

Increasing Property Tax Compliance in Pristina, Kosovo

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Encouraging timely payments with a behaviorally informed reminder letter

Governments around the world depend on tax revenue to provide crucial public goods and services for their constituents, yet low payment rates are a common challenge. Failure to pay taxes on time can sink individuals further into debt, and lead to avoidable costs in fines and fees. In Pristina, Kosovo, less than half of taxpayers made a partial or complete payment on their property tax for 2018 by the end of the year. A behaviorally informed letter reminding residents to pay their property taxes on time boosted on-time payment rates by nearly 16%, with effects still detectable five months later. The letter may have impacted not only the timeliness but also the likelihood of tax payment.

Summary

Tax revenue is by and large the mechanism by which governments around the world are able to provide crucial public goods and services such as health services, water, sanitation, education, or infrastructure for their constituents at all levels. For local governments in particular, tax revenues are crucial for meeting the needs of their communities. However, governments everywhere face difficulties collecting taxes, while constituents who miss deadlines may endure penalties. Understanding why people might fail to pay taxes, and devising solutions that address them to enhance tax compliance is essential for effective governance.

For municipal governments in Kosovo, property taxes account for 37% of total revenues. Yet, many residents fail to pay their taxes on time, or do not pay at all. For example, in 2019, in the capital city of Pristina, property tax-owing residents were encouraged to pay in two installments, the first due April 30 and the second due September 3. However, by August 28, 2019, only 31% of residents had made a tax payment, and only 2% had actually paid half or more of what they owed. Consequences of poor tax compliance are two-fold: individuals accumulate debt, interest, and fines, and the city faces planning challenges and cannot make necessary investments in infrastructure and public services.

However, it may not necessarily always be the case that residents are intentionally avoiding tax payment. A large survey conducted in 2011 found that 87% of Kosovo residents believed that paying cash without receipts to avoid value-added or other taxes was “wrong” or “seriously wrong,” and a large majority indicated willingness to pay more taxes if they were sure the money would be used for good causes, such as to improve the health or education system, or to help people living in poverty.¹ If some of the Kosovo

Highlights

- ▶ Municipal governments in Kosovo struggle to collect property taxes in a timely fashion, leading to financial consequences for residents, and an inability to invest in and improve local infrastructure and services.
- ▶ A behaviorally designed reminder letter had a significant impact on the payment of property taxes by residents.

¹ *Life in Transition Survey II*. (2011, June 29). European Bank for Reconstruction and Development. www.ebrd.com/news/publications/special-reports/life-in-transition-survey-ii.html

residents who haven't paid their taxes are willing, or intend, to pay their taxes, then traditional approaches to generating more revenue for the municipality, such as increasing taxation rates or enforcing stricter non-compliance penalties, may not be the most direct solution to the problem. In addition, traditional approaches are often not politically viable or feasible within budget constraints.

In partnership with the Organization for Security and Co-operation in Europe (OSCE) Mission in Kosovo and Municipality of Pristina, we employed a behavioral lens to understand low tax payment compliance and to develop a cost-effective solution to help Pristina property owners to pay their property taxes in a timely manner.

The solution: A reminder letter

To encourage more residents to pay their property taxes on time, we designed and sent a behaviorally informed courtesy letter along with a copy of the first page of the property tax bill (required for payment). Mailed letters were chosen as the communication channel because virtually all property tax payers have their address in the municipality database, and the logistics of sending letters were familiar and manageable.

The letter leveraged a number of well-studied and tested behavioral principles which were tailored and refined to fit the local context. Main behavioral features of the letter were:

1. **Fewer hassles:** In Pristina, to pay property taxes, residents need information from the first page of their paper tax bill, which they received many months prior to the due date. We removed the hassle of finding, printing, or requesting a new tax bill required for payment by including a copy with the reminder letter.
2. **Salient consequences:** Penalties for non-payment, such as fines, debt accumulation and even property confiscation, may not motivate residents because they are relatively distant in time, and not top-of-mind for residents. We highlighted the deadline and consequences of inaction at the top of the letter, in red lettering.
3. **Civic framing:** To leverage reciprocity and a sense of individual responsibility, we primed civic duty and shared identity in the letter text (e.g. "Your support enables Pristina to continue funding the public projects necessary for our development and growth. Our city is counting on you!").
4. **Plan-making:** In alignment with previous studies that have shown how plan-making can increase follow-through on behavior,² we prompted residents to think about and write down the intended date and method of payment.
5. **Clear language:** Making a property tax payment requires multiple steps, which can feel daunting. We simplified the language and instructions throughout the letter, making it clear what was needed for payment and where to pay.

² Milkman, K. L., Beshears, J., Choi, J. J., Laibson, D., & Madrian, B. C. (2013). Planning prompts as a means of increasing preventive screening rates. *Prev Med*, 56(1), 92–93.

Republika e Kosovës
Republika Kosovo - Republic of Kosovo
Komuna e Prishtinës
Opština Priština - Municipality of Pristina

6 shtator 2019

Rikujtim për tatimin në pronë
Paguani deri më 30 shtator 2019

Clear consequences of nonpayment

Salient deadline

Pas datës 30/09/2019, do të zbatohet interesi prej 0.65% në muaj dhe gjobë prej 10% mbi tatimin e papaguar. Mos-pagesa mund pasqyrojë të rezultojë në masa të mbledhjes së detyrueshme të tatimit.

