bases.
9. Fines should also be gradually increased whereby the longer the delay in payment, the higher the fine.
10. More rapid attention must be given to the issue of periodic proxies in order to determine the real owner of the land and avoid confusion in this regard.
11. LGUs should be given a trial period for collection, without legislative intervention before the actual intervention takes place.
12. In villages it is possible to adopt the subject of tax jurisdiction on the buildings tax, thus transferring the authority to LGUs, so as to fulfill the taxes through the so-called tax buildings; this could be circulated to other municipalities including those subject to the property tax law, and then later estimate their ability for collection, as long as it takes place during a trial period. Here we point to the need to grant municipalities a certain power to carry out the collection process, since we are aware of the weakness in their ability to collect municipal taxes due to several reasons.

13. Giving attention to the issue of clearance and the mechanisms that could be adopted if there is a transfer of some collection authorities.

6. Introduction to Taxes:

Taxes are cash amounts of money that are periodically paid for funding the public expenditures of the state (economic, political and social expenditures), in accordance with final laws, bylaws and instructions that are issued in this regard without any direct expected revenue. Taxes can be divided into:

Direct Taxes and Indirect Taxes: Taxes vary in accordance with the objective for which they are imposed or according to which basis on which they are imposed (Income or expending .....etc.). The tax system was officially imposed in the oPt from the British Mandate. Several laws were issued in order to organize tax collection such as the Tax Law. Later, tax collection was regulated in Law 13 of 1947. Indirect taxes were later imposed such as customs fees and production taxes under the Tax Law of 1927. Also local taxes were imposed by municipalities and village institutions such as: taxes on crafts, professions and property. After 1948 such laws remained in effect until the Jordanian government issued new tax laws, while the Egyptian administration maintained the status quo in the Gaza Strip and kept the mandatory laws in effect.
Later, consecutive amendments were made by Israeli authorities under military orders which stayed in effect between 1975 and 1995 when these powers were transferred to the Palestinian National Authority including the Value Added Tax, the Amendment on Income Tax and the imposition of fees and other taxes such as: purchase taxes, customs and production.

After the occupied Palestinian territory was transferred to the sovereignty of the National Authority, direct taxes and local taxes fell under the jurisdiction of the Palestinian Authority. However, constraints remained on the PA regarding indirect taxes in terms of making any changes on them.

6.1. Taxes in the occupied Palestinian territory (oPt) _ The Israeli Occupation (1967-1994):

Previous laws have remained in force, in addition to military orders which were issued for additional tax collection. Furthermore, new kinds of taxes were added such as: the Value Added Tax which started at 8% until it reached 18%, the vehicle tax, bridge tax, purchase tax, supplementary tax, and numerous new taxes. It should be noted that the rates of previously enacted taxes were increased and an advanced credit system is used in tax collection; the revenues from indirect taxes constituted the largest portion of the Israeli occupation's revenues (about 61%) especially the Value Added Tax and customs fees.

6.2. The Palestinian Authority Era:

This era is characterized by economic agreements with Israel although the previous laws remained the same. Law No. 25 of 1964 and Law No. 13 of 1947 were applied in the West Bank.

The economic agreements with Israel allowed the Palestinian Authority to amend some laws on direct taxes while maintaining indirect taxes such as: the Value Added Tax and customs fees linked to Israel. As a result of this situation, the Amended Law for Income Tax No. 17 of 2004 was issued and allowed a reduction of the Value Added Tax from 17% to 14.5%. It did not however allow that it be amended or cancelled completely. This era is distinguished by the increase of tax revenues that represent the basic financial resource of the Palestinian Authority reaching 88% of total local revenues.

6.3 Definition of Property Tax:

Property tax is usually collected from property owners in exchange for the services provided to them by the state departments. Property includes buildings and lands and alike. It is similar to the income tax in that revenues from the property rent are considered the income which the tax-payer obtains; this tax is a direct nontransferable tax.

The government can impose and collect it, or authorize other authorities such as the municipality to collect it. The revenues from this tax constitute an important part of the state's public budget revenues.

Problems may arise regarding property as the rent value changes from time to time. This necessitates an estimation of the market value of the property on which this tax is based, which can cause objections to the value of imposed taxes. Notwithstanding the authority which collects the tax, the funds are transferred to the authority which provides the services. These services include: opening, paving and maintaining roads, street lighting, public libraries, clubs, cleaning, sewage water disposal, etc.

