

THE GLOBAL
URBAN ECONOMIC
DIALOGUE SERIES

PROPERTY TAX REGIMES IN EAST AFRICA



UN  **HABITAT**
FOR A BETTER URBAN FUTURE

PROPERTY TAX REGIMES IN EAST AFRICA

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UN  **HABITAT**

The Global Urban Economic Dialogue Series

Property Tax Regimes in East Africa

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FOREWORD



Urbanization is one of the most powerful, irreversible forces in the world. It is estimated that 93 percent of the future urban population growth will occur in the cities of Asia and Africa, and to a lesser extent, Latin America and the Caribbean.

We live in a new urban era with most of humanity now living in towns and cities.

Global poverty is moving into cities, mostly in developing countries, in a process we call the *urbanisation of poverty*.

The world's slums are growing and growing as are the global urban populations. Indeed, this is one of the greatest challenges we face in the new millennium.

The persistent problems of poverty and slums are in large part due to weak urban economies. Urban economic development is fundamental to UN-HABITAT's mandate. Cities act as engines of national economic development. Strong urban economies are essential for poverty reduction and the

provision of adequate housing, infrastructure, education, health, safety, and basic services.

The *Global Urban Economic Dialogue* series presented here is a platform for all sectors of the society to address urban economic development and particularly its contribution to addressing housing issues. This work carries many new ideas, solutions and innovative best practices from some of the world's leading urban thinkers and practitioners from international organisations, national governments, local authorities, the private sector, and civil society.

This series also gives us an interesting insight and deeper understanding of the wide range of urban economic development and human settlements development issues. It will serve UN member States well in their quest for better policies and strategies to address increasing global challenges in these areas.

A handwritten signature in black ink, appearing to read 'Joan Clos', written in a cursive style.

Joan Clos

Under-Secretary-General
of the United Nations,
Executive Director, UN-HABITAT

CONTENTS

LIST OF TABLES, FIGURES, ACRONYMS AND ABBREVIATIONS	VIII
PREAMBLE	X
CHAPTER 1 INTRODUCTION	1
1.1 Property Tax in the Context of Fiscal Decentralization and Municipal Finance	1
1.2 Objectives of the Study	2
CHAPTER 2 BASIC COUNTRY INFORMATION	3
2.1 Kenya	3
2.1.1 Geographical Context	3
2.1.2 The Government Structure in Kenya	3
2.1.3 Land Use and Land Tenure System	4
2.1.4 Overview of the Property Market in Kenya	5
2.2 Tanzania	5
2.2.1 Geographical Context	5
2.2.2 The Government Structure in Tanzania	6
2.2.3 Land Use in Tanzania	6
2.2.4 Land Tenure system	6
2.2.5 Overview of the Property Market in Tanzania	8
2.3 Uganda	8
2.3.1 Geographical Context	8
2.3.2 The Government Structure in Uganda	9
2.3.3 Land Use and Land Tenure System	9
2.3.4 Overview of the Property Market in Uganda	10
CHAPTER 3 OVERVIEW OF THE TAX SYSTEM	11
3.1 Kenya	11
3.1.1 National Tax Structure	11
3.1.2 Property – Based Taxes in Kenya	11
3.2 Tanzania	12
3.2.1 National Tax Structure	12
3.2.2 Property – Based Taxes in Tanzania	12

3.3	Uganda	15
3.3.1	National Tax Structure	15
3.3.2	Property-Based Taxes in Uganda	15
CHAPTER 4	PROPERTY TAX REGIMES IN EAST AFRICA	17
4.1	Kenya	17
4.1.1	Tax Base	17
4.1.2	Basis of Assessment	18
4.1.3	Exemptions	18
4.1.4	Valuation	18
4.1.5	Property Tax Rates	19
4.2	Tanzania	20
4.2.1	Property Tax Coverage	20
4.2.2	Assessment Basis	20
4.2.3	Exemptions	20
4.2.4	Tax Rates	22
4.2.5	Tax Assessment Basis	22
4.3	Uganda	22
4.3.1	Tax Base	22
4.3.2	Exemptions	22
4.3.3	Tax Rates	23
4.3.4	Tax Assessment Basis	24
CHAPTER 5	PROPERTY TAX COLLECTION AND ADMINISTRATION	25
5.1	Kenya	25
5.1.1	Billing and Collection of Tax	25
5.1.2	Enforcement procedure and practices	26
5.1.3	Capacity to Administer property Tax in Kenya	26
5.1.4	An Overview of Local Authorities Revenue Sources	26
5.1.5	Analysis of property Tax Revenue in Kenya	27
5.2	Tanzania	29
5.2.1	Tax Collection and Enforcement	29
5.2.2	Objection and Appeals Procedures	29
5.2.3	Determining Objections	30
5.2.4	Enforcement mechanisms	30
5.2.5	Handling objections – practical examples	31
5.2.6	Capacity to Administrator Property Tax in Tanzania	32
5.2.7	An Overview of Local Government Authorities Revenue Sources	32
5.2.8	Major impediments to raising property tax revenue	34

