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**FINANCIAL IMPLICATIONS OF THE FEES ON
THE MUNICIPALITIE'S OWN BUDGET REVENUES
(ANALYSIS OF THE TEMPORARY RESIDENCE
FEE ON THE EXAMPLE OF THE OHRID
MUNICIPALITY)¹**

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Abstract

Considering the process of fiscal decentralization, municipalities have a broad structure of income sources that are regulated by the *Law for Local Self-Government Units Financing*, which can be classified into three major groups (own revenues, grants and borrowing). Own sources of municipal revenues are local taxes, local dues and local charges, revenues from municipal assets, self contribution, fines, donations and other revenues determined by law. The paper analyzes some of the own revenues of the Municipality of Ohrid, i.e. the paper follows the temporal dynamics of the temporary residence fee collection, in correlation with the participation of the Municipality of Ohrid in the tourist trade of the South-western Planning Region and of the country as a whole.

Key words: own revenues, budget, temporary residence fee, municipality of Ohrid, tourist turnover

INTRODUCTION

The temporary residence fee is a part of the structure of the of local self-government units own revenues, i.e. own revenues of the municipalities.

¹ review scientific paper

Local taxes, local dues and other local charges and fees arise from the process of *fiscal decentralization*. Fiscal decentralization is a process of transferring responsibilities for collecting public revenues and financing public expenditures from the central government to the units of local self-government, i.e., municipalities. Fiscal decentralization has been imposed as one of the priority reforms arising from the Accession Partnership of the Republic of Macedonia with the EU. Considering the sensitivity of the process, the Government of the Republic of Macedonia chose a cautious and phased approach in the implementation of decentralization. This meant the gradual transfer of competences, adequate to the increase of the capacity of the local government to organize the implementation of the new competencies, as well as the collection of funds for their realization. At the same time, appropriate transfers of funds from the state budget and the funds budgets were envisaged, for which the municipalities also had to develop the capacity for proper and adequate administration and distribution of the thus received transfers.

Having in mind the process of fiscal decentralization, the municipalities have a broad structure of revenues sources that are prescribed by the *Law for Local Self-Government Units Financing* (Official Gazette of the Republic of Macedonia, No. 61/2004, 96/2004, 67/2007, 156/2009, 47/2011 and 192/2015):

- [1] own income sources;
- [2] grants from the budget of the Republic of Macedonia and from the funds budgets;
- [3] borrowing.

Within the framework of their own income sources, the municipalities realize a tax structure that includes all types of taxes as well as at the national level (property tax, income tax and consumption tax). Within their own sources of income, a large number of local communal fees are also included. According to the *Law for Local Self-Government Units Financing*, municipalities charge the following types of fees: communal fees, administrative fees and other local fees determined by law. Local taxes and fees do not differ from taxes and fees that are collected and used at the state level. They differ solely in that the collection and use of collected revenues are referring to a smaller territory than the territory of the state. An important place in the structure of the fees collected by the Municipality of Ohrid is the temporary residence fee, having in mind the volume of tourist turnover that Ohrid is making as a tourist center. From here, the main hypothesis of the paper arises, i.e. that revenue from the temporary residence fee is an important item in renowned tourist destinations, which is analyzed on the example of Ohrid. This hypothesis in the paper is tested by the Pearson

Correlation Coefficient, taking into account the number of tourists and income from the fee as variables. Although at first glance it seems that the fees do not have the capacity to derive large amounts of income, however, taking into account the volume of tourist turnover realized in the municipality of Ohrid (by number of tourists and by number of nights) which will be discussed later in this paper, directly imposes the conclusion on the exceptional importance of the revenues from the temporary residence fee in the municipality's own budget funds. The reversible effect of the so collected funds in the direction of further tourism development arises from the purpose of the funds collected on the basis of a temporary residence fee. Namely, the *Law on the Temporary Residence Fee* (Official Gazette of the Republic of Macedonia No. 19/96, 26/02, 51/03, 88/08, 17/11 and 192/15) defines the purpose of these funds, which should be exclusively used for tourist purposes. Having this in mind, this paper analyzes the dynamics of tourist turnover in the municipality of Ohrid in the last few years, the position of the Ohrid municipality in the tourist turnover in the South-west planning region and in the Republic of Macedonia as a whole, the collection of the temporary residence fee and its percentage participation in the total own revenues in the budget of the Ohrid municipality, as well as the potentials and possibilities for improving the collection of the temporary residence fee in the next period.

