



Research paper:

Challenges and Governance of Property Tax Collection

Report No 296



February 2024

AMAN
Transparency Palestine



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The Coalition for Integrity and Accountability (AMAN) expresses its heartfelt thanks to Mu'ayyad Afana for preparing this Research paper, and to Dr. Azmi Al-Shu'aibi and AMAN team for the supervision, review, and editing of this Research paper.

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In case of citation, please refer to the publication as follows: Coalition for Accountability and Integrity (AMAN). 2025. Challenges and Governance of Property Tax Collection. Ramallah - Palestine.

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Executive summary

the Ministry of Finance and local authorities face in collection, the level of governance in its management, and comes up with practical recommendations to enhance the level of governance, address the existing challenges, and boost the revenues of local authorities. A scientific analytical methodology was adopted in preparing the paper by reviewing the legislative framework governing property tax and the amendments made to it. The analysis included the reality of property tax collection, covering the quantitative context from 2019 to 2024, the challenges of collection, the extent of social justice enforcement, and the study and analysis of the feasibility of transferring property tax collection to local authorities and its impact on enhancing local authorities' revenues. Additionally, interviews with relevant entities (Ministry of Finance, Association of Palestinian Local Authorities, local authorities) were used as a research tool on the Research paper.

The Research paper concluded with several results, most notably are the following: the legislative framework governing property tax is outdated, since 1954, and is not suitable for the current times. Moreover, the contexts of the law and the related articles do not align with the current reality. Furthermore, the provisions of the applicable property tax law do not include tax collection in village councils, but rather in the jurisdictions of municipalities, which contravenes good governance, as it does not achieve tax and social justice. The level of governance in the valuation mechanisms is flawed due to the lack of unified and clear valuation standards, a legal reference, or a guideline for estimation. The valuation mechanisms rely on rental value; their processes are obsolete and their related legal provisions are weak. Moreover, there is a need to build the knowledge and skills capacities of the valuation teams and use technology in valuation.



Incentive discounts were introduced and percentages were determined for the Ministry of Finance (MOF) and the local authorities without duly introducing legal amendments to the existing property and land laws, which negatively affects the level of governance and compliance with legislations. Through the analysis of property tax collection data during the years 2024-2019, it is observed that collection levels are low, and there is an accumulation of taxpayer debt.

A review of the data from Ramallah Municipality as a case study reveals higher efficiency in collection in the municipalities that collect property tax. There are issues and challenges in determining the government's and the local authorities' shares of the property tax, especially amid the absence of a legal provisions regulating that share and COM amendment of the share without legal justification. Governance has become more complicated because of issues in transferring the local authorities' entitlements from the centrally collected property tax. Those revenues are deducted during the clearance process with local authorities that owe the government, however, debts accumulate in MOF accounts for local authorities that do not owe the government, affecting their ability to implement their development projects and provide services to citizens.

The research paper recommended adopting new legislation to regulate property tax, adopting a participatory approach between the government, APLA, local authorities of various classifications, relevant civil society institutions, experts, and academics. This would involve transferring the collection of property tax to all local authorities after reaching settlements with them and strengthening their governance systems. It also includes adopting the principle of «progressive» property tax, so that the property tax rate increases as the estimated income increases, and decreases for low-income groups through brackets, to achieve social justice in property tax. All existing gaps shall be addressed; there should be property tax in all local authorities regardless of their classifications, to achieve social and tax justice; affirmative action in favor of marginalized areas should be taken; there is a need to review the existing valuation mechanisms through a specialized study involving MOF, local authorities, and relevant parties, identifying and resolving existing gaps and issues.



The Council of Ministers (COM) shall develop a system for valuation which includes clear and specific criteria. Until a special property tax law is adopted or the current law is amended, it is necessary to enhance governance in property tax collection by activating valuation committees and improving collection methods. MOF must address the accumulated debts owed to local authorities instead of collecting property taxes, as local authorities rely on these revenues for their development programs, projects, and services provided to citizens. There is also a need to reduce the percentage deducted for the government from the revenues of local authorities to which property tax collection has been referred, to enhance the budgets of local authorities for implementing their development programs. Furthermore, it is necessary to strengthen governance in local authorities and activate oversight mechanisms, so that they optimally invest property tax revenues in development programs and projects.



Introduction:

Property tax is a direct tax linked to wealth. Direct taxes are considered fairer than indirect taxes, as their burden cannot be transferred from the taxpayer to others. Moreover, property tax targets «capital» through property owners, not the poor and marginalized classes. The application of this tax is technically beneficial as it allows for the collection of data and statistics about individuals' wealth and properties to review the tax declarations of taxpayers in income taxes and other taxes. Therefore, it is an oversight tool that helps the tax administration to combat tax evasion.

The Jordanian Property Tax Law No. (11) Of 1954 and its Amendments is still applicable in the Occupied Palestinian Territories. The property tax is collected annually at a rate of %17 of the annual rental value for buildings and estates.¹ MOF collects this tax, and theoretically transfers %90 of the amount to the local authorities while retaining %10. However, there is an issue between MOF and the local authorities on the transfer of property tax dues to the local authorities, as these transfers are not regular. MOF is also withholding a percentage of local authorities' allocations instead of clearing them against debts owed by local authorities, especially payments for water and electricity to Israeli supply companies, which are deducted through net lending. This has deprived and continues to deprive many local authorities of their rightful revenues, creating a state of chaos that disrupts the financial relationship between MOF and the different local authorities.

The property tax has suffered from governance issues, including its outdated regulatory framework, lack of collection in all Palestinian areas, and problems in assessing the tax value. In ٢٠٢٢, some municipalities were granted the authority to collect the property tax². Issues between local authorities and MOF followed, which led to the disruption of the transfer of local authorities' dues from the property tax, causing crises for the local authorities that negatively affected their provision of services to citizens.

1. The Law on Buildings and Land Tax within the Areas of Municipalities and Local Councils, Law No. (11) Of 1954 and its amendments.

2. COM decision at session No. (168) on 2022/7/25, on granting some municipalities the authority to directly collect property tax.

Objective

Study and investigate the reality of property tax collection in the West Bank, the challenges faced by both MOF and local authorities in its collection and in governance, and come up with practical recommendations to enhance the level of governance in its management and address the existing challenges.

Methodology

The research paper was prepared using an analytical scientific methodology through the following steps:

1. Reviewing the legislative framework governing property tax and its amendments.
2. Narrating and analyzing the reality of property tax collection, including the quantitative context in the years 2014-2019, the challenges of collection, and the extent of realization of social justice in it.
3. Discussing and analyzing the reality of the financial relationship between MOF and local authorities regarding property tax, and the feasibility of transferring property tax collection to local authorities.
4. Designing the research paper tool «the interview» based on the relevant literature, in a manner that serves the research paper and its objectives, and conducting meetings with the relevant parties regarding the research paper.
5. Preparing conclusions on the challenges facing property tax collection and the level of governance in it.
6. Preparing practical recommendations to enhance governance in property tax collection, address existing challenges, and contribute to the enforcement of social justice.
7. Preparing the draft research paper.
8. Holding a focus group for stakeholders of to discuss the methodology, conclusions, and recommendations, benefiting from their feedback to enrich the research paper.
9. Preparing the final version of the research paper.