I nderuar (të shtohet emri i individit),
Dëshiroj t'ju rikujtoj se afati i fundit për të paguar tatimin në pronë po afrohet. Ende keni kohë për ta paguar tatimin dhe shmangur fuqjen në borxhe dhe gjoha.

Në vitet e fundit, të hyrat publike nga tatimi në pronë janë investuar për të përmirësuar rrugët, shkollat, dhe infrastrukturën publike si dhe në projekte publike siç është sheqeri "Adem Jashari" dhe biblioteka e qytetit. Mbatshetja juaj ndihmon që Prishtina të vazhdojë me financimin e projekteve publike të nevojshme për tu zhvilluar dhe rritur.

Prishtina është duke flogaritur në ju!

Me respekt,

Shërneditin
Udhëheqës i Sektorit të Tatimit në Pronë

P.s. Nëse keni tatim në pronë të papaguar, ju lutemi ta paguani menjëherë! Borxhi i papaguar, rritet çdo ditë.

Simple action steps

Message to activate civic identity and duty

Pagesa e taksave tuaja është e thjeshtë

<p><input checked="" type="checkbox"/> Çu ju duhet për ta bërë pagesën:</p> <ul style="list-style-type: none"> • Fatura e tatimit në pronë e bashkëngjitur. 	<p><input checked="" type="checkbox"/> Ku mund ta paguani:</p> <ul style="list-style-type: none"> • Në secilin bankë të licencuar nga Banka Qendrore e Kosovës • Në Zyrën Postare apo Institucione tjera të licencuara për të kryer pagesa • E-banking (në dispozicion 24/7)
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Nëse keni nevojë për ndihmë se si të bëhet pagesa, ose ta gjeni faturën tuaj të plotë, ju lutemi vizitoni: www.tatimipronave-ku.org

Më pëlqon të bëni planin tuaj të pagesës:

Unë, _____ do të paguaj tatimin në pronë para datës 30 SHTATOR 2019.
 Unë do ta bëj pagesën në këtë lokacion: _____ (ose përmes e-banking)
 Unë do të bëj pagesën më: ___/09/2019

Plan-making prompt

Komuna e Prishtinës, Rr. UCK nr. 55, Prishtinë
Telefon: 038 230 900; lokali 1090 | Email: ZTP.Pristina@rks.gov.net

Out of 52,652 taxpayers who at the time of the intervention still owed some property taxes for 2019, 4,000 were randomly selected to be sent the new reminder letter (treatment group), while the others (control group) received no letter/communication (“business-as-usual”). The deadline for tax payment was September 30, and the letters were delivered during a 10-day window (September 14-24). The city employed a courier service that tracked delivery status and recorded whether the letter was received by a recipient. If, after three attempts, delivery was still unsuccessful, the letter was left in the property’s mailbox or at the doorstep.

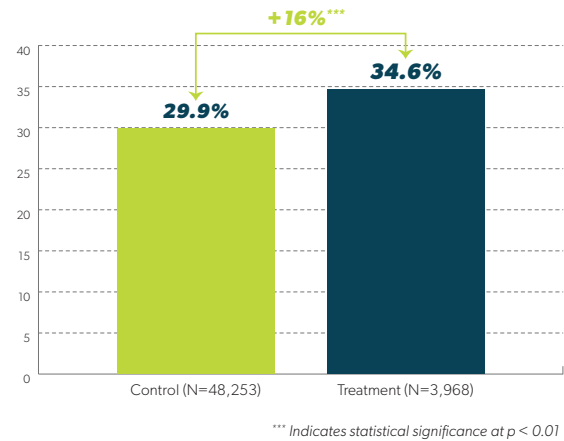
Results

The letters increased the proportion of individuals who made an on-time property tax payment by 15.8% (4.73 percentage points) compared to the control group. At both 10 weeks and five months after receiving the letter, the percentage of individuals to have made payments toward their property taxes was still higher in the treatment group (15% and 7%, respectively) than in the control group. This enduring difference suggests that the letter may not have only caused residents to pay their taxes earlier, but also to make a payment at all. These statistically significant results hold even after controlling for variables such as total evaluated property tax amount and total property value. The letter also had a positive and significant impact on the proportion of tax paid out of the total amount owed, leading individuals in the treatment group to increase the proportion of on-time tax paid by 23% compared to the control group (31.3% of total owed vs. 25.4% of total owed).

Notably, the impact on payment was achieved despite the fact that, due to incorrect or incomplete addresses, a large proportion of the treatment group did not actually receive the letter as intended. Indeed, of the letters sent, 45% were marked as non-deliverable due to wrong addresses, pointing to a need to improve and fill in gaps in the address registry.

This simple intervention proved to be cost-effective. Each letter sent generated 9.26 EUR additional on-time tax revenue, while the cost of postage through the relatively expensive service courier used for this study was 1.36 EUR per letter. If the letter were sent to all Pristina residents who still owed taxes two weeks before the due date, it could have resulted in 412,500 EUR additional net on-time revenue for the city. And, with a better delivery rate, the letter’s impact on tax payment could have been even higher.

Figure 1. Increase in average on-time payment rates



Takeaway

Our test in Pristina, Kosovo showed that a reminder letter employing well-researched, context-specific behavioral elements can effectively nudge residents to pay taxes in a timely manner. These results add to the existing literature showing that it is feasible to significantly and cost-effectively strengthen governance using insights from behavioral science. Adapting and applying behaviorally informed reminder letters for other local contexts could produce much-needed funds for governments to provide improved services for residents.