THE ESSENCE AND THE IMPORTANCE OF THE TEMPORARY RESIDENCE FEE

The essence of the temporary residence fee is the payment of a specified fixed amount for every overnight accommodation by all persons residing outside their place of permanent residence, that is, who use bed and breakfast accommodation services in accommodation facilities registered for the reception of guests for overnight stays, as well as houses, apartments and rooms intended for rent. This fee is paid by the citizens of the Republic of Macedonia, and foreign citizens also. The payment of the temporary residence fee is regulated by the Law on the Temporary Residence Fee (Official Gazette of the Republic of Macedonia No. 19/96, 26/02, 51/03, 88/08, 17/11 and 192/15) and is its own income (80%) of the municipality on whose territory the temporary residence is realized.

The temporary residence fee is paid in all units of the local self-government on the territory of the Republic of Macedonia, which means in all municipalities, regardless of that which activity dominates the economy of the respective municipality and regardless of the municipality

development level. Accordingly, this fee is charged in an identical amount in the city of Skopje and in the municipalities with a high level of development, but also in less developed rural municipalities. The essence of this fee is to collect funds in the municipal budget that will be used for tourist purposes. This means that the funds collected on the basis of a temporary residence fee the legislator obliged to be used for general tourism propaganda and informative activity and for improvement of the conditions for tourists stay, and that they are used in accordance with the specifically adopted programs. Annual Program for General Tourist Propaganda and Informative Activities of the Republic of Macedonia is adopted by the Government of the Republic of Macedonia, and the annual program for the units of the local self-government (the municipalities) and the city of Skopje for general tourist propaganda and for improvement of the conditions for tourists stay is adopted by the Council of the unit of the local self-government and by the Council of the city of Skopje. The intention of this legal conditionality for the usage of the municipalities own revenues collected on the basis of the temporary residence fee is to be the most directed for the tourist destinations infrastructure and suprastructure development (the sites that have the potential to promote the development of tourism), and in a smaller part towards propaganda purposes. This recommendation stems from the fact that tourist sites in the majority of cases are less populated, and local taxes and fees collected by the domicile population are usually not sufficient for the construction and maintenance of an infrastructure network according to tourism industry standards, especially in the periods when there is a high frequency of visitors, that is, when the number of people staying temporarily exceeds the capacity of the local infrastructure.

The fee is in the fixed amount of 40,00 denars per person for every overnight accommodation on the whole territory of the Republic of Macedonia, regardless of the type of the object in which the night is realized and regardless of the category in which the object belongs. This means that this type of local fee is paid in an identical amount for overnight accommodation in small-scale private accommodation, and also for overnight stay in the most luxurious hotel complexes of high category. Although at first glance you can get the impression that it is a matter of unimportant amounts of funds, however simple calculations and forecasts as well as statistical data on tourist visits to certain tourist destinations in Macedonia (primarily Ohrid as the most important tourist destination in the Republic of Macedonia), and extrapolation of the trend and approximation of the subsequent movements indicate amounts that must not be underestimated, and which can be largely used for development purposes. A moment to which must be paid considerable attention in relation to the

temporary residence fee is to find ways and forms for improving the collection of this type of fee, and overcoming the avoidance modalities for the payment of the temporary residence fee. One of the forms for increasing the collection of the temporary residence fee is the tourist inspection, for which responsibilities will be briefly discussed in the part for administering the temporary residence fee.

Exemptions from this type of fee are provided for: persons up to the age of eighteen; blind and deaf people and people with physical disabilities; pupils of school excursions and when teaching in nature; persons who are on treatment; the owner of the accommodation facility, that is, the house, the apartment and the rooms for rent, and his spouse, children, parents, brothers and sisters; and students on sports games and competitions organized by syndical organizations. Foreign citizens do not pay a temporary residence fee also, in cases in which with international contracts and agreements are exempt from paying a fee.