Chapter one: The legislative framework governing property tax

The legislative context

The Ottoman Empire sought to regulate taxes in the second half of the 18th century. The revenues of the Ottoman Empire focused on a set of taxes, including the «werko» taxes, military service exemption fees, and sheep taxes, in addition to other revenues such as property and court fees. The «werko» tax was based on properties (houses and agricultural lands). A second type of tax was imposed on real estate and lands, which was the property tax. The Ottoman government began collecting this tax in 1808. By the end of the Ottoman Empire, the British Mandate replaced the taxes imposed by the Ottoman Empire, substituting land taxes with a single tax. In 1928, the Property Tax Law in cities was issued, and in the first half of 1930, the Property Tax Law in villages was issued.³

After the end of the British Mandate and the occupation of Palestine in 1948, the Gaza Strip came under Egyptian administration, and the West Bank was annexed to Jordan. All the laws that were in effect were replaced by the Jordanian Buildings and Land Tax Law within the Boundaries of Municipalities and Local Councils of 1954. With the occupation of the West Bank in 1967, the Jordanian Buildings and Land Tax Law of 1954 continued to be in effect, as the Israeli occupation maintained its application under Military Order No. (28) On Income and Property Tax issued on 22/6/1967. This order stipulated that the Buildings and Land Tax Law in cities would remain in effect until any amendments were made or it was repealed.

The Law on Buildings and Land Tax within the Boundaries of Municipalities and Local Councils No. (11) Of 1954 and the Land Tax Law No. (30) Of 1955, along with their amendments introduced by Jordanian authorities until 1967 and the amendments made by Israeli military orders, are still in effect to this day.

3.The Palestinian Encyclopedia, Al-Dhara'eb, <https://www.palestinapedia.ps/>

Property tax under the Jordanian Law on Buildings and Land Tax within the Boundaries of Municipalities and Local Councils No. 11 of 1954 and its Amendments.

The Jordanian Buildings and Land Tax Law was issued on 20 March 1954, and came into effect on 1 April 1954. This law was enacted to regulate the buildings and land tax within the boundaries of municipalities and local councils, while Law No. 30 of 1955 on Land Tax applies to lands located outside the boundaries of municipalities. This law also repealed the laws that were applicable in Palestine before its adoption, including the Urban Property Tax Law of 1940, the Buildings and Land Tax Law, and the Provisional Law No. 1 of 1951. It retained all regulations, orders, instructions, decrees, announcements, notifications, communications, appointments, and documents that were issued, given, or executed. The taxes imposed under the aforementioned laws remained in effect as of the enforcement date of the Buildings and Land Tax Law of 1954, as if they were issued, granted, or executed under its provisions until they are repealed or amended accordingly.

The Jordanian Law on Buildings and Land Tax No. 11 of 1954 defined the municipality and local council area as,

“the properties located within the boundaries of the municipality or local council as designated on the map pertaining to that city or village”⁴. This definition was amended by the law for the Buildings and Land Tax Law No. (26) Of 1955, which abolished local councils. According to this amendment, the Buildings and Land Tax was restricted to lands and buildings located within the boundaries of municipalities⁵, while buildings and lands located within local councils are subject to the Land Tax Law No. 30 of 1955.

The Buildings and Land Tax Law of 1954 granted the COM the power to declare that the areas of municipalities and local councils mentioned in the decision are subject to the buildings and land tax within the boundaries of municipalities and local councils based on the provisions of this law, starting from the date specified in the mentioned decision. COM was also granted the power to replace the land tax outside the boundaries of municipalities with the buildings and land tax within the boundaries of municipalities and local councils if these lands enter the boundaries of the municipalities and local councils. This tax is considered due from the date specified in the mentioned decision and is assessed and collected according to the provisions of this law, provided that this does not affect the collection of taxes due prior to issuing that decision, in accordance with the Land Tax Law of 1955.

4. The Jordanian Law on Buildings and Land Tax within the Boundaries of Municipalities and Local Councils No. 11 of 1954 and its Amendments, Article (2).

5. Amended Law for the Buildings and Land Tax Law No. (26) Of 1955, Article (2).

The legislative framework for valuation, review, re-valuation and committee formation

Article (5) of the Property Tax Law grants the Minister of Finance the power to form one or more valuation committees in each area subject to the provisions of this law. The law states: «The Minister of Finance shall appoint one or more valuation committees in each area subject to this law as deemed appropriate.» The valuation committee consists of three members, one of whom is an employee appointed by the Minister of Finance and chairs the committee, and the second is from the municipal or local council, with the council nominating three candidates for the Minister of Finance to appoint one of them. This member receives their remuneration from the fund of the council that nominated them, as appropriate. The third is a taxpayer from the community, appointed by the Minister of Finance him from a list of three persons nominated by the administrative governor, and receives his salary from the Treasury as determined by the Minister of Finance. The Minister of Finance appoints one or more valuation inspectors as necessary.⁶

However, Law No. (26) Of 1955 amended this article as follows: The Minister of Finance shall appoint one or more valuation committees in each area in the municipality, hereinafter referred to as the valuation committee. The valuation committee shall consist of two employees, one of whom shall be the chairperson, and a third non-employee member elected by the Minister of Finance from among three persons nominated by the municipal council. This non-employee member must be a land taxpayer in the relevant municipal area.

However, if the municipal council fails to nominate within fifteen days from the date of request, the Minister of Finance has the right to appoint a qualified person as a non-employee member of the committee, and the Minister of Finance determines the expenses of the non-employee member. The Minister of Finance has the right to change the valuation committee if deemed necessary, if this change does not affect the progress of the valuation. The Minister of Finance appoints one or more valuation inspectors as necessary.⁷

6. The Jordanian Law on Buildings and Land Tax within the Boundaries of Municipalities and Local Councils No. 11 of 1954, Article (5).

7. Amended Law for the Buildings and Land Tax Law No. (26) Of 1955, Article (5).

The Valuation Committee,

According to the law, the Valuation Committee organizes a list known as the Valuation List for all buildings and lands located in the city area or any part of it, along with the net annual rental value for each, according to the form approved by the Minister of Finance. The Valuation Committee sends a special valuation notice using the form approved by the Minister of Finance to each owner whose property has been valued by mail to their known address. If there is more than one owner for any property, it suffices to send one valuation notice to one of the partners, and hand over the valuation list organized by the valuation committee to the district accountant and deposit it in his office, where all those whose properties have been valued or may be valued can review it. The Property Tax Department at MOF publishes a notice of the deposit of the valuation list, announcing that it can be reviewed or copies or extracts can be obtained within thirty days from the date of publication of the notice. The Buildings and Lands Tax Law regulates the right to object and appeal against the valuation decision.