The expenditure facets of property tax revenues are not usually identified by the Ministry of Finance, but this matter is left to the competent local authority. This local authority disposes and expends such revenues as it deems fit in accordance with its priorities and requirements. There is disparity and discrepancies in property taxes between the West Bank and Gaza Strip based on the enacted legal and legislative foundations, the mechanisms of collection, the collection authority, and the collection percentage. Furthermore, there are no clear, sound and agreed upon bases applied in the West Bank and Gaza Strip. While the collection of this tax in the West Bank is limited to the Ministry of Finance represented by the Department of Property Tax, the types and methods for collecting this tax are numerous in the Gaza Strip. Part of this tax is collected by the Property and Income Tax Department of the Ministry of Finance, another part is collected by LGUs, while the third part is collected by both parties at the same time. The property tax is sometimes collected twice on the same property.

And in all cases, there are disparities in the mechanisms of al and collection besides the absence of clear and sound bases according to which the property tax is estimated.

6.4 Tax Contribution to State Revenues:

The first budget of the Palestinian Authority was set in 1997. Most of the revenues came from indirect revenues represented in the Value Added Tax where earnings ranged from $248-$457 million in 1998. The revenues of value added tax are equal to more than half of tax revenues following the customs fees revenues.

The total budget of the Palestinian Authority reached $964 million in the year 2000, of which tax revenues constituted $848 million. 90% of these revenues are indirect taxes, in addition to

$422 million in the form of investments to the budget by donor countries, which put the PA's general budget at approximately $1,386 million.

The following is a World Bank report on the financial performance of the Palestinian National Authority as of 15/10/2008, including the first, second and third quarters of the year. The fourth quarter is also estimated in addition to the expected allocation in the PA's budget from the property tax in 2008.

	First Quarter	Second Quarter	Third Quarter	August	September	From January to September	Expected
Total Taxes	68.1	80.9	62.9	22.6	17.6	211.9	145
Property Tax	1.1	0.5	0.4	0.2	0.1	2.0	1.0
Income Tax	33.9	24	14.8	5.1	5.0	72.8	55
V.A.T	21.3	39.5	29.6	10.7	8.7	90.4	55

Sources: Ministry of Finance Reports: Detail Fiscal operation: Revenue Expenditures and Net lending (Commitment Basis) September 2008.

**Figures in Millions*

In another report prepared by the Palestinian Ministry of Finance on the financial performance of the PA at the end of the third quarter of 2008, it shows that the total revenues collected in this period were $410 million. This represents a 13% increase from the third quarter of 2007 with the knowledge that inflation did not exceed 9%. Given the numbers in the third quarter of 2008, it is expected that the fourth quarter will be nearly the same.

6.5 Tasks and Duties:

The General Department of Property Tax estimates and collects the property tax within the boundaries of governorates; its work and services to the citizens expand to the point that they overlap with numerous government institutions such as: the Ministry of Local Government, Ministry of Social Affairs and the Judicial Authority including the regular courts, Sharia (Islamic) courts and local government units including all local government institutions and private sector institutions such as bank, and land defense committees. The Department of Property Tax of the Finance Ministry issues profession licenses to any owner of a profession, craft, industry or trade. The Department of Property Tax of the Ministry of Finance collects fees for the profession licenses from their owners. These fees are filed in an account separate from the property taxes while the fees for craft licenses are collected by local government units from their owners. Furthermore, the local authority provides services for non-taxpayers. Consequently, all citizens of the occupied Palestinian territory benefit from property tax services except for the direct collection of property tax and the transfer of a portion of it for the interest of local authorities, which is subject to taxation.

6.6 Objectives:

The Department of Property Tax of the Ministry of Finance aims at:

1. Maintaining citizens' property and renew records.

2. Increasing revenues of taxes of property and profession licenses and revitalizing their collection.

3. Carrying out comprehensive al of properties in all old and new municipalities.

4. Developing the current computer system.

5. Changing the current mechanisms of al and replacing them with new mechanisms in accordance with international standard.

6. Increasing the capacities and technical and administrative skills of employees.

7. Increasing awareness about taxes.

8. Facilitating services provided to the citizens and expediting their achievements.

6.7 Services:

The Department of Property Tax of the Ministry of Finance provides numerous services in addition to its core task of collecting the property tax. These include the following:

1. Issuing records or entry.

2. Issuing a non-available property certificate.

3. Issuing a certificate of tax payment.

4. Checking names for Sharia (Islamic) courts.

5. Issuing a liability acquittal certificate for municipalities.

6. Facilitating transactions for social affairs

7. Transactions for status changes.

8. Collection of the property tax.

9. Approval of rent contracts.

10. Issuing profession licenses.

11. Issuing a clearance form for land registration.

12. Issuing proof of ownership certificates.

6.8 Legal Basis for tax collection:

a) **West Bank:**

The tax is collected in accordance with the regulations of laws applied for collecting Miri (state) funds. The Ministry of Finance collects the tax and fees on behalf of municipalities, and pays each municipality its share of the tax and fees after deducting the actual collection expenditures; hence, it transfers 90% of the collected funds and takes 10% as collection expenses.

b) **Gaza Strip:**

In villages it is allowed to collect the property tax according to the regulations of tax collection, but in cities, the tax is collected as a government tax according to permitted means stated in the enacted legislation. In some cases the Ministry of Finance collects the tax, and in other cases, local government units collect it without making any transfers among each other. In some areas of the Gaza Strip, there is coordination between the parties in transferring.