ADMINISTRATION WITH THE TEMPORARY RESIDENCE FEE

The administration of local taxes, fees and other charges is in the competence of the local government with all the rights and obligations that arise from that process. The Department for Taxes, Fees and other charges Administration at the local level carries out tasks related to:

- collecting and monitoring the collection of own revenues in the municipal budget;
- determination and collection of own revenues;
- administration of local taxes and communal fees of the municipality;
- harmonization of the situation in the tax records;
- recording of debentures and tax and fees deductions, and prepares the Final account for these revenues;
- forced collection of tax debt, fine and interest;
- keeping a register of Real estate and movable property of the municipality;
- monitoring and application of the regulations related to determining the tax on real estate and rights transactions, inheritance and gift tax and communal fees;
- conducting an administrative procedure and performing other activities in accordance with the law and other regulations in this field;
- calculates the amount of taxes by taxpayers;

- make proposals for determining the height of the rate in accordance with the law;
- analysis in areas in which has jurisdiction and proposes to the Council of the municipality, its working bodies and the Mayor measures for resolving disputable situations;
- reports on the actual situation about the amount of collection; and
- other issues that will be assigned to the administration body in accordance with the laws and other regulations.

The financial autonomy of the municipalities still has limitations, in terms of respecting that the laws are unified on the entire territory of the state.

Legal entities (trade companies or sole proprietors) registered for tourism and hospitality activities, as well as the persons providing services for accommodation of tourists and passengers, are obliged to collect the temporary residence fee at the same time as the payment for the overnight accommodation service. Thus, the providers of hospitality and tourism activities are obliged to pay the collected fee for temporary residence, by the 15th of the current month for the nights realized in the previous month, as follows:

- 80% of the collected fee on the budget account of the local self-government unit (municipality);
- 20% of the collected fee on the account of the budget of the Republic of Macedonia.

The organizational form through which the administration of local taxes and fees is conducted is through the Department for Taxes and Communal Fees, in which competence are the aforementioned activities, but some municipalities have differentiated separate departments, separately for local taxes, and separately for local fees. Thus, starting from 2011, the municipality of Ohrid has established a special Department for communal fees, within the Tax and Fees Department. In addition, the Municipality of Ohrid within the Sector for Tourism and Local Economic Development (TLER) has appointed a Municipal Authorized Inspector for Tourism and Hospitality, with the following competencies:

- in accordance with the Law on the Temporary Residence Fee, supervises the collection of the temporary residence fee for all facilities registered for guests accommodation;
- in accordance with the Law on Tourism, control the smaller tourist objects registered in the Municipal Register; perform control over tourist guides and tourist companions; perform control on the tourist bureaus; and control over smaller facilities for work hours reported in the municipality;

- in accordance with the Law on Hospitality activity, supervises buildings of smaller size (houses, apartments, rooms for rest, camps); supervision of complementary facilities (night lodgings, inns, camps, private accommodation facilities, resorts, temporary accommodation facilities); supervision of Hospitality facilities on a smaller scale registered in the Municipal Register; supervision of Hospitality apparel facilities; control of issuing beds without a contract with a travel agency or bureau.

THE PARTICIPATION OF OHRID IN THE TOURISM TURNOVER OF THE SOUTH-WEST PLANNING REGION (SWPR) AND IN THE TOURISM TURNOVER OF THE REPUBLIC OF MACEDONIA

Ohrid has a significant position in the tourism turnover in the South-west planning region where it belongs, and in the Republic of Macedonia as a whole. In order for properly position of the municipality of Ohrid participation in the tourist turnover of the South-west planning region and in the tourist turnover of the Republic of Macedonia as a whole, and in the context of emphasizing the importance and significance of the temporary residence fee, an overview of the realized tourist turnover in the period of three years is following.