5.3	Uganda	34
5.3.1	Tax Billing and Collection	34
5.3.2	Enforcement Mechanisms	34
5.3.3	Capacity to Administer Property Tax in Uganda.	35
5.3.4	Overview and Analysis of Local Authorities Revenue Sources	35
CHAPTER 6 CONCLUSION AND RECOMMENDATION		39
6.1	Kenya	39
6.1.1	Challenges to Property Tax Implementation	39
6.1.2	The context and Rationale for Property Tax Reform	39
6.1.3	Recommendations	40
6.2	Tanzania	41
6.2.1	Challenges to Property Tax Implementation	41
6.2.2	Recommendations	41
6.3	Uganda	41
6.3.1	Challenges to Property Tax Implementation	41
6.3.2	Recommendations	42
REFERENCES		45

LIST OF TABLES, FIGURES, ACRONYMS AND ABBREVIATIONS

LIST OF TABLES

Table 3.1: Land Rent Schedule for Kinondoni Municipality	13
Table 4.1: Breakdown of Property Rating in Kenya (2001)	17
Table 4.2: Range of Tax Rates by Type of Local Authority, 2000	19
Table 5.1: Municipal Councils:- Economic Analysis of Current Revenue (in million units of Kenya currency, 2004/05 – 2008/09)	27
Table 5.2: Town, Urban and County Councils; Economic Analysis of Recurrent Revenue in (million units of Kenya currency, 2004/05- 2008/09)	27
Table 5.3: Tax Collection by Tax Regime in Kenya (In Kshs Billions)	28
Table 5.4: Property Tax as a % of Total Tax Collection	28
Table 5.5: Own Sources of Urban Local Government Revenue in Tanzania	33
Table 5.6: Aggregated revenues from main sources of own revenue for Dar es Salaam Councils 1998 - 2002 Amount collected in TShs Millions	33
Table 5.7: Revenue Sources for Kampala City Council	36
Table 5.8: Collection July to June 2005-2006	36
Table 5.9: Collection July to June 2006-2007	37
Table 5.10: Collection July to June 2007-2008	38

LIST OF FIGURES

Figure 1.1: Map of East Africa	2
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ABBREVIATIONS/ACRONYMS

CBD	Central Business District
CILOR	Contribution in Lieu of Rates
DSM	Dar es Salaam
EES	Exclusive Economic Zone
EPZs	Export Processing Zones
GDP	Gross Domestic Product
GOK	Government of Kenya
IFMS	Integrated Financial Management System
KCC	Kampala City Council
KLGRP	Kenya Local Government Reform Programme
KRA	Kenya Revenue Authority
KSh	Kenya Shilling
KTH	Royal Institute of Technology
LATF	Local Authority Transfer Fund
LGA	Local Government Act

LGRA	Local Government Rating Act
LGRP	Local Government Reform Program
LGRRs	Local Government Rating Regulations
LGs	Local Governments
LST	Local Services Tax
MLHSD	Ministry of Housing and Human Settlement Development
MSc	Master of Science
ODM	Orange Democratic Movement
PNU	Party of National Unity
RICS	Royal Institute of Chartered Surveyors
SBP	Single Business Permit
TRA	Tanzania Revenue Authority
TSh	Tanzania Shilling
UARA	Urban Authorities Transfer Fund
UGX	Uganda Shilling
UK	United Kingdom
ULC	Uganda Land Commission
UN-HABITAT	United Nations Habitat Programme
URT	United Republic of Tanzania
USD	United States Dollar
USV	Unimproved Site Value
VAT	Value Added Tax

PREAMBLE

The history of property tax system in most commonwealth countries can be traced back to feudal England at the time of the Poor Relief Act of 1601 during the reign of Queen Elizabeth I. Currently, some one hundred and thirty (130) countries worldwide have in place some form of property based taxation (McCluskey, 1993). Nearly all independent tropical African countries use some form of property based taxes to generate revenue for their local authorities (Konyimbih, 2002).

The main aim of any property tax system is to raise revenue for provision of services by the local authority. The services differ from country to country and from one local authority to the other but they can be broadly categorized into water provision, garbage collection, street cleaning and sewerage and the provision of physical infrastructure and its maintenance among others. The other objectives are regulatory and social in nature. These necessitate land to be taxed as a base resource to encourage a more effective management and use of the scarce resources to generate maximum revenues within the limits of environmental conservation and local planning (Konyimbih, 2002).

