



State Comptroller of Israel | Local Government
Audit Report | 2023

Financial Audit

Municipal Property Tax in the Local Authorities – Regulation, Imposition and Granting of Discounts



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Background

Municipal property tax is the main tax collected by the local authorities in Israel and the main financial source for fulfilling their duties and providing state and local services to their residents. The local authorities impose municipal property taxes on property owners within their jurisdiction according to the type of property, its size, its use, and the area in which it is located. Municipal property tax rules are anchored in primary legislation – mandatory orders and laws of the Knesset; in secondary legislation – regulations and orders enacted by the Ministers of Interior and Finance; and in municipal property tax orders legislated by the local authorities councils every year. In 2020, the local authorities imposed municipal property taxes on the owners of the properties under their jurisdiction at about NIS 34.6 billion, of which they collected about NIS 24.2 billion, 60% of their Own Income. The local authorities are allowed, and sometimes even obligated, to grant different populations, including those in need and persons with disabilities, exemptions and discounts in municipal property taxes. In 2020, the local authorities granted discounts and gave exemptions from all imposed municipal property tax at about NIS 8.8 billion.



Key Figures

about NIS

**21.7
billion**

the local authorities balance of doubtful debts in municipal property tax for the end of 2020

**NIS 31.7
billion**

the municipal property tax balance of receivables in the local authorities for the end of 2020

**NIS 24.2
billion**

municipal property tax collection in local authorities in 2020

86%

of local authorities impose "gross-gross" municipal property taxes

about NIS
8.8 billion

total discounts and exemptions from municipal property tax granted by local authorities in 2020

about NIS
**792
million**

the municipal property tax balance of receivables in the six local authorities examined for the end of 2020

about NIS
**290
million**

municipal property tax debts in the **Reina** Local Authority for the end of 2020

58%

the rate of residential municipal property tax imposed out of the total municipal property tax in the **Reina** Local Authority in 2020

only 11%

the collection rate of municipal property tax in arrears in the municipality of **Nof HaGalil** in 2020 compared to the national average of 26%

in 2

of the local authorities examined, there was no appeal committee for municipal property tax issues in 2022 (the local authorities of **Kiryat Tivon** and **Reina**)

722


of the complaints submitted to the Ombudsman about local authorities' municipal property tax in 2019–2021 (7% of all complaints)

39%

of the complaints that the Ombudsman arbitrated in the State Comptroller's Office regarding municipal property tax were classified as justified or as rectified





Audit Actions


 From May to November 2022, the State Comptroller's Office examined the local authorities' municipal property taxes including a review of municipal taxation in Israel and around the world; Regulation by the central government; The municipal property tax imposed and its collection and granting of discounts. The examination was conducted in six local authorities: the municipalities of **Ashdod**, **Kfar Saba**, and **Nof HaGalil**; the local authorities of **Kiryat Tivon** and **Reina**; and the **Emek Yizre'el** Regional Council (the local authorities examined). Completion examinations were carried out at the Ministry of Interior. The audit also included complaints received by the Ombudsman at the State Comptroller's Office regarding municipal property taxes in 2019–2021 and presented examples of the complaints and the decisions made concerning them.

Key Findings



 **Municipal Property Tax Debts and Doubtful Debts** – the balance of municipal property tax receivables of all local authorities as of the end of 2020, including doubtful debts, was about NIS 31,735 million compared to NIS 28,961 million in 2016, and the balance of doubtful debts at the end of 2020 was NIS 21,697 million compared to NIS 19,265 million in 2016. As of the end of 2020, the balance of the doubtful debts was about 69% of the total receivables, which was about NIS 31,735 million. An alarming situation was raised regarding the municipal property tax debts of the **Reina** Local Authority, which was about NIS 290 million, and its balance of doubtful debts, which was about NIS 273 million – almost three times higher than the authority's annual budget, and about 95% of its municipal property tax debts.

 **Extraordinary Approvals for Changes in the Municipal Property Tax Rate** – a large number of applications for extraordinary approval, submitted by between 78 and 102 authorities in 2020–2022, is not in line with the purpose of the legislation – to allow an extraordinary increase in special cases only; The above turns the exception into the rule, and it may be used as a means of circumventing the mechanism and purpose of the freeze legislation.