Table 1. Tourist turnover in the Republic of Macedonia, South-west planning region and Ohrid (2012-2014)

Tourist turnover	RM			SWPR			Ohrid		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Total tourists	663.633	701.794	735.650	251.462	264.826	269.547	183.335	191.504	197.196
Domestic	312.274	302.114	310.336	140.993	130.020	125.320	99.850	92.637	88.118
Foreign	351.359	399.680	425.314	110.469	134.806	144.227	83.485	98.867	109.078
Total overnights	2.151.692	2.157.175	2.195.883	1.198.260	1.152.651	1.095.452	823.666	793.757	754.048
Domestic	1.339.946	1.275.800	1.273.370	836.097	763.788	694.229	575.308	522.718	468.268
Foreign	811.746	881.375	922.513	362.163	388.863	401.223	248.358	271.039	285.780

Source: State Statistical Office, Statistical Yearbook of the Republic of Macedonia 2015; State Statistical Office, Regions in the Republic of Macedonia 2015; Municipality of Ohrid - Department of Tourism and State Statistical Office of the Republic of Macedonia, Statistical Report on Tourism Turnover 2012, 2013 and 2014, in the region of the Municipality of Ohrid, according to official information received from the State Statistical Office of the Republic of Macedonia

Table 2. Participation of Ohrid in the tourism turnover in the Republic of Macedonia and in the South-west planning region in 2012

Tourism turnover	2012				
	RM	SWPR	Ohrid	% Oh-RM	% Oh-SWPR
Total tourists	663.633	251.462	183.335	27.63%	72.90%
Domestic	312.274	140.993	99.850	31.98%	70.82%
Foreign	351.359	110.469	83.485	23.76%	75.57%
Total overnights	2.151.692	1.198.260	823.666	38.28%	68.74%
Domestic	1.339.946	836.097	575.308	42.94%	68.81%
Foreign	811.746	362.163	248.358	30.60%	68.58%

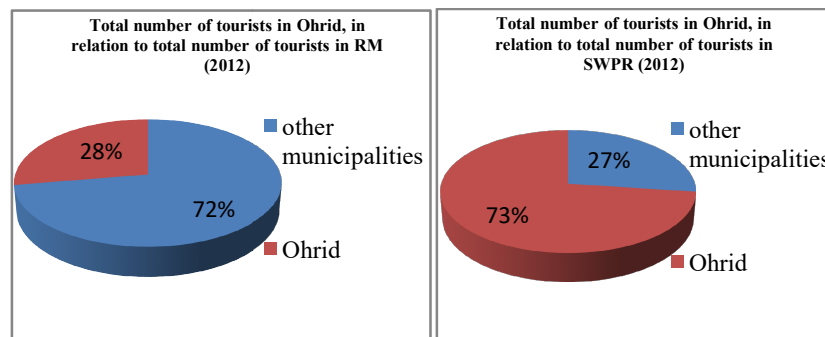


Figure 1. Participation of the total number of tourists in Ohrid, in relation to total number of tourists in RM and in the SWPR (2012)

Табела 3. Participation of Ohrid in the tourism turnover in the Republic of Macedonia and in the South-west planning region in 2013

Tourism turnover	2013				
	RM	SWPR	Ohrid	% Oh-RM	% Oh-SWPR
Total tourists	701.794	264.826	191.504	27.29%	72.31%
Domestic	302.114	130.020	92.637	30.66%	71.25%
Foreign	399.680	134.806	98.867	24.74%	73.34%
Total overnights	2.157.175	1.152.651	793.757	36.80%	68.86%
Domestic	1.275.800	763.788	522.718	40.98%	68.44%
Foreign	881.375	388.863	271.039	30.75%	69.70%

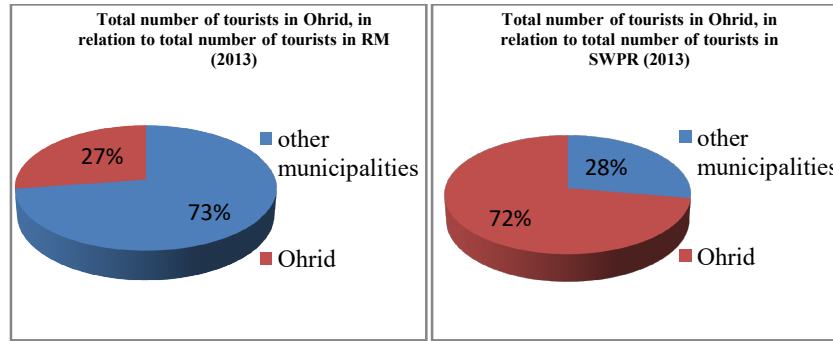


Figure 2. Participation of the total number of tourists in Ohrid, in relation to total number of tourists in RM and in the SWPR (2013)

