

Quick Response Request

Submitted by: Congress of Local Authorities from Moldova (CALM)

Date: June 2011

Subject: *Collecting normative and/or legislative acts providing information on local borrowing and information on how is the personal income tax collected in NALAS countries.*

Background: CALM used the service to collect laws, national regulations or any kind of normative and/or legislative acts providing information on local borrowing and to learn how is the personal income tax collected in NALAS countries country: whether it is collected at the place (village, town, city) where employees work or at the place (village, town, city) where they live, in case these two places are different. CALM needed the samples of normative acts and excerpt from the region to elaborate a new draft law on local borrowing and to propose changes to the law on local public finance. As it concerns the request on procedure of the collection of the personal income tax, it was used by CALM to elaborate policy arguments to promote a reform in this field. The Parliament of the Republic of Moldova initiated a reform according to which the personal income tax should be collected in the budget of the municipality where the employee has its residence, not at his working place (in the case this two are different). This reform is supported by CALM, but the Ministry of Finance is against, saying that this will complicate the fiscal administration of this tax.

1. Summary of the Results

NALAS collected 10 normative acts and excerpts from its members and provided them to CALM. The materials and the results of the Local borrowing project, financed by the Open Regional Fund (GIZ) and implemented under NALAS umbrella by the Romanian Association of Cities were also used to help CALM in gathering more experiences from the region.

According to this publication, in all NALAS countries the primary obstacle to the use of municipal credit has been largely on the demand side, i.e. the municipalities' readiness to borrow. Moreover, according to the national legislation related to municipal finance and municipal borrowing, local governments were prohibited from taking on debt until recently (Moldova 2003, Serbia and Montenegro 2005, Albania and Macedonia 2008, Kosovo 2009). On supply side, i.e. within financial institutions, funds for lending to local government were theoretically available. However, (i) the weak financial position of local governments coupled (ii) with a low experience of banks in assessing the credit worthiness of municipalities restricted the development of local credit markets. Although the supply side of the municipal credit market in SEE countries appears to have sufficient liquidity and capacity to actively enter into transactions, the demand side of the market is currently limited to larger municipalities with sound financial position. Therefore, to enable municipal credit market development, the ongoing fiscal decentralization programs must strengthen local government financing capacities. To this end, creating and enforcing adequate legislation, building and supporting financial management capacity at local level are critical for the success of decentralisation process.

As it concerns the collection of the Personal Income Tax, generally in the countries that have responded to this request, it is collected to the local budget where the person lives. For instance, in Montenegro, According to the Law on Personal Income Tax ("Official Gazette of the Republic of Montenegro", No. 65/2001, 12/2002, 37/2004, 70/2006, 4/2007 and "Official Gazette of

Montenegro”, No. 86/2009), personal income tax is collected based on the living place of a taxpayer. It is also the case in Croatia, where according to the Law on Income Tax (Official Gazette 80/10, 73/08, 177/04) personal income tax is also collected based on the living place of a taxpayer.

2. Detailed answers

Turkey

Question 1 CALM, Moldova:

“Please submit laws, national regulations or any kind of normative and/or legislative acts providing information on local borrowing in English (if available) or in your native language.”

UMM Response:

LAW ON REGULATING PUBLIC FINANCE AND DEBT MANAGEMENT

<http://www.treasury.gov.tr/irj/go/km/docs/documents/Treasury%20Web/Legislation/Debt%20Management%20Legislation/Law%20on%20Regulating%20Public%20Finance%20and%20Debt%20Management%20%28Law%20no.%204749%20issued%20on%20March%2028,%202002,%20amended%20on%20July%2031,%202003%29.pdf>

Question 2 CALM, Moldova

“Please submit any information on how is the personal income tax collected in your country: is it collected at the place (village, town, city) where employees work or at the place (village, town, city) where they live, in case these two places are different. Please submit the information in English (if available), or in your native language.”