According to the Building and Land Tax Law, all buildings of various types, as well as any adjacent space or land used with or prepared for use as part of the building, whether the building is inhabited or uninhabited, used or unused, are subject to the tax. Moreover, any structural change to the building or any structural addition to it, provided it is complete, is also subject to the tax, as well as all land on which no building has been erected.

The Buildings and Land Tax Law identified the criteria under which the Property Tax Department shall review the valuation annually. This is required if one of the taxpayers requests a review of the list because their property has been damaged, deteriorated, or the net annual rental value has decreased by twenty percent or more since the last valuation; or if the valuation inspector requests a review, claiming that the listed net annual rent value has increased by twenty percent or more. The request must be submitted within the first nine months of the review year; any request submitted after the specified date shall not be considered.

Moreover, an annual review of the valuation must be conducted if a building not listed in the current valuation list has been constructed; or if any listed property has been divided or separated; or if any listed property has been merged with another; or any addition to a building has been made since the last valuation; or the classification of any property has changed from land to building or vice versa since the last valuation; or if any property has been settled under the Land Settlement Law, or the area of any property has been modified as a result of a registration transaction in the Land Registration Department since the last valuation. The Valuation Committee shall issue an annex to the valuation list in the form approved by the Minister of Finance, stating the net annual rent value of any buildings or land it has assessed or whose valuation it has adjusted. The tax shall be payable based on that valuation starting from the beginning of the year following the year in which the review was conducted.



The Law on Property and Land Tax also provides for re-valuating all areas within the boundaries of municipalities every five years, or within any period that COM determines, provided that the re-valuation of the net annual rent value of all properties within the designated area in the aforementioned decision is conducted, and a new valuation list is prepared in accordance with the provisions of this law. The tax is imposed starting from the beginning of the fiscal year following the general re-valuation. All provisions of the Law on Property and Land Tax related to the valuation list apply to all annexes of the valuation lists and the new valuation lists.

The re-valuation process:

Article (20) of the Buildings and Land Tax Law Of 1954 stipulates that every fifth year, or within a period determined by a COM decision published in the official gazette, a re-valuation of the net annual rent value of all properties located within the area specified in the aforementioned decision shall be conducted, and a new valuation list shall be prepared in accordance with the provisions of this law. The tax shall be imposed starting from the beginning of the fiscal year following the general re-valuation⁸

That is, MOF must conduct a re-valuation every five years, and the reference to or within a period determined by COM should be within periods before the five years have passed since the last valuation. The five-year period is the maximum for revaluation, and the revaluation period should not exceed five years. Furthermore, the revaluation should be separate for each region and it is not necessary to conduct revaluations for all regions in the same period, especially since there are newly established municipalities. The process of re-valuation would be in a specific area and not necessarily in all areas, which serves as an argument and justification for the lack of staff to cover the re-valuation process. According to the aforementioned article, COM may identify areas for re-evaluation, either in chronological order for each area or in areas witnessing significant and rapid urban expansion.⁹

8.Law on the Tax on Buildings and Land within the Boundaries of Municipalities and Local Councils No. 11 of 1954, Article (20)

9. Property and local authorities' tax, from the publications of the Association of Palestinian Local Authorities, 2021.

Article (17) of the Law stipulates that the owner of any buildings or land located in an area where the tax is applied in accordance with the provisions of this law, who has sold, exchanged, or otherwise disposed of, and any person who becomes the owner by inheritance of any buildings or land located in that area must notify the valuation committee in writing through the district accountant where those buildings and lands are located. Once the valuation committee receives the notification stipulated in Paragraph (1) of this Article, or if it is informed by any other means of a change in ownership, it shall have the authority to make the necessary adjustments in the valuation list or the annex to the valuation list after verification; then, the new owner becomes liable for the tax starting from the year following the year in which the change occurred, provided that this change does not affect any previous obligation incurred by the previous owner.¹⁰

The Building and Land Tax Law has obligated every property owner, upon constructing a building or adding to an existing one, to notify the district accountant in writing within a month from the date of completion of the construction. Failure to do so will result in a fine not exceeding twenty dinars, as determined by the Minister of Finance. Additionally, in the case of a change in ownership of the property or land located in an area where the tax is applied according to the provisions of this law, whether sold, exchanged, or otherwise disposed of, and for any person who becomes the owner by inheritance of any buildings or land located in that area, they must notify the valuation committee in writing through the district accountant where those buildings and lands are located.

10. Law No. 11 Of 1954 on the Tax on Buildings and Land within the Boundaries of Municipalities and Local Councils, Article (17).

Collection of property tax

According to the provisions of the law, the tax is considered annual, and becomes due on the owner, i.e. the person registered as the owner, at the beginning of the fiscal year and is collected in accordance with the applicable laws for the collection of public funds. Furthermore, the tax is considered provisionally secured by the property, and no transaction regarding that property can be registered in government records unless all due taxes on it are paid, or some of them if approved by the Minister of Finance.¹¹

If the tax is not paid within the first nine months of the fiscal year, an additional penalty of five percent of the due amount will be collected from the taxpayer if it is paid during the remaining period of the realization year. It will increase to ten percent if the payment is delayed beyond the mentioned realization year. This penalty is collected in accordance with the provisions of the Public Revenues Collection Law.¹²

However, this article was amended in the Law amending the Buildings and Land Tax Law No. 42 of 1963. The fines imposed on those who fail to pay this tax during the financial year in which the tax was realized increased by an additional ten percent of the due tax. The fine increases by another ten percent if the tax is not paid during the following realization year, and so on, so that the total fine does not exceed fifty percent of the due tax.¹³

These fines were amended under the Israeli Military Order issued by the commander of the Israeli occupation forces in the West Bank. According to this Order, taxpayers who paid the tax or part of it in January of that financial year are required to pay a fine of %2 of the due amount; taxpayers who paid the tax or part of it in February of that financial year are required to pay a fine of %ε of the due amount, and taxpayers who paid the tax or part of it in March of that financial year are required to pay a fine of %0 of the due amount.¹⁴

11. Law No. 11 of 1954 on the Tax on Buildings and Land within the Boundaries of Municipalities and Local Councils, Article (14).

12. Law No. 11 of 1954 on the Tax on Buildings and Land within the Boundaries of Municipalities and Local Councils, Article (15).

13. Amended Law on the Tax on Buildings and Land within Municipal Areas No. (42) Of 196, Article (5).

14. The Military Order amending the Law on Buildings and Land Tax within Municipal Areas No. (198 - 5746 ,(1175

Types of property tax

Article (13) of the Property and Land Tax Law identifies the tax categories and classifications as follows:

1 - Buildings, including the area on which they stand and surrounding them, are subject to ten percent of the net annual rent value.

2 - Land that is not a building site are subject to five percent of the net annual rent value.¹⁵

However, these rates were amended by the Amended Law on the Tax on Buildings and Land within Municipal Areas No. (42) Of 1963, which stipulated in Article (4) that:

1.The tax category is as follows:

A - Seventeen percent of the net annual rent value of buildings, including the courtyard on which they stand or that surrounds them.

B - Ten percent of the net annual rent value of lands that are not the site of buildings.