Табела 4. Participation of Ohrid in the tourism turnover in the Republic of Macedonia and in the South-west planning region in 2014

Tourism turnover	2014				
	RM	SWPR	Ohrid	% Oh-RM	% Oh-SWPR
Total tourists	735.650	269.547	197.196	26.80%	73.15%
Domestic	310.336	125.320	88.118	38.39%	70.31%
Foreign	425.314	144.227	109.078	25.65%	75.63%
Total overnights	2.195.883	1.095.452	754.048	34.34%	68.83%
Domestic	1.273.370	694.229	468.268	36.77%	67.45%
Foreign	922.513	401.223	285.780	30.98%	71.22%

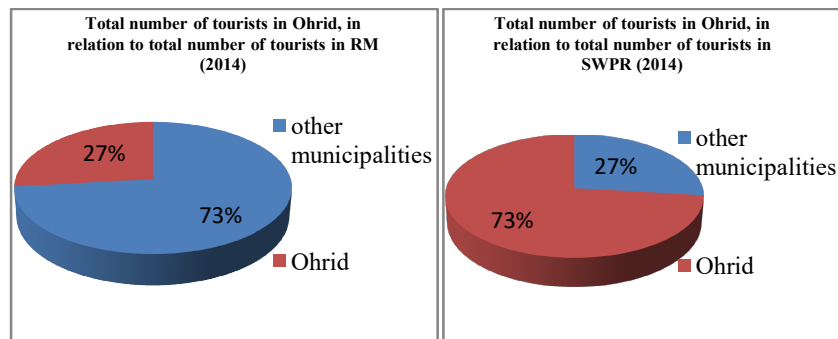


Figure 3. Participation of the total number of tourists in Ohrid, in relation to total number of tourists in RM and in the SWPR (2014)

The previously presented data and graphic figures show that Ohrid continuously participates with more than $\frac{1}{4}$ of the total number of tourists in the Republic of Macedonia and almost $\frac{3}{4}$ of the total number of tourists in the South-west planning region, which includes 9 municipalities. In the South-west planning region live 10.6% of the total population in the Republic of Macedonia [3], and based on the local fees they pay in their municipalities, it is necessary to provide infrastructure for over 35% of the tourists who visit this region, i.e. only the Municipality of Ohrid should provide infrastructure for over 26% of the total number of tourists in the Republic of Macedonia. According to the population estimates for 2014, the South-west planning region had 220,134 inhabitants, and 269,547 tourists visited it [3]. These data emphasize the importance of the successful collection of the temporary residence fee, as well as the need to provide ways to request additional funds from the central budget of the Republic of Macedonia (using those 20% which are paid in to the central state budget), on the basis of differentiated development priorities for separated tourist destinations development, and in accordance with the Strategy for tourism development in the Republic of Macedonia.

REVENUES FROM THE COLLECTION OF THE TEMPORARY RESIDENCE FEE IN THE BUDGET OF THE MUNICIPALITY OF OHRID

This part of the analysis follow the collection of the temporary residence fee in the municipality of Ohrid in the period from 2008 to 2014, as well as the share of the revenues from the temporary residence tax in the total own revenues of the municipality of Ohrid.

Table 5. Income from a temporary residence fee in the municipality of Ohrid

Income from TRF - Finance and Budget Department (2006-2014) hotels and apartments owners (renters)		
year	80%	100%
2008	12.000.672	15.000.840
2009	15.086.618	18.858.271
2010	11.754.249	14.692.809
2011	10.928.350	13.710.349
2012	12.327.986	15.409.982
2013	13.977.194	17.471.492
2014	14.465.481	18.081.851

Source: Sector for Tourism and Local Economic Development - Municipality of Ohrid

Table 6. Income from a temporary residence fee (TRF) in the municipality of Ohrid