6.9 Mechanisms and authority of collection:

The mechanism used in collecting property taxes differs in the West Bank from the one used in the Gaza Strip.

a. **West Bank:**

The property tax is collected by the Department of Property Tax of the Ministry of Finance. The department collects the tax once a year in accordance with Law No. 11 of 1954, via a joint al committee formed by the local government units and the Department of Property Tax. It consists of three (3) members: a representative of the concerned local authority, a representative of the Department of Property Tax and the head of the committee who is also the head of the al Committee in that department.

b. **Gaza Strip:**

Local government units and the Income and Department of Property Tax of the Ministry of Finance collect the property tax. Sometimes there is duplicity in collection and disputes over competencies between the Ministry of Finance and local authorities. A portion of the tax is collected by the Ministry of Finance; another is collected by local government units while the third portion is collected by both authorities at the same time. In this case, the tax is collected twice on the same property. The Ministry of Finance in the Gaza Strip considers itself the competent authority for collecting the property tax in accordance with law No. 42 of 1940 relating to urban property tax, and in accordance with the law No.5 of 1942 relating to rural property tax. The Ministry of Finance disregards what is stated in the enacted laws regarding the right of local government units to participate in the al committees formed by the Minister of Finance on taxes due for properties located within the borders of the local authority.

It appears that the problem of duplicity in the Gaza Strip resulted from the first Intifada (Uprising) in 1987 when the Department of Property Tax was closed. Meanwhile, the local government units took responsibility for al and collection of the property tax. However, with the inception of the Palestinian National Authority in 1994, the Income and Department of Property Tax resumed its tasks. The local government units in the Gaza Strip however considered themselves the competent authorities for this task in accordance with the municipalities' law No. 1 of 1934. Hence, the problem of duplicity in the collection of the tax and the dispute over jurisdictions flared between the Ministry of Finance and local authorities.

In estimating and collecting the property tax, local government units depend on the following:

- The Municipalities Law No. 1 of 1934 which states the jurisdictions of local government units in collecting the Property Tax.
- Local government units consider the Authorities Law of 1997 as stipulating the role and powers of local government units in collecting the property tax.

6.10 Tax rates:

a. West Bank:

The Department of Property Tax of the Ministry of Finance collects the property tax annually from taxpayers with 17% of the annual net rent value of buildings, and 10% of the annual net rent value of land in accordance with Article 3 of the Temporary Law No (9) of 1967, and Amended Law of Buildings and Land No. 11 of 1954.

The annual net rent value is the rent for which buildings are expected to be leased annually after deducting repair, renovation and other costs. 90% of the collected revenues are transferred to the local government units and 10% of the collected amount is deducted from the Ministry as collection costs.

b. Gaza Strip:

The Property and Income Tax Department works in accordance with the previously mentioned laws and collects 10% of the rent value for the property. However, this department does not implement the regulations on the formation of al committees. As a result, the department has set fixed percentages for all cases. No value estimation is made in accordance with accounting regulations or the lists of town and building organization departments. In this regard, the department follows a random al policy and does not depend on clear and specific standards such as the location of the property, commercial value or area.

The Property and Income Department in the Gaza Strip does not have a clear mechanism for collecting taxes from citizens.

A small percentage of citizens pay the property tax. The process of collection is carried out by sending a payment notice from the said department to citizens who have certain transactions or applications at the department. This is because no application is processed without the payment of due taxes. However, for citizens who do not have applications in the said department do not pay anything to the Ministry of Finance.

The municipalities in Gaza Strip governorates do not have a unified system for estimating the property tax; each municipality estimates the due property tax value differently.