 **Regulation by the Central Government** – at the audit completion in November 2022, over 16 years after the government resolved the need for municipal property tax reform, no reform was carried out. The two inter-ministerial committees established for this purpose, the Committee for Municipal Property Tax Reform (the Barzilai Committee) and the Inter-Ministerial Team for Structural Changes in Municipal Property Taxes, did not



form final reports, and their recommendations did not receive the ministers' approval, and they were neither published nor implemented. According to the Ministry of Interior's data submitted to the State Comptroller's Office in August 2022, 219 of the local authorities impose their residents under municipal property tax orders according to the "gross-gross" method, while 25 local authorities adopted the "gross" method and 11 local authorities adopted the "net" method. Although all the local authorities examined (the municipalities of **Ashdod**, **Kfar Saba**, and **Nof HaGalil**, the local authorities of **Kiryat Tivon** and **Reina**, and the **Emek Yizre'el** Regional Council) have adopted the "gross-gross" measurement method, the method of imposing the municipal property tax is not the same due to differences in the attribution of common areas for imposing taxes and in parts of buildings such as open balconies, parking, open floors and shelters. Thus, for example, the authorities examined imposed the gas stations within their jurisdiction differently and classified the convenience stores and the land occupied by the gas stations in a non-uniform manner.



Determining Lower Rates than Allowed in the Municipal Property Tax Orders – Kiryat Tivon Local Authority set in the municipal property tax order for 2022 a rate for the classification of "auxiliary buildings and warehouses used for residences" that is lower than the minimum rate set for the residential classification.



Municipal Property Tax Collection – the rates of municipal property tax collection from residences in the **Nof HaGalil** Municipality and the **Reina** Local Authority were relatively low – 65% and 63%, respectively. A meager collection rate (30%) was found in the non-residential municipal property tax collection in **Reina** Local Authority. The collection rate of taxes in arrears in the **Nof HaGalil** Municipality in 2020 was meager – about 11%, compared to a national average of 26%.




Procedure for Granting Municipal Property Tax Discounts – the local authorities examined differ from each other in setting procedures for granting municipal property tax discounts – the **Ashdod** Municipality established a comprehensive and detailed procedure for granting municipal property tax discounts; The **Emek Yizre'el** Regional Council established several procedures to regulate the granting of municipal property tax discounts; The **Kfar Saba** Municipality established several procedures, some of which overlap; The **Kiryat Tivon** Local Authority established a partial procedure. On the other hand, the **Nof HaGalil** Municipality and the **Reina** Local Authority have not established procedures for granting municipal property tax discounts.





The Interface Between the Local Authorities and the State Institutions for Receiving Information on Those Entitled to Discounts – no guidelines have been established on the frequency of the transfer of information from the National Insurance Institute to the local authorities and its integration in the computerized systems of the local authorities' collection departments to provide automatic real-time municipal property tax discounts. The municipalities of **Ashdod**, **Kfar Saba**, and **Nof HaGalil** receive the above information once a month. In contrast, the **Emek Yizre'el** Regional



Council and the **Reina** Local Authority receive it once a year. It was also found that all the authorities examined integrate the information at intervals close to the date of its receipt, except for the **Kiryat Tivon** Local Authority, which receives information once a quarter but integrates it once a year.

 **Providing Municipal Property Tax Discounts not According to the Regulations and the Law** – for years and up to the audit's completion date, the **Kfar Saba** Municipality granted long-time municipality employees a 20% discount on municipal property tax, contrary to the provisions of the law, regulations, and case law. The above discount in 2019–2021 was about NIS 100,000. The municipalities of **Kfar Saba** and **Nof HaGalil** and the **Kiryat Tivon** Local Authority gave combined discounts, incorporating several discounts that are due to the owners of one property, not according to Regulation 17 of the State Economy Arrangements (Discounts in Municipal Property Tax) Regulations, 1993 (the Discount Regulations), according to which if the owner of a property is entitled to various discounts, they will be given only one discount, the highest of them, and no discount will be given to another owner of the property for which a discount was given.

 **Preparation for Limiting the Exemption from Municipal Property Tax to Properties not Suitable for Use** – in 2020, as part of an amendment to the local authorities orders, a graded restriction was applied for three periods on the exemption from municipal property tax for properties that are not suitable for use within the jurisdiction of the local and regional councils. For the preparations before the application of municipal property tax imposed under the amendment, the local and regional councils were required to examine data concerning properties not suitable for use in their jurisdiction. As of the date when they began to receive an exemption from the payment of municipal property tax, and regarding the last use made of each of the properties, they were required accordingly to impose properties unfit for use in 2023. The **Reina** Local Authority and the **Emek Yizre'el** Regional Council did not impose municipal property taxes for properties unsuitable for use within their jurisdiction, for which the first exemption period ended. Following the audit, the **Emek Yizre'el** Regional Council imposed the relevant properties with municipal property tax starting at the beginning of 2023, as required.