Income from TRF - Finance and Budget Department (2008-2014)						
year	Hotels		Apartments owners (renters)		Total	
	80%	100%	80%	100%	80%	100%
2008	10.191.794	12.739.742	1.808.878	2.261.097	12.000.672	15.000.840
2009	11.908.801	14.886.001	3.177.817	3.972.270	15.086.618	18.858.271
2010	9.978.541	12.473.175	1.775.708	2.219.634	11.754.249	14.692.809
2011	9.485.240	11.856.549	1.443.110	1.853.800	10.928.350	13.710.349
2012	10.084.633	12.605.791	2.243.353	2.804.191	12.327.986	15.409.982
2013	12.037.634	15.047.043	1.939.560	2.424.449	13.977.194	17.471.492
2014	12.170.512	15.213.140	2.294.969	2.868.711	14.465.481	18.081.851

Source: Sector for Tourism and Local Economic Development - Municipality of Ohrid

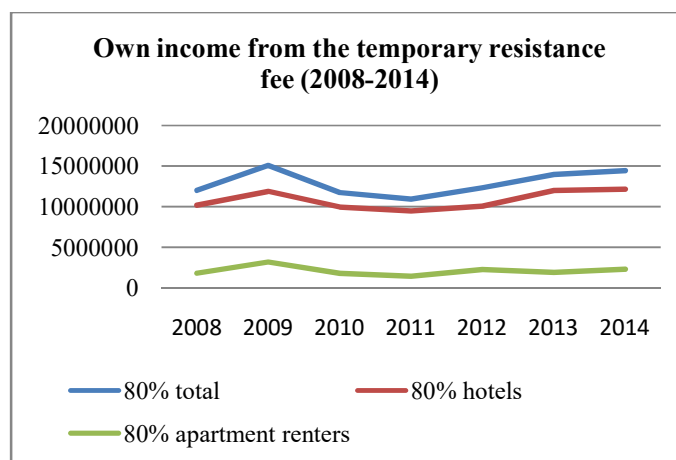


Figure 4. Own income of the municipality of Ohrid from the temporary residence fee (80%) – 2008-2014

From the data presented, it is evident that these are significant own revenues in the municipal budget, having in mind the fact that the collection of the temporary residence fee from private apartments owners (renters) significantly lags behind the collection of that fee from the hotels. In the future, methods and forms should be considered for strengthening the discipline of private apartment owners (renters) in reference to registering tourists and paying the temporary residence fee.

Table 7. Participation of own revenues from the TRF in the total own revenues in the budget of the municipality of Ohrid

Year	Total own revenues	Own revenues from TRF (80%)	% of participation of the TRF in total own revenues
2010	570.726.500	11.754.249	2,06%
2011	610.593.457	10.928.350	1,79%
2012	568.335.378	12.327.986	2,17%
2013	578.597.756	13.977.194	2,42%
2014	404.988.809	14.465.481	3,57%

Source: Own calculations

The data presented in Table 7 show a continuous increase in the share of own revenues in the municipal budget of Ohrid, which arise from the collection of the temporary residence fee. Based on the calculations of the Sector for Tourism and Local Economic Development of the Municipality of Ohrid, the total collection of the temporary residence fee in 2015 increased by 12% compared to 2014. The number of overnight stays in 2016 and in 2017 continues to increase with the pace of acceleration, i.e. the total number of overnight stays in 2016 is 830.333 (increase of 1,5% compared to the previous year), and in 2017 is 937.041 (an increase of 12,9% compared to the previous year) [12].

Based on available data a correlation analysis is made, by the use of Pearson Correlation Coefficient, during which as variables are taken the total number of realized overnights and the realized revenues from the temporary residence fee, in the period 2012-2017.