2.The Treasury shall pay the municipalities> fund annually %42 of the net collections of taxes and fines realized on buildings and lands located within the boundaries of those municipalities, starting from the date of enforcement of this law.

3. The municipality is paid its share of the remaining tax and fines collected after the implementation of this law according to Paragraph (2) of this Article¹⁶.

As for the law Amending the Law on Buildings and Land Tax within Municipal Areas, Temporary Law No. (9) of 1967, Article (3) provides for the following tax categories and types:

1. The tax category shall be as follows:

A - Seventeen percent of the net annual rental value of buildings, including the courtyard on which they stand and that surrounds them.

B - Ten percent of the net annual rental value of lands that are not the site of buildings.

2. The tax levied on buildings and lands located within the boundaries of any municipality, along with the fines, shall be the right of that municipality.

3. The MOF collects the tax and fines on behalf of the municipalities and pays each municipality its share of those taxes and fines after deducting the actual expenses of the collection apparatus.

4. The remaining tax and fines collected before 1966/4/1 by MOF are paid to each municipality, and its share is %٤٢ of the net collections.¹⁷

15. Law No. 11 of 1954 on the Tax on Buildings and Land within the Boundaries of Municipalities and Local Councils, Article (13).

16. Amended Law on the Tax on Buildings and Land within Municipal Areas No. (42) Of 1963 Article (4).

17. Amended Law on the Tax on Buildings and Land within Municipal Areas, Temporary Law No. (9) Of 1967, Article (3).

Determining the value of the annual net rent

To determine the value of the taxable annual net rent, Article (7) of the Buildings and Lands Tax Law of 1954 stipulates:

1. The annual rent for buildings (which is expected to be rented out in the year) minus one-fifth for depreciation due to aging and use is considered its net annual rent.
2. If the building is not rented or if the valuation committee finds that the stated rent does not match the actual annual rent value, the valuation committee will estimate the annual rent value, taking into consideration the following factors:
 - A. The size of the building, the materials used in its construction, and the site on which it is built.
 - B. How the building is used.
 - C. The rent or income from neighboring and similar properties, provided that the value of machines and equipment is not included when estimating the building used for an industrial project.
3. The net annual rental value of land on which no permanent buildings have been constructed, or land where the capital value of the existing buildings is less than its value without buildings, shall be six percent of the price at which that land could be sold, if sold with the seller willing to sell and the buyer willing to buy. It is stipulated that if the net annual rental value of the buildings, when valued according to the provisions of Paragraphs (2 and 3) of this Article, exceeds the net annual rental value of the land stripped of the buildings on it, the valuation committee may estimate the net annual rental value either for the building or for the land as it deems appropriate.
4. The valuation committee has the right to separate any plot or unite any plots for the purpose of valuation.¹⁸

18. Law No. 11 Of 1954 on the Tax on Buildings and Land within the Boundaries of Municipalities and Local Councils, Article No. (7).

Exemptions and reductions on the building and land tax

The 1954 Buildings and Land Tax Law stipulated the exemption of certain buildings and lands from the buildings and land tax in municipal areas and defined the criteria applicable to the exempted lands and buildings. These include those owned by the king, those owned by the Agricultural Bank, those owned by the Hejaz Railway, buildings and lands owned by the government, buildings and lands owned by municipalities, archaeological sites, and properties owned by foreign diplomatic missions on a reciprocal basis, as well as lands and buildings located within the walls of Jerusalem; the buildings in which nomadic individuals reside; those owned by recognized sports, cultural, or social clubs, and those owned by any religious sect or charitable, educational, or medical institution recognized by the government. It is stipulated that buildings and lands are not exempt from tax if they are not used for the institution's purposes; and any buildings used as residences by their owners with a net annual rental value of less than two dinars. In all these cases, buildings and lands are not exempt from tax if they generate income. These exemptions and deductions have been amended several times in subsequent laws.¹⁹

Incentive discounts

The buildings and Land tax law did not include any incentive discounts, but the law was amended by a military order regarding the amendment of the buildings and Land tax law within municipal areas (No. 1986 - 5746 ,1175), where discounts were approved based on the payment time, as follows: persons who pay beforehand all the due tax are entitled to discounts on the amounts they pay at the following rates:

A. The taxpayer who pays in April of the same fiscal year enjoys a %10 reduction on the tax due.

B. The taxpayer who pays in May of the same fiscal year enjoys a discount of %8 on the due amount.

C. The taxpayer who pays in June of the same fiscal year enjoys a %6 reduction on the due amount.

D. The taxpayer who pays in July of the same fiscal year enjoys a %4 reduction on the due amount.²⁰

19. Property tax and local authorities, APLA publication, 2021.

20. Military Order regarding the amendment of the Law on Buildings and Land Tax within Municipal Areas (No. 1986 - 5746 ,(1175, Article (2)



The MOF has worked on amending the incentive discounts, granting a %20 discount for those who pay the tax in December, %15 in February, %10 in March, and %0 in April. These rates were approved by MOF, and not through legislation.



Decision-By-Law No. (12) Of 2018, Amending the Law on Buildings and Land Tax within the Boundaries of Municipalities and Local Councils No. (11) Of 1954 and its Amendments

During the era of the Palestinian Authority, the Law on Buildings and Land Tax the Boundaries of Municipalities and Local Councils No. (11) Of 1954 and its Amendments was amended, and a new article was added to the original law, number (13) bis, which states the following:

1. Notwithstanding the provisions of Article (13) of this law, the Council of Ministers may, upon the recommendation of the Minister of Local Government and in coordination with the Minister of Finance and Planning, delegate or revoke the delegation of a number of municipalities the powers of the Ministry of Finance and Planning in collecting the tax and fines for late payment through municipal employees.
2. The Ministry of Finance and Planning shall deliver to the delegated municipality, in accordance with Paragraph (1) of this Article, all orders, instructions, announcements, notifications, and tax records related to the municipality's area, which have been issued or will be issued under the applicable laws, to enable it to carry out its functions.²¹

The Council of Ministers' decision issued in its session No. (168) on 25/7/2022, granting some municipalities the authority to directly collect property tax.

According to the data from the Ministry of Local Government (MOLG), as of the preparation of this paper, the collection of property tax has been delegated to 39 local authorities. These delegations have been carried out in phases from 2022 to 2024. Another group of local authorities are candidates for delegation.

21. Decision-By-Law No. (12) Of 2018, on the amendment of the Law on Building and Land Tax within the Boundaries of Municipalities and Local Councils No. (11) Of 1954 and its Amendments, Article (2).

22. COM decision issued in its session No. (168) on 2022/7/25, granting some municipalities the authority to collect property tax.

Law No. (1) Of 1997 on Palestinian local authorities

Article (1) of the law defined the local authority as, “a unit of local governance within a specific geographical and administrative scope”, and defined the council as, “the council of the local authority includes the municipal council, the local council, the village council, the administrative committee, the development committee, or any other council formed in accordance with the provisions of this law and consist of the president and the elected members”.