 **Appointment of an Appeals Committee to the Local Authority** – the audit raised that the **Kiryat Tivon** and **Reina** Local Authorities are having difficulty finding candidates who wish to be appointed as members of the appeals committee for municipal property tax matters and who meet the conditions outlined in the law and guidelines. It was found that from December 2021 until the end of December 2022, the **Kiryat Tivon** Local Authority did not appoint an appeals committee for municipal property tax matters and that from August 2022 until the end of the audit, the **Reina** Local Authority did not appoint an appeals committee for municipal property tax matters. It was also found that from June 2022 to March 2023, the **Kfar Saba** Municipality did not appoint an appeals committee for municipal property tax matters.



The Frequency of Convening of the Appeals Committee – the appeal regulations have no provision regarding the frequency of convening of the appeals committees. Still, according to good governance procedures, the authority should perform its duties within reasonable time frames. The audit raised that in 2022, the appeals committee of the **Kfar Saba** Municipality convened only once, even though 36 appeals were submitted to it, and that as of November 2022, no decision had been made regarding 30 of them; In 2022, three appeals were submitted to the **Emek Yizre'el** Regional Council, but the appeals committee did not convene in the said year; The **Reina** Local Authority Appeals Committee convened only once in 2022, although three appeals were submitted, two of which were still open in December 2022.



Publication of the Appeals Committee's Decisions on the Local Authority's Website – according to section 20(c) of the Local Authorities Regulations (Appeal on the Determination of General Municipal Property Taxes) (Appeals Committee Procedures), 1977, the committee's decisions will be published on the local authority's website on the internet. It was found that the **Emek Yizre'el** Regional Council and the local authorities of **Kiryat Tivon** and **Reina** did not publish the decisions of the appeals committee on their websites on the Internet; The **Kfar Saba** and **Nof HaGalil** Municipalities published the decisions partially.









Digital Submission of Applications for Extraordinary Approval – the State Comptroller's Office commends the changes made by the Ministry of Interior in the method of applying for extraordinary approval, the adoption of the differential method for determining the municipal property tax rate and the efficiency of the new system and the use of computers for communication between the local authorities and the Ministry of Interior. The guidelines for applying for extraordinary approval published by the Ministry of Interior and the preliminary opinions that are given without needing to arrive at the Ministry of Interior physically help the local authorities to submit applications for extraordinary approval according to the established guidelines and policies and prevent unnecessary complications.

Handling Procedure for Granting Municipal Property Tax Discounts – the State Comptroller's Office commends the **Ashdod** Municipality for establishing a detailed, inclusive, and orderly procedure for providing municipal property tax discounts and for handling applications for receiving a discount, allowing proper reporting, control and supervision.