Table 8. Pearson Correlation Coefficient
(X – Values: Total overnights; Y Values: Own revenues from TRF (80%) - the municipality of Ohrid, 2012-2017)

X-Mx	Y-My	(X-Mx) ²	(Y-My) ²	(X-Mx) (Y-My)
-2504.000	-2467124.167	6270016.000	6086701653750.690	177678913.333
-32413.000	-817916.167	1050602569.000	668986855694.694	26511116710.167
-72122.000	-329629.167	5201582884.000	108655387517.361	23773514758.333
-7995.000	204889.833	63920025.000	41979843803.361	-1638094217.500
4163.000	1204889.833	17330569.000	1451759510470.030	5015956376.167
110871.000	2204889.833	12292378641.000	4861539177136.700	244458340711.500
Mx: 826170.000	My: 14795110.167	Sum: 18632084704.000	Sum: 13219622428372.800	Sum: 304298513252.000

Source: own calculations

Result Details & Calculation

X Values

$$\Sigma = 4957020$$

$$\text{Mean} = 826170$$

$$\Sigma(X - M_x)^2 = SS_x = 18632084704$$

Y Values

$$\Sigma = 88770661$$

$$\text{Mean} = 14795110.167$$

$$\Sigma(Y - M_y)^2 = SS_y = 13219622428372.8$$

X and Y Combined

$$N = 6$$

$$\Sigma(X - M_x)(Y - M_y) = 304298513252$$

R Calculation

$$r = \Sigma((X - M_x)(Y - M_y)) / \sqrt{((SS_x)(SS_y))}$$

$$r = 304298513252 / \sqrt{((18632084704)(13219622428372.8))} = 0.6131$$

Meta Numerics (cross-check)

$$r = 0.6131$$

Where:

X: X Values

Y: Y Values

M_x : Mean of X Values

M_y : Mean of Y Values

$X - M_x$ & $Y - M_y$: Deviation scores

$(X - M_x)^2$ & $(Y - M_y)^2$: Deviation Squared

$(X - M_x)(Y - M_y)$: Product of Deviation Scores

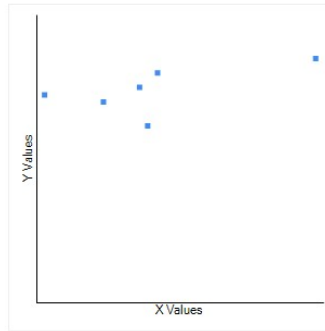


Figure 5. *Distribution of the variables*

The value of R is 0.6131. This is a moderate positive correlation, which means there is a tendency for high X variable scores go with high Y variable scores (and vice versa). The value of R^2 , the coefficient of determination, is 0.3759.

The existence of a positive correlation between the analyzed variables confirms the hypothesis set in the introduction of this paper.

CONCLUDING CONSIDERATIONS

The temporary residence fee in the municipality of Ohrid continuously increases its share in Ohrid municipality own budget revenues. Although the share of this item in the municipality's own revenues ranges between 2% and 4% in the last 5 years, it is still a matter of funds that are not negligible and which are intended for use in the direction of tourism promotion in the municipality of Ohrid. The correlation analysis also indicates a moderate positive correlation between the overnights and the revenues realized by the temporary residence fee. Considering that the biggest difficulties with regard to the temporary residence fee are noted in the process of its collection, and it is legally regulated, the intentions are in direction of control and supervision of the collection of the fee and initiation of measures and strategies for improving the collection process. The measures primarily target private apartment owners (renters), in whose case the evasion of payment of this type of fee is most evident. The income realized from collection of the temporary residence fee from private apartment owners (renters) is significantly lower than the collection of that fee from hotels and other forms of tourist facilities. In that sense, one of the measures

implemented by the municipality of Ohrid is subsidizing private apartment owners (renters), i.e. small-scale hospitality service providers with 50% of the charged fee for temporary residence. In that sense, the Municipality of Ohrid announces a public call for submission of applications for subsidies for part of the paid temporary residence fee for domestic and foreign tourists in their accommodation capacities. The purpose of this activity is to encourage individuals registered in the register of individuals providing small-scale hospitality services in the municipality of Ohrid to keep records on the stay of the guests in their accommodation facilities, which will stimulate the regular collection of the temporary residence fee and avoid its concealment. The data show that this measure starts to yield results. However, taking into consideration that tourism is the main branch of the economy in Ohrid and one of the most important development-economic branches in the municipality, it is necessary to initiate other measures for monitoring, recording and collection of the temporary residence fee in the direction of the dynamics and the further development of tourism in the municipality of Ohrid.

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