Property taxes are usually compulsory charges /levies that relate specifically to the ownership, occupation, or improvement of land or of land and buildings, (Mc Cluskey, 1993). The tax may be based on landsite value, capital value or annual rental value (real or imputed) and are collected for use by local authorities. Despite the great potential for increasing revenue through property taxation, its successful implementation in most countries have been hampered by a number of procedural, institutional and administrative reasons.

This report reviews the Property Tax Regimes in East African Countries namely Kenya, Uganda and Tanzania. The three countries are all former colonies of Britain and have had different development experiences since their independence and still have different bases of property taxation. The land tenure systems and land use practices in the three countries are also varied, and possibly have got different influence on the property taxation system.

CHAPTER 1 INTRODUCTION

1.1 Property Tax in the Context of Fiscal Decentralization and Municipal Finance

Local governments, the world over are the primary providers of basic infrastructure including water, local public schools, waste management, and local roads among others. To perform their role, the authorities must generate revenue. Rates are one such avenue through which local authorities mobilize local financial resources for service provision. However, the growth in expenditure has always surpassed that of revenue resulting in budget deficits over the years.

Local governments all over the world are therefore struggling to raise local revenues to enable service delivery in urban areas but their efforts continue to face enormous challenges. The global urbanization trend indicates that a large number of the world's population are moving towards the urban areas, calling for increased provision of adequate urban infrastructure and social services notwithstanding the limited sources of revenue available. The result is that urban service delivery is in many instances in a state of disarray as the ability of local authorities in many Anglophone East Africa to direct and sustain urban development in their respective areas of jurisdiction has declined. Countering this downward spiral requires financial stability, which, in turn, implies good governance and an improved and sustainable flow of revenue (Franzsen and Olima, 2003).

In the context of a widespread focus on decentralization and devolution, there has been an imperative need to find suitable ways

to maximize potential own revenue sources at all sub-national government levels. Revenue autonomy and adequate revenue sources would allow sub-national governments around the world to become more accountable to their taxpayers and to provide, more readily and efficiently, improved levels of public services and appropriate infrastructure tailored to their preferences.

It has been widely suggested that property tax would represent an important, if not the best, source of stable revenue at the sub-national level in both developed and developing countries. Property taxation is known around the world to be the most reliable and physically available source of revenue to both national and local governments. It provides for funding public service, social development, value capture while facilitating quick and easy monitoring of land markets. In addition, property taxation is believed to provide an element of autonomy and to some extent financial independence from central government.

Basically, property tax is considered a good local tax in the sense that property, particularly land, cannot easily be moved out of the taxing jurisdiction. It is highly visible enough to ensure accountability and transparency. However, it has been observed that property taxation is "one of the most lucrative yet still the least tapped sources of tax revenue to support urban government in Africa" (Mou, 1996:6). This is especially true in many Anglophone countries in East Africa where both lack of political will and bureaucratic support have resulted in a delay of a comprehensive implementation of the fiscal decentralization laws and thus the property tax legislation. Central governments

are often reluctant to devolve tax authority to local governments to accompany their expenditure responsibilities. The potential of property taxation is enormous and can only be tapped into if policymakers and donor agencies implement more effective property tax reforms preferably synchronized with broader fiscal decentralization efforts.

1.2 Objectives of the Study

The prime objective of the research is to present a comprehensive review of the property – related taxes in East African countries of Kenya, Tanzania and Uganda. Figure 1 shows the map of the three East African countries

studied. Specifically the research sought to establish and/or examine:

- A comprehensive template to collect data regarding all forms of property taxation in the East African countries
- The property tax systems as legislated and practiced in East African countries.
- The significance and extent of property taxes as sources of national and / or municipal revenues.
- The future role of property taxation in each country; and
- General trends in the application of property taxation in the East African region.

Figure 1.1: Map of East Africa



Source: www.un.org/depts/Cartographic/map/profile/ea/eafr.pdf

CHAPTER 2 BASIC COUNTRY INFORMATION

This chapter gives the background information for the study countries of Kenya, Tanzania and Uganda. The main types of information provided include: the geographical context, the government structure, land use and land tenure system, and an overview of the property market of each country.

2.1 Kenya

2.1.1 Geographical Context

The Republic of Kenya is a country in East Africa. It is bordered by Tanzania, Uganda, Sudan, Ethiopia and Somali. Kenya gained its independence from United Kingdom on 12th December, 1963.

Topographically, Kenya may