Article (39) states, “Any provision that contravenes the provisions of this law shall be repealed”²³

Therefore, the definition of the local authority according to Palestinian law includes municipalities and village councils. However, this circular was not copied into the Law on Buildings and Land Tax within the Boundaries of Municipalities and Local Councils No. (11) Of 1954 and its Amendments, and the collection of property tax remained limited to municipalities only.

Conclusion

In light of the above, it is noted that the legislative framework governing property tax is outdated, more than 50 years old, and is not suitable for the current days. Moreover, the contexts of the law and the related articles do not align with the present reality. Furthermore, discretion has been used to address many issues related to property tax without any legal foundation, such as incentive discounts or revenue shares for both the government and the local authority. There is also a problem regarding the applicability of the law to village councils.

23. Law No. (1) Of 1997 regarding Palestinian Local Authorities, Articles (1) and (39).

Chapter Two

Challenges of property tax collection and the level of governance

The collection of property tax suffers from a series of challenges and issues that affect the level of governance. The review of the relevant legislations, previous studies, and dedicated interviews led to identifying the following main challenges:



First: Outdated legislative framework

The property tax is still governed and collected under the Law of Buildings and Land Tax within the areas of municipalities and local councils No. (11) Of 190€ and its Amendments. This law is outdated since the Jordanian rule over the West Bank. It has been amended several times, in addition to amendments made through military orders during the Israeli military rule over the West Bank. It was also amended under the Palestinian Authority. This law has contexts that were appropriate for the period of its enactment are not necessarily appropriate for the current days.

In an interview with Imad Abu Sabha, Director-General of Property Tax at the MOF, he pointed out that legislation related to property tax were obsolete, and incompatible with reality, especially since the existing law is over seventy years old, relies on rental value, and does not take developments into account. He emphasized the importance of enacting a modern property tax law that considers advancements and developments in this field.²⁵

In turn, Ziad Tawil, the financial decentralization officer at the Palestinian Association of Local Authorities (APLA), pointed out in an interview that the property tax legislation is obsolete, and suited contexts that existed at the time of its enactment, but not necessarily the current time. He emphasized the need to enact a modern property tax law in Palestine, or at least approving temporary regulations until the law is prepared.²⁶

Dr. Asma Sharabati, Deputy Mayor of Hebron, agrees that the current law is outdated and there is a need for a modern property tax law.²⁷

Fadl Hawari, the mayor of Azzun, emphasized the importance of enacting a modern property tax law, which would achieve justice in valuation and collection.²⁸

Conclusion

The legislative framework for property tax is outdated and does not suit the urban and other related developments. Furthermore, the mechanisms of tax valuation, collection, as well as the estimation of tax value do not match current developments, which affects the enforcement of governance and the effectiveness and efficiency of the law.

25. Interview with Imad Abu Sabha, General Director of Property Tax at the Palestinian Ministry of Finance, February 2025.

26. Interview with Ziad Tawil, Head of Financial Decentralization at the Palestinian Association of Local Authorities, February 2025

27. Interview with Dr. Asma Sharabati, Deputy Mayor of Hebron, February 2025.

28. Interview with Fadl Hawari, Mayor of Azzun, February 2025.

Second: Enforceability of the law

The Law on Buildings and Land Tax within the areas of municipalities and local councils was enacted, and it was amended in 1900, so that its scope of applicability became limited to municipalities only, and not to village councils. The Buildings and Land Tax, according to this amendment, was restricted to lands and buildings located within the boundaries of municipalities only.

This means the absence of tax and social justice, as property tax payers are only those residing within the municipal boundaries, in addition to depriving village councils of benefiting from these revenues.

In this context, Imad Abu Sabha, Director-General of Property Tax at MOF, pointed out that the current law does not take into account tax and social justice in the collection of property tax, especially since its application is limited to areas classified as municipalities.²⁹

Furthermore, Ziad Tawil, financial decentralization officer at APLA, pointed out that it is necessary for the property tax law to include all local authorities and village councils, with affirmative action in favor of marginalized areas, through reduced tax or tax exemptions.³⁰

Fadl Hawari, the mayor of Azzun, explained the importance of imposing property tax on all local authorities, regardless of their classifications, in the interest of justice, taking into account the size of each local authority. He pointed out that the implementation of such a decision should be after the current economic crisis, which has reduced citizens' ability to pay the due fees and taxes.³¹

Summary: The provisions of the current property tax law do not include tax collection in village councils, but only within the jurisdictions of municipalities, which contravenes the principles of good governance since it does not realize tax and social justice.

29. Interview with Imad Abu Sabha, Director General of Property Tax at the Palestinian Ministry of Finance, February 2025.

30. Interview with Ziad Tawil, Head of Financial Decentralization at the Palestinian Union of Local Authorities, February 2025.

31. Interview with Fadl Hawari, Mayor of Azzun, February 2025.

Third: Valuation mechanisms

According to the law, the valuation mechanisms rely on the rental value (the lease contract or the rental value estimated by the valuers). Consequently, there are issues related to the accuracy and effectiveness of this criterion, with the presence of outdated lease contracts, nominal lease contracts, and sublease contracts, as well as the potential for manipulating the rental value.

Other issues include the long period of re-valuation and the lack of periodic re-valuation in some local authorities, which negatively affects the concept of tax and social justice or the effectiveness and accuracy of tax collection.

Furthermore, forming special valuation committees as stipulated by the Buildings and Land Tax Law is not suitable for the current rapid urban development, the requirements for conducting annual reviews of valuation lists, and revaluation every five years, especially that the number of committees as determined by the law does not match the volume of the burden of both reviews and revaluations.³²

According to a Master's thesis titled: Property Tax in the West Bank under Law No. 11 of 1954 and its amending laws, the researcher examined and studied the prevailing valuation mechanisms. Through a real experiment and a case study, the researcher concluded that the amount of tax due on the taxpayer annually, based on the estimation mechanism applied in the property tax departments in the West Bank, constitutes 70% only of the due tax on the taxpayer according to the law provisions. This reduces the revenue, as the valuation mechanism applied in reality leads to a 30% reduction in revenues compared to what it should be according to the law.³³

The gaps increase between new and old rentals, with many case studies to prove this. Abu Sabha points to the obsolete valuation processes and their reliance on rental value, which does not achieve tax justice. He emphasizes the need to modernize these procedures, make them periodic, and adopt new valuation mechanisms that keep abreast with developments. He also suggests that valuation teams should consist of MOF employees, including a specialized engineer and a financial expert in valuation processes to ensure good governance, accuracy, objectivity, and justice.

32. Property tax and local authorities, from the publications of the Palestinian Union of Local Authorities 2021.

33. Hamdan, Moayad (2003) «Property Tax in the West Bank Under Law No. (11) of 1954 and Its Amended Laws,» Published Master's Thesis, An-Najah National University, p. 102.

