

Quick Response Request

Submitted by: Association of the Units of Local Self-government of Republic of Macedonia (ZELS)

Date: August 2010

Subject: Distribution of VAT and PIT between municipalities and central budget.

1. Summary of Results*

Country/Entity	% of VAT for LGs	% of PIT for LGs
Albania	0	0
Bulgaria	0	0
Kosovo	0	0
Macedonia	3	3.4
Moldova	0	At least 50
Montenegro	0	10
Romania	17000.2 million Romanian Lei for 2010 y.	44
Serbia	0	12
Slovenia		54
Srpska	24	25

* For more details please follow the links in the table or see the detailed information in the next chapter.

2. Detailed Information

Country/Entity	Detailed answer
Albania	Actually neither VAT nor personal income tax are not divided between local and central government because the fiscal legislation has defined it as central government income, collected by central structures and are paid to the central government accounts. The local government law (Law number 8652, dated 31.07.2000) has clearly defined that the personal income tax should be clearly divided between central and local government but there have passed 10 years after the adoption of this law and still this disposition is not empowered and it is not included yet in the legislation of the fiscal system.
Bulgaria	The collected taxes from VAT at the amount of 20 % and from Personal Income Taxes - 10 % go directly to the state central budget, no percentage is returned back from the state to the municipalities. In BG is no legal base that obliges the state to transfer financial resources collected from these taxes to municipalities.
Kosovo	According to the Law on Tax Administration of the Republic of Kosovo, responsible for determining the VAT, Personal Income Tax and collection of these obligations is the Ministry of Finance and Economy – Department of Tax Administration and the income of these obligations goes to the Consolidated Budget of the Republic of Kosovo. Municipalities do not get anything directly from these obligations. Municipalities from the Consolidated Budget of the Republic of Kosovo receive the General Grant, Specific Grant of Education and Specific Grant of Primary Health and other specific grants according to the delegation of responsibilities by the central level pursuant the formula that defines the Law on Finances of Administration of Local Government of the Republic of Kosovo

Macedonia	Currently the municipalities receives 3% from PIT and 3,4% from VAT. The percentage of VAT to be transferred to municipalities according to the Law for financing of LSG units till 2013 should be increased to 4.5%.
Moldova	<p>According to art. 5 of Law on local public finance of the Republic of Moldova the VAT percentage distribution to local budgets is - 0%. VAT, Excises and custom taxes are revenues of the state budget, except for the Autonomous Administrative Territorial Unit Gagauzia (UTAG), that according to the law collects VAT and Excises form the goods commercialized on the territory of UTAG.</p> <p>Personal Income Tax is a really specific issue for Moldova, regarding the distribution of tax percentage to local budgets.</p> <p>Personal income tax is established to be transferred to local governments within 100%. But de facto, the Rayon councils (The Finance Department) decide every year the share of the tax that will go to every municipality. The decisions are taken for every municipality separately and can vary from year to year. When granting the percenteges from Personal Income Tax to local budgets, are taken into consideration the expenses and the revenues of each community. Therefore there are communities that receive in their local budgets 100% or 50% of Personal Income Tax and there are communities that do not receive anything, meaning 0%.</p> <p>According to the law on local public finance, at least 50 % of the corporative income tax stays at the local level. Every year the law on state budget specifies this quota. Usually, in all regions 100 % of the corporative income tax stays at local level, except for Chisinau and Balti municipalities (only 50 %). Until 2007 this tax constituted roughly 1300 million lei annually. But according to new fiscal provisions enforced in 2008, the reinvested income is not taxed any more. As a result, the budgetary revenues from this tax decreased three times and gravelly affected the local budgets. As it is in the case of the Personal Income Tax, the rayon councils decide the quota of the corporative income tax that goes to municipal budgets and the quota that goes to rayonal budget. If in the case of the Personal Income Tax the municipalities may receive big quotas, than in the case of the Corporative Income Tax, usually, the municipalities receive almost nothing, except for the municipalities that are centers of the rayons.</p>
Montenegro	<p>VAT - 0% goes to Municipalities;</p> <p>Personal Income Tax - 10% to municipal budgets and 11% to the Equalization fund. As well, municipalities can introduce surtax which is 13% of amount of calculated personal income tax (15% - for Capital City and Historical Capital).</p>
Romania	<p><i>Distribution of Personal Income Tax</i></p> <p>At the moment, according to a 2010 governmental regulation (OUG 63/2010), each territorial-administrative unit receives the following percentages from the Personal Income Tax collected at the state budget:</p> <ul style="list-style-type: none"> • 44% for commune, towns and municipalities local budget (formerly 47%) • 12% for county local budget (formerly 13%) • 21% for general public finance office in order to equilibrate the local budgets of the communes, towns, municipalities and counties (formerly 22%); <p><i>Distribution of VAT</i></p> <p>According to the Law of State Budget for 2010 from the VAT are being allocated the distributed amounts of 17000.2 millions LEI for local budgets, out of which:</p> <ul style="list-style-type: none"> • 2053.4 millions LEI for decentralized expenses at county level • 11580.5 millions LEI for decentralized expenses at commune, town, municipality level • 551.8 millions LEI for expenses concerning the county and commune roads • 2001.0 millions LEI for local budget equilibration at commune, town,

	<p>municipality and county level</p> <ul style="list-style-type: none"> • 813.5 millions LEI in order to finance the Infrastructure and Sport Areas Development Program in Rural Areas;
Serbia	<p>VAT - municipalities do not receive directly resources collected from VAT, these assets are regulated through transfers.</p> <p>Personal Income Tax – 12 % goes directly to the municipal budget, other 28% is distributed in the central budget</p>
Slovenia	<p>The standard rate of VAT in Slovenia is 20%. There is a reduced rate of 8.5% (f.e. books, food, seeds, living animals, water supply, medication,...).</p> <p>Personal Income Tax between municipalities and central budget:</p> <p>54% of total income tax paid in the year before past belongs to the municipality, plus inflation of the year before and the year, for which is calculated the appropriate use of money.</p> <p>During the period from 2009 to 2011, is the appropriate use of municipal finance financed in addition with income tax revenues of the municipalities - in the year 2010 by 16% in 2011 by 8% of the tax revenues of municipalities.</p>