UMM Response:

Turkish direct taxation system consists of two main taxes; income tax and corporate tax. An individual is subject to the income tax on his income and earnings, in contrast to a company which is subject to corporate tax on its income and earnings. The rules of taxation for individual income and earnings are provided in the Income Tax Law 1960 (ITL). Likewise, the rules concerning the taxation of corporations are contained in the Corporation Tax Law 1949 (CTL). Despite the fact that each is governed by a different legislation, many rules and provisions of the Income Tax Law also apply to corporations, especially, in terms of income elements and determination of net income. <http://www.gib.gov.tr/index.php?id=469> and <http://www.mevzuat.adalet.gov.tr/html/1040.html>

Please Find the Additional File to This Document: **[Application Regulation of Provincial Bank TURKEY](#)**

Croatia

Question 1 CALM, Moldova:

“Please submit laws, national regulations or any kind of normative and/or legislative acts providing information on local borrowing in English (if available) or in your native language.”

Response:

Local borrowing is regulated in the *Rules of Procedure of Borrowing and Providing Warranty and Approval of Local (Regional) Governments* (Official Gazette No. 55/09)

(Pravilnik o postupku zaduživanja te davanja jamstava i suglasnosti jedinica lokalne i područne (regionalne) samouprave, 55/09)

<http://www.mfin.hr/adminmax/docs/Pravilnik%20o%20postupku%20zaduzivanja%20te%20davanja%20jamstava%20i%20suglasnosti%20JLP%28R%29S%20-%20procisceni%20tekst.pdf>

- only Croatian version

These Rules are based on Article 87 Paragraph 6 Budget Act (Official Gazette 87/08).

Question 2 CALM, Moldova

“Please submit any information on how is the personal income tax collected in your country: is it collected at the place (village, town, city) where employees work or at the place (village, town, city) where they live, in case these two places are different. Please submit the information in English (if available), or in your native language.”

Response:

According to the Law on Income Tax (Official Gazette 80/10, 73/08, 177/04) personal income tax is collected based on the living place of a taxpayer.

http://www.porezna-uprava.hr/en/porezi/v_poreza.asp?id=b01d1#4.1_PERSONAL_INCOME_TAX

Montenegro

Question 1 from CALM, Moldova:

“Please submit laws, national regulations or any kind of normative and/or legislative acts providing information on local borrowing in English (if available) or in your native language.”

Response from Montenegro:

Attached you will find Law on Local Self-Government Financing of Montenegro (“Official Gazette of the Republic of Montenegro”, No. 42/03 and 44/03 (correction) and "Official Gazette of Montenegro", No. 5/08 and 74/2010). Local borrowing is stipulated in Paragraph VI – Articles 60-65.

Question 2 from CALM, Moldova:

“Please submit any information on how is the personal income tax collected in your country: is it collected at the place (village, town, city) where employees work or at the place (village, town, city) where they live, in case these two places are different. Please submit the information in English (if available), or in your native language.”

Response from Montenegro:

According to the Law on Personal Income Tax (“Official Gazette of the Republic of Montenegro”, No. 65/2001, 12/2002, 37/2004, 70/2006, 4/2007 and “Official Gazette of

Montenegro”, No. 86/2009), personal income tax is collected based on the living place of a taxpayer.

Kosovo

Question 1 from CALM, Moldova:

“Please submit laws, national regulations or any kind of normative and/or legislative acts providing information on local borrowing in English (if available) or in your native language.”

Response:

Attached you will find *Law on Local Government Financing* of Republic of Kosovo **Law No. 03/L-049**, the Local Borrowing is stipulated in **Paragraph V – Articles 30** at Municipal Borrowing and Commitment.

Question 2 from CALM, Moldova:

“Please submit any information on how is the personal income tax collected in your country: is it collected at the place (village, town, and city) where employees work or at the place (village, town, and city) where they live, in case these two places are different. Please submit the information in English (if available), or in your native language.”

Response:

Please see attached the *Law on Personal Income Tax* of Republic of Kosovo **Law No. 03/L-161**, and *the Law on Tax Administration of Republic of Kosovo* **No. 03/L-222**.