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Deputy Budget Director: finance ministry weighs reapportioning government property tax payments

Research shows: The Arab local councils' economic straits stems from dearth of industry and commerce in Arab towns

Meirav Arlosoroff and Motti Basok

Eran Nitzan, the deputy budget director in the Ministry of Finance, yesterday told a conference in Nazareth on the revenue sources of Arab local councils, sponsored by the NGOs Injaz and Sikkuy, "We are considering the establishment of a government property tax ("arnona") fund that will allow the government to make property-tax payments on its buildings not only to the jurisdictions where these structures are located but also to weaker local authorities. This would involve paying the money into the fund and redistributing it in a more equitable manner."

According to Nitzan, each year the government pays local authorities some NIS 800–900 million in property taxes. "We identify with the argument that a government building need not necessarily pay all its property taxes to the jurisdiction in which it is located. We can study whether these lottery winnings can be allocated differently. The finance minister and budget director are committed to examining whether it is possible to increase the reallocation of funds. As part of the effort to close existing gaps, we need to expand and increase the diversion of funds to Arab localities."

In response to a question on the finance minister's decision to grant a VAT exemption on a first apartment only to IDF veterans—thereby excluding the Arab sector from this benefit—Nitzan said, "I promise to pass along the message on the issue of eligibility. We will need to sit down and see how to deal with this issue." It should be noted that Nitzan is the person in the finance ministry's budgets division who is in charge of real estate and housing.

At the Sikkuy and Injaz conference, the two organizations unveiled a study that refutes the claim that the economic plight of Arab local authorities results from their low rate of collection of property taxes on residential buildings. The study found that the main reason is actually the lack of significant independent revenues—notably property taxes from commercial zones, industry, infrastructure, tourism, and government sites—which is a direct result of longstanding government policy that discriminated against Arab localities.

At the start of the conference, Mazen Ghanaem, the mayor of Sakhnin and head of the Committee of Heads of Arab Local Councils, said that "The million dollar question that government ministries always ask is ‘What is your collection rate?’ But I say, would collecting 100% of the property tax due suffice? No, it would not. Most of the money goes to the 15 largest authorities in Israel. On the one hand, they say that we are a burden, but on the other hand, they say ‘We’re not going to do anything to help you.’ So I ask, who is responsible for that? We aren’t crybabies and don’t need favors from anyone, but it is important for us to be recognized as equal citizens.”

Aiman Saif, the director-general of the Authority for the Economic Development of the Arab Sector in the Prime Minister’s Office, said that “Increasing the Arab councils’ independent revenues is a key goal of the annual work plan in the prime minister’s office. We pushed through several government decisions that provide a partial—though not full—solution to issues relevant to increasing authorities’ revenues and are investing NIS 230 million in developing industrial zones and integrating these authorities into existing industrial zones.

“We want to issue a directive that will not allow the expansion of industrial zones in Jewish authorities if they do not agree to include Arab local authorities. We are working with the finance ministry on a new program to develop the Arab authorities. We intend to develop economic anchors such as tourism, pharmaceuticals, etc. There are many pharmacists in Arab localities, and we want to bring in drug companies and make them into one of the authorities’ economic anchors. We are also working to encourage commercial activity in Arab localities, including planning shopping centers to promote entrepreneurship and business that will bring the authorities increased revenues and add jobs.”

Jabir Asaqla, co-executive director of Sikkuy, said, “The idea of a government property tax fund is interesting and important, but the main challenge lies in the economic development of Arab localities, especially developing industrial zones and commercial centers. This also includes becoming partners in the industrial zones and commercial centers located adjacent to Arab localities—sometimes even on their land—without the localities’ benefiting from the property taxes they generate.”

Ghaida Rinawie Zoabi, the executive director of the Injaz Center, noted that, “Recently, it seems that government institutions in general, and especially the finance ministry, are beginning to realize that neglect of the Arab authorities has created an economic, social, and political burden on the country. The result of this understanding is that they are starting to funnel investments into the Arab authorities.”

The conference in Nazareth was attended by 32 heads of Arab local councils. According to the comprehensive study by Sikkuy and the Injaz Center that was presented at the conference, 78% of Arab authorities’ property-tax revenues come from residential buildings, while 22% comes from non-residential buildings. These figures should be contrasted with a national average for all the authorities in the country of 34% of property tax from residential sources and 66% from non-residential sources. The study found that Jewish development towns collect six to ten times more property tax from industry per capita, and between five and eight times as much from businesses, than do neighboring Arab towns.