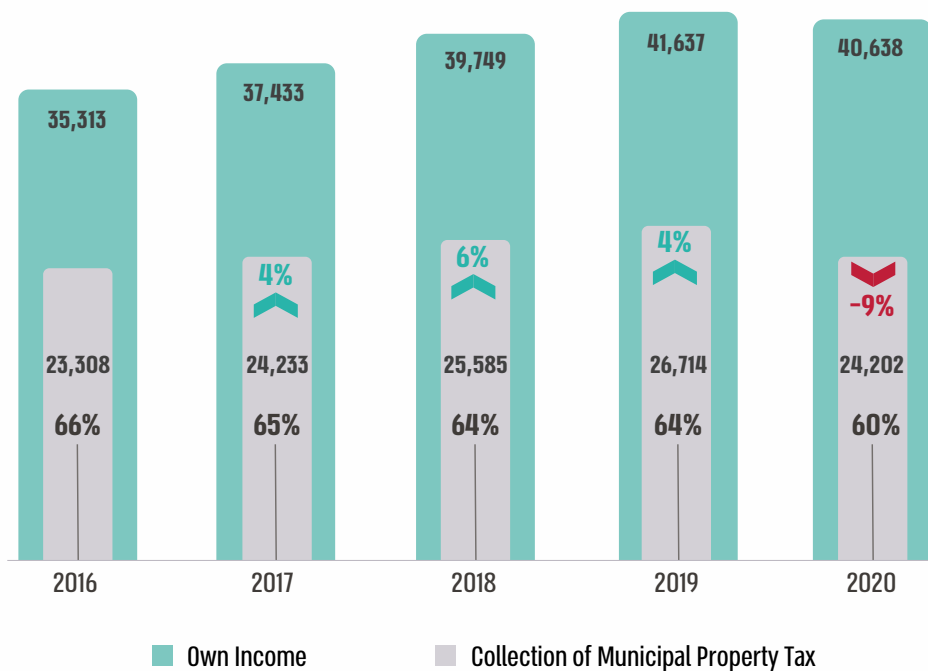
Key Recommendations

-  It is recommended that the Ministries of Interior and Finance, in cooperation with the Ministry of Justice, examine the work of the inter-ministerial teams and the recommendations in the OECD report for municipal property tax reform in Israel and form a comprehensive municipal property tax reform; This is to regulate, among other things, the municipal property tax calculation method, the property classifications for imposing municipal property tax, and the discounts and exemptions granted according to each law.
-  It is recommended that the Ministry of Interior, in cooperation with the local authorities, consider a uniform method for calculating the property area and regulate the unification of the types of attachments and the areas that will be added to the property's location for imposing municipal property tax. This is while considering the consequences on the local authorities' municipal property tax, including on their financial stability while preventing harm to taxpayers.
-  It is recommended that the Ministry of Interior, as the regulator of local government, manage a database of the local authorities' municipal property tax orders from previous years, supervise the changes made to it, and ensure that the municipal property tax orders approved each year comply with the law and regulations, and do not include unapproved changes. It is also recommended that the Ministry of Interior consider regulating the appointment of municipal property tax appeal committee members in local authorities where the pool of suitable candidates is limited.
-  It is recommended that the **Reina** Local Authority increase its current collection efforts to reduce doubtful and written-off debts, especially in non-residential municipal property taxes. High doubtful debt balances could incentivize avoiding paying the municipal property tax, and it affects – even if only outwardly – the equality between the residents. Furthermore, it may affect the local authority's income and the services it can provide its residents and indicates its inability to collect municipal property tax debts. It is further recommended that the municipalities of **Ashdod**, **Kfar Saba**, and **Nof HaGalil** and the local authorities of **Kiryat Tivon** and **Reina** prevent the accrual of municipal property tax debts over the years and that said authorities, as well as the **Emek Yizre'el** Regional Council, increase their efforts to collect municipal property tax debts.
-  It is appropriate that the municipalities of **Kfar Saba** and **Nof HaGalil** and the **Kiryat Tivon** Local Authority publish, among other things, in their municipal property tax orders, the municipal property tax discounts rules on a relative share of the property to inform the residents of their entitlement for a discount.
-  The municipalities of **Kfar Saba** and **Nof HaGalil** and the **Kiryat Tivon** Local Authority should comply with the Discount Regulations. If joint holders of one property are entitled to several municipal property tax discounts, they must be given the highest discount according to the Discount Regulations.



- 💡 The **Reina** Local Authority should impose municipal property tax on properties unfit for use within its jurisdiction, according to the amendment to the Local Councils Order, 1950, and the amendment to the Local Councils Order (Regional Councils), 1958, already in 2023 as required.
- 💡 The municipality of **Kfar Saba** and the **Reina** Local Authority should appoint an appeals committee for municipal property tax under the Appeals Law and should then set upcoming dates for the hearings of the submitted appeals. The **Emek Yizre'el** Regional Council should complete the hearings of the open appeals and decide thereon.

Total Municipal Property Tax Collection and Own Income in Local Authorities, 2016–2020 (in NIS millions)



According to the data of the collating book for the years 2016–2020, processed by the State Comptroller's Office.



Summary

Municipal property tax is the main tax collected by local authorities in Israel and the main financial source used to fulfill their duties and provide services to their residents. Municipal property tax revenues significantly impact the local authorities' ability to provide services, strengthen their economic independence, and reduce their dependence on the central government.

In this report, deficiencies were raised regarding municipal property tax, and among other things, in the regulation of municipal property tax, the municipal property tax orders, the method of measuring the areas of the properties and its imposition, submitting applications for extraordinary approval of changes in municipal property tax and their handling, the collection of municipal property tax and the handling of debts and the granting of discounts. The audit findings highlight that municipal property tax requires regulation, among other things, due to the multitude of classifications, tariffs, and measurement methods, and it is characterized by non-uniformity and inequality. The Ministries of Interior and Finance were aware of the deficiencies and distortions that represent the municipal property tax system in the local authorities, and over the years, inter-ministerial committees were established to rectify them; however, the committee's recommendations were neither published nor implemented.

The Ministry of Interior is commended for making changes to the method of submitting the application for extraordinary approval and adopting a differential method for determining the municipal property tax rate. The changes optimized the system and the use of the computer for communication with the local authorities. Furthermore, the Ministry of Interior began to provide preliminary opinions without needing physical arrival, enabling the local authorities to submit requests for extraordinary approval according to the established policy without unnecessary complication.

The municipalities of **Ashdod**, **Kfar Saba**, and **Nof HaGalil**, the local authorities of **Kiryat Tivon** and **Reina**, and the **Emek Yizre'el** Regional Council should rectify the deficiencies and examine the recommendations made in the report. Among other things, they should increase municipal property tax collection rates and provide discounts on a legal basis while ensuring transparency and equality.

The Ministries of Interior and Finance should examine the findings in this report, discuss the recommendations of the inter-ministerial committees and teams established over the years, and work together to regulate the municipal property tax in Israel in all its aspects.