Abu Sabha believes that it is necessary to keep the valuation centralized in the General Administration of Property Tax, as it is a difficult or nearly impossible task for municipalities. The evidence to this is the inability of municipalities to make a decision linking the services provided to citizens with a clearance from property tax.³⁴

Tawil, pointed to the weak governance in MOF valuation processes, especially with the absence of unified and clear valuation standards, a legal reference, or a valuation manual. He indicated that the valuation teams need capacity-building programs to develop their knowledge and skills, stressing the need to adopt new valuation mechanisms undertaken by the local authorities that keep abreast with developments. He also called for developing a legislative framework that regulates the valuation process, a procedural manual and training valuers to enhance governance. He also recommended forming work teams to follow up the valuation process, develop databases and database analysis, review the disclosed rental values, and adjust them in light of clear and approved standards to ensure tax justice.³⁵

Sharabati emphasized the need to conduct property valuations through local authorities, rather than centrally through MOF, since each local authority has its own specificities, and is more familiar with property details because of their continuous interaction with citizens. She pointed out the particularity of the city of Hebron, especially with the presence of HI and HF areas, which requires the municipality to assess and collect property taxes. The municipality has various tools, geographic information systems, and community committees that contribute to accomplishing this task.³⁶

Hawari pointed out the importance of local authority employees conducting the valuation, as they are better informed of the conditions in their own local authority, noting that the valuation that relies on valuers from the same local authority is fairer.³⁷

34. Interview with Imad Abu Sabha, General Director of Property Tax at the Palestinian Ministry of Finance, February 2025.

35. Interview with Ziad Tawil, Head of Financial Decentralization at the Palestinian Association of Local Authorities, February 2025.

36. Interview with Dr. Asma Sharabati, Deputy Mayor of Hebron, February 2025.

37. Interview with Fadl Hawari, Mayor of Azzun, February 2025.

Conclusion

The governance in valuation mechanisms is flawed due to the lack of unified and clear valuation standards, a legal reference, or a valuation manual. Additionally, the valuation mechanisms rely on rental value and are obsolete. The related legal provisions are weak; there is a need to build the knowledge and skills capacities of valuation teams, use technology, and computerize the valuation processes.

Fourth: Amendments to the law

Some amendments to the law do not have a strong base in the legislation, such as the incentive discounts adopted by MOF, or the «share» of the government and the share of local authorities from the collected property tax.

In this context, Tawil pointed out that the property tax law is outdated and applies to contexts since its enactment in the 190·s; it needs modernizing so that it keeps abreast with developments in the legislative frameworks. Moreover, the shares of the government and local authorities must be adjusted in line with the reality, as this tax is important to provide resources for the developmental projects of local authorities³⁸

Conclusion

Incentive discounts were adopted and shares for MOF and the local authorities were determined without introducing the necessary amendments to the provisions of the applicable Buildings and Land Tax Law, which adversely affects the level of governance and compliance with legislation, especially since the Palestinian Basic Law stipulates in Article (88) that «the imposition of general taxes and fees, their amendment and repeal, can only be done by law, and no one is exempt from paying them in whole or in part, except in the cases specified by law.³⁹

38. Interview with Ziad Tawil, Head of Financial Decentralization at the Palestinian Union of Local Authorities, February 2025.

39. The Palestinian Basic Law, Article No. (88)

Fifth: Collection challenges

Property tax faces challenges in collection, with a gap between the estimated values and the actual values collected for property tax. Additionally, there are difficulties in reliance on the 1902 Law on the Collection of Public Funds for the collection of buildings and land taxes because the law is outdated and because of the relevant historical context, leading to challenges on the ground.

The law also stipulates that the taxpayer must report new constructions and conduct carried out on the land. However, it did not require the taxpayer to report changes in rental contracts during the fiscal year and the differences, increases or decreases in those contracts, which leads to a loss in tax revenues that should reflect higher rental contracts. This loss lasts for five years until the next regular re-valuation,⁴⁰ or until an actual re-valuation occurs. All these constitute losses in collection and revenues.

In this context, Abu Sabha pointed to the importance of activating and utilizing the provisions of the Public Funds Collection Law No. (7) Of 1902, on the collection of property tax, in order to serve the public interest and protect public funds.⁴¹

According to data from the General Directorate of Property Tax at MOF, the cumulative debt of property tax on taxpayers has amounted to around 1.7 billion Shekels.

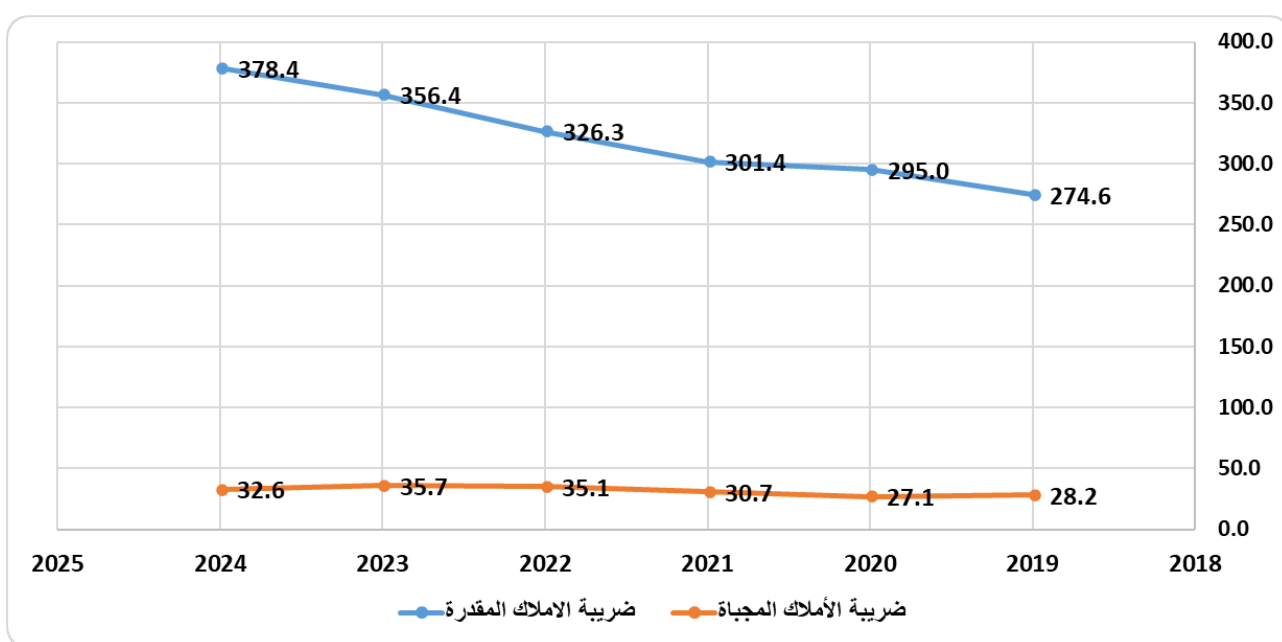
40. Property tax and local authorities, from the publications of the Palestinian Union of Local Authorities 2021.

41. Interview with Imad Abu Sabha, Director General of Property Tax at the Palestinian Ministry of Finance, February 2025.

A table showing the estimated and collected property tax for the years 2024-2019 – in million Jordanian dinars:⁴²

Year	Estimated property tax	Collected property tax	Collection rate
2019	274.6	28.2	%10.3
2020	295.0	27.1	%9.2
2021	301.4	30.7	%10.2
2022	326.3	35.1	%10.7
2023	356.4	35.7	%10.0
2024	378.4	32.6	%8.6

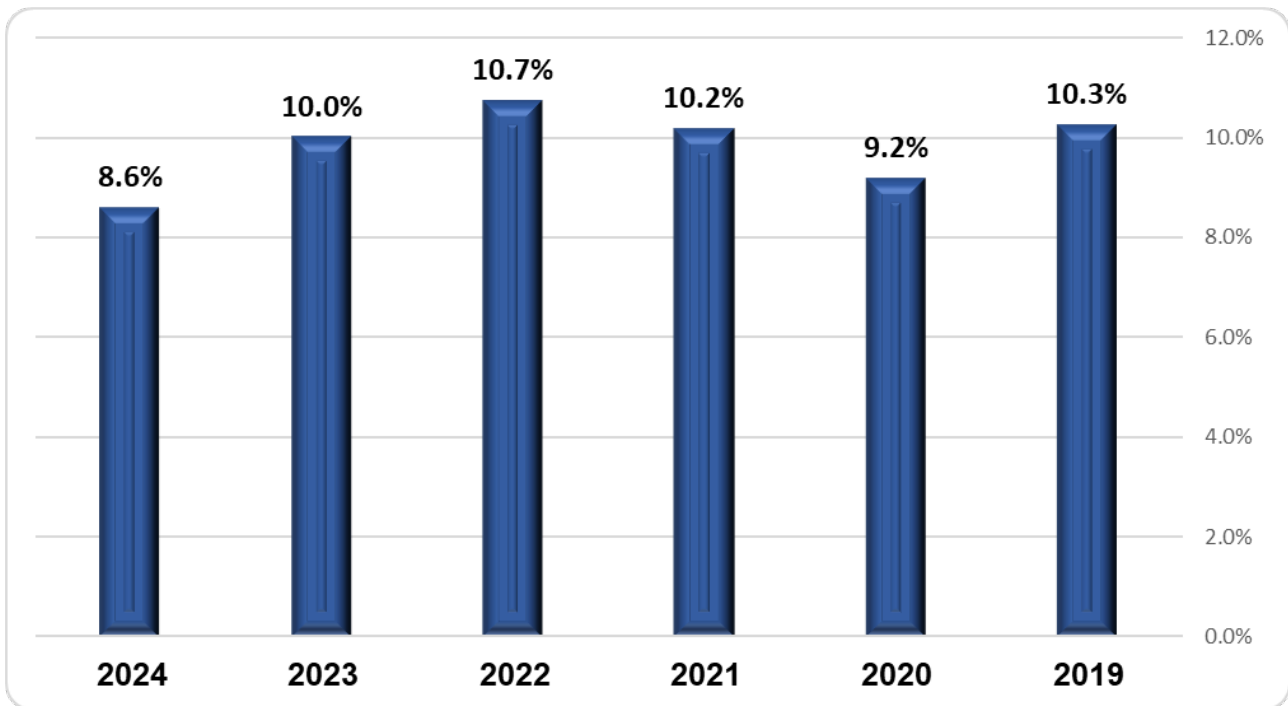
A figure showing the estimated and collected property tax for the years 2024-2019 – in million Jordanian dinars



As observed from the above table and figure, and the time series analysis, the actual collection levels of property tax are low compared to the estimates, even in the period before the Israeli aggression on the Gaza Strip.

42. Source: Data from the General Directorate of Property Tax at the Ministry of Finance, update for February 2025.

A chart showing the ratio of collected property tax compared to the estimates for the years 2024-2019.



Tawil believes that there is a weakness in the property tax collection by MOF, especially with the challenges and issues facing the valuation process. He explained that not all taxpayers comply with paying the property tax, which affects the efficiency of collection by MOF. He pointed out the need to activate the relevant legal provisions to obligate taxpayers to pay the property tax, in addition to enacting legislation to regulate the collection process and enhance its efficiency and effectiveness. He also suggested forming task forces to follow up on property tax collection, including developing databases and analyzing them, and enhancing community participation in property tax collection, as it is a main resource for local authorities, and encourage a community culture that supports paying property tax.⁴³

43. Interview with Ziad Tawil, head of financial decentralization at the Palestinian Union of Local Authorities, February 2025.

For her part, Sharabati indicated that the municipality is fully prepared to collect property tax, and it has computerized systems to ensure the efficiency and effectiveness in collection, as well as qualified and capable staff. She explained that if the municipality collects the property tax, it is expected that the effectiveness of collection increases, based on the Municipality's capabilities and the supportive societal culture of local authorities, since these revenues shall be utilized to serve the citizens and improve service provision. She pointed out the significant differences between the estimated and collected property tax, as the collected taxes amounted to about %20 of the estimates. The figures that MOF reported to the Municipality are around 7 million shekels, while the Municipality estimates the property tax at around 20 million Jordanian Dinars (i.e. more than 100 million shekels).⁴⁴

In this context, Mr. Saleh, the Financial Director of Ramallah Municipality, indicated that the efficiency and effectiveness of property tax collection significantly improved after it was transferred to the Ramallah Municipality. He explained that the municipality worked on motivating the citizens to pay the property tax and provided a dedicated property tax employee at the Public Service Center, in addition to a bank employee. This facilitated the transactions for citizens, saving time and effort, which positively reflected on the collection rate. Municipal data indicate that the estimated value of property tax in 2024 reached 26.6 million shekels, with 25.5 million shekels actually collected, i.e. %96, despite the difficult economic conditions in 2024. He added that around %52 of the estimated property tax was paid during January 2025, the month in which the incentive discounts are offered.⁴⁵

Conclusion

The analysis of property tax collection data from 2019 to 2024 reveals that the collection levels are low, and there is an accumulation of taxpayer debt. A review of the data from the Ramallah Municipality as a case study reveals higher efficiency in collection in the municipalities that collect property tax.

44. Interview with Dr. Asma Sharabati, Deputy Mayor of Hebron, February 2025.

45. Interview with Mr. Saleh, the Financial Director of Ramallah Municipality, February 2025.

Sixth: Challenges in the shares of the government and the local authorities:

The Law on Buildings and Land Tax within the Boundaries of Municipalities and Local Councils No. 11 of 1954 and its Amendments did not specify a certain percentage for MOF as a collection fee for the buildings and land tax. However, the amended Property and Land Tax Law determined the actual collection expenses to be deducted from the value of the tax collected on behalf of the municipalities. Hence, the deduction of %10 in favor of MOF, and later %16 for the municipalities to which the collection authority of property tax has been referred, lacks any legal foundation.

Sharabati explained that increasing MOF's share of property tax collection to %16 when collected by local authorities is unfair, and that it should rather be reduced, since the local authority will bear the costs of collection and follow-up⁴⁶. In this context, Tawil pointed out the need to transfer property tax collection to local authorities, provided that MOF does not deduct %16 of the collected amount, but rather less than %10, since the local authorities bear the collection and operational expenses when they collect property tax.⁴⁷

In fact, the government's share of property tax revenues should not increase, but should rather decrease, because the %10 were allocated to MOF in exchange for two essential services: valuation and collection. Once the local authorities undertake the collection tasks, an additional financial burden is incurred on them, whereas the same burden is alleviated from MOF.

In his turn, Hawari explained the importance of transferring property tax collection to local authorities to increase their revenues, especially since MOF is clearing its debts with property tax revenues, which deprives the local authorities of these revenues for their development projects. He emphasized that the share of MOF must not increase once property tax collection is transferred to local authorities.⁴⁸

Conclusion

There are issues and challenges in determining the shares of the government and the local authorities of property tax, especially with the absence of specific legal provisions regulating that share, and COM's amendment of the share, which contravenes the principles of governance.

46. Interview with Dr. Asma Sharabati, Deputy Mayor of Hebron, February 2025.

47. Interview with Ziad Tawil, Financial Decentralization Officer at the Palestinian Union of Local Authorities, February 2025.

48. Interview with Fadl Hawari, Mayor of Azzun, February 2025.

Seventh: Challenges in transferring the local authorities' entitlements from the centrally collected property tax

There are challenges related to the transfer of the entitlements of the local authorities from the property tax collected by the Ministry of Finance. MOF clears the local authorities' debts against the property tax entitlements; however, some local authorities are not indebted to MOF, yet their entitlements from property tax have accumulated in millions of shekels, and MOF has not transferred them yet.

Regarding the transfer of property tax collection to local authorities, Abu Sabha confirmed that there is no problem with transferring property tax collection to local authorities, provided that those local authorities have put in place the necessary governance and settled their finances with the Ministry of Finance.⁴⁹

Sharabati explained that Hebron municipality's share of property tax collection is not being transferred due to clearance with MOF, which is still collecting property tax in the city of Hebron. Meetings have been held with the MOF to transfer property tax collection to the municipality, which is expected to happen in the coming period.⁵⁰

For his part, Saleh pointed out that Ramallah municipality owes MOF around 55 million Shekels in accumulated debt, because it used to collect property taxes and fail to transfer them to the municipality. Those funds are essential for implementing the municipality's developmental programs and projects, and there are efforts to collect these dues with various ideas.⁵¹

Tawil pointed out that the debts owed by the Ministry of Finance to local authorities for property tax collection represent a significant challenge, and MOF is obliged to pay those debts and dues, as they constitute a primary resource for local authorities to implement their programs and development projects.⁵²

Conclusion

There are issues in transferring the entitlements of local authorities from the centrally collected property tax. On one hand, those revenues are deducted in the clearance with local authorities that are indebted to the government. On the other hand, debts accumulate in MOF accounts, for local authorities that are not indebted to the government, affecting their ability to implement their development and service projects for citizens.

49. Interview with Imad Abu Sabha, Director General of Property Tax at the Palestinian Ministry of Finance, February 2025.

50. Interview with Dr. Asma Sharabati, Deputy Mayor of Hebron, February 2025.

51. Interview with Mr. Saleh, the Financial Director of Ramallah Municipality, February 2025.

52. Interview with Ziad Tawil, Financial Decentralization Officer at the Palestinian Union of Local Authorities, February 2025.

Chapter Three: Findings and recommendations.

Findings

- The legislative framework regulating the property tax is outdated, since 1954, and is not suitable for the current days. Moreover, the contexts of the law and the related articles do not match the current reality. Furthermore, discretion has been used to address many issues related to property tax without any legal foundation, and there have been numerous amendments to the law over the past 70 years.
- The provisions of the current property tax law do not include tax collection in village councils, but rather in the jurisdictions of municipalities, which contravenes governance, as it does not achieve tax and social justice.
- Governance in the valuation mechanisms is flawed because of the lack of standardized and clear valuation criteria, lack of a legal reference or valuation manual, reliance on rental value in the valuation processes, outdated valuation processes and weak related legal provisions. Moreover, it is necessary to build the knowledge and skill capacities of valuation teams, use technology, and computerize the valuation processes.
- Incentive discounts were adopted in the law, as well as shares for each of MOF and the local authorities without introducing amendments to the existing property and land tax law. This negatively affects governance and compliance with legislation, especially since the Palestinian Basic Law stipulates in Article (M) that, «the imposition of general taxes and fees, their amendment and repeal, can only be done by law, and no one is exempt from paying them in whole or in part, except in cases specified by law.»
- Analysis of the property tax collection data from 2024-2019, revealed that collection levels are low and taxpayers' debt is accumulating.
- A review of the data from the Ramallah Municipality as a case study, revealed higher efficiency in collection in the municipalities that collect property tax.
- There are issues and challenges in determining the shares of the government and the local authorities of the property tax, especially with the absence of legal provisions regulating and determining that share, and COM amendment of the share, which contravenes principles of governance.
- There are issues in transferring the entitlements of local authorities from the centrally collected property tax. Those revenues are deducted in the clearance with local authorities that are indebted to the government. However, debts accumulate in MOF accounts for local authorities that are not indebted to the government, affecting their ability to implement their development projects and service provision to citizens.

Recommendations

- Adopt new legislation to regulate property tax, through a participatory approach between the government, APLA, local authorities of various classifications, relevant civil society organizations, experts, academics, and the Municipal Development & Lending Fund to address all existing gaps and keep abreast with developments in this field, including urban development, digitization, geographic information systems, and more.
- Include property tax for all local authorities, regardless of their classifications, to achieve social and tax justice, adopting affirmative action in favor of marginalized areas, through adopting incentive discounts or a bracket system.
 - Review the existing valuation mechanisms, conducting a specialized study involving MOF, local authorities, and relevant parties to examine the valuation methodology and the existing working teams and to identify and resolve the current gaps and issues.
- Develop a valuation system approved by COM, which includes clear and specific criteria; automate the valuation system to ensure governance and transparency, develop an approved procedural manual, and train the valuation teams on it.
- Until a special property tax law is adopted or the current law is amended, it is important to strengthen governance in property tax collection by activating valuation committees, improving collection methods, and ensuring that property tax revenues are used in development programs and projects.
- Work on transferring property tax collection to all local authorities after reaching settlements with them and strengthening their governance systems.
- Adopt the principle of “progressive” property tax, so that the property tax rate increases with the increase in the estimated income, and reduce its rate for limited income groups through brackets, to achieve social justice in property tax.
 - The MOF must address the issue of accumulated debts owed to local authorities instead of collecting property tax, as local authorities rely on these revenues for their development programs and projects, and in the services provided to citizens.
- Reduce the share of the government from the revenues of local authorities to which property tax collection has been transferred, to strengthen the budgets of local authorities and enable them to implement their development programs.
- Enhance governance and activate oversight mechanisms in local authorities to optimally invest property tax revenues in development programs and projects.

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