6.11 Conclusion:

- Duplicity problem in property tax collection in the Gaza Strip where some taxes are collected by the LGUs and others are collected by the Ministry of Finance. In the West Bank, the situation is different whereby the Department of Property Tax in the Ministry of Finance estimates and collects the tax.
- Disparities in the mechanisms followed both by the Ministry of Finance and local government units in the Gaza Strip in evaluating the due taxes. Hence, the difference in location, area or commercial value of the property is not taken into consideration.
- Unavailability of sound and unified bases for evaluating the due value of property tax, or adopting clear and equitable standard for collecting this tax in the West Bank and Gaza Strip despite the use of Property Tax laws in the al committees. Hence, it is necessary to develop laws that are in line with developments; it should be noted that the Jordanian tax in effect in the West Bank is Law No. 11 of 1954.
- The property tax is neither collected by the LGUs nor by the Ministry of Finance from Palestinian refugee camps in the Gaza Strip due to the fact that the property and land in these camps are not considered private property. Rather, the homes were granted to the refugees by UNRWA, which also does not pay the property tax on behalf of the refugees as it is a tax-exempt international organization.
- There are regions in the Gaza Strip that are not located within the boundaries of any authority. Still, they receive services from neighboring authorities but no property tax is regularly collected from them. Instead, the property tax is randomly collected from them by the Ministry of Finance when a citizen registers or transfers ownership of his property.
- The amount of revenues of the Department of Property Tax greatly dropped during the current Intifada. For example, the amount of expected revenues from Khan Younis for 2003 was NIS2 million while the actual tax collection amounted to only NIS 850,000.
- Indirect taxes are taxes imposed on a certain commodity, service or product under different names and justifications, but their objective and financial and economic impact does not overshadow the aim of providing funds to support the State's treasury.
- Despite claims by LGUs on their right to cancel the property tax, it is fair to say that the LGUs Law of 1997 implicitly cancelled the Municipalities Law of 1943 given that the new law addresses subjects and regulations dealt with by the old law.
- Giving the Ministry of Finance the right to valuate and cancel the property tax does not contradict the right of the LGUs to participate in the valuation and collection committees, nor does it contradict with their right to the largest share of the revenues from this tax since LGUs are the most capable in estimating the value of the property located within their own boundaries; they also issue building licenses.
- At present, a promotional discount of 20% of the rent value taxed by the Department of Property Tax is being implemented to encourage citizens to pay their taxes; this is in addition to a 20% - 30% discount on the value of furniture in furnished flats.

- In the West Bank, there are 12 Department of Property Tax offices in Ramallah, Nablus, Jenin, Tulkarim, Qalqilyeh, Selfeet, Hebron, South Hebron, Dora, Bethlehem, Abu Dis and Jericho.

6.12 End of Study Recommendations:

There is an urgent need for reforms to the taxation system.

Therefore, we recommend the following:

* To unify legislations and provide a clear legal basis regarding al and collection of taxes in general and the property tax in particular in West Bank and Gaza Strip governorates.

* The Ministry of Finance should form committees that are specialized in the valuation and collection of property tax as stated in the enacted laws, as well as continuously monitoring and evaluating the function of these committees.

* To adopt clear and equitable bases for estimating the value of the property tax, taking into consideration the rent value, location and other important factors related to the property in order to achieve equity in imposing taxes.

* To avoid duplicity in collecting the property tax. It is prohibited for two parties to collect the tax at the same time from the owner and the tenant. Hence, it is necessary to set foundations that would help to avoid the collection of the tax more than once from the same citizen or for the same property, especially since many property owners have an agreement in the lease contract that the tax is the responsibility of the tenant. Consequently, this creates confusion over who is to pay the tax.

* The Ministry of Finance should set and follow the correct legal procedures that ensure the collection of the property tax from the taxpayer on the one hand and set clear and equitable standard for exempting authorities or individuals from paying this tax.

* The Ministry of Finance should transfer the due shares of the property tax to the relevant local authority as soon as possible so that these LGUs can guarantee the necessary financial resources to continue providing services to citizens.

*Fees for various categories of property should be determined by the Legislative Council on an annual basis; this should not be left to the local government units and the Ministry of Finance.

* There is an urgent need to reduce the number and rates of taxes; nearly 13 taxes are imposed on the Palestinian taxpayer. This would encourage Palestinian citizens to better commit to paying these taxes and would reduce the cases of tax evasion.

* A restructuring of the Tax Department is needed; its indirect tax directorates should be integrated into one department that takes responsibility for collecting taxes from the taxpayers as well as integrating all indirect taxes and replacing them with one tax.

*The consolidation of all local taxes, which would be called a Municipality Tax; this would be applied to both municipal and village institutions and imposed in accordance with the area of the property; it would also differentiate between the commercial and residential categories, type, and quality of the building and the size of the real estate.

* The Palestinian Government and the Legislative Council should pay ample attention to these kinds of taxes because of their importance in supporting the coffers of local government units through necessary funds to continue providing their different services to the public.

* It is necessary to bring down the rate of the property tax from 17% in accordance with what local government units deem fit for the Palestinian taxpayer, so as to encourage them to commit to paying this tax on time.

* To continuously develop the computerized system used at the Department of Property Tax in the Ministry of Finance in line with contemporary advancements.

* In order for the tax reform process to succeed and reduce the cases of tax evasion in the oPt, it is necessary to make equitable adjustments for both the tax payer and the State; this would encourage the taxpayer to settle his/her due taxes by indirectly benefiting public interest. To achieve this, it is necessary to carry out a comprehensive review of all imposed taxes in Palestinian Authority territories including the property tax and make the necessary reforms to laws, authorities, rates, mechanisms of collection and other problems in order to improve the tax sector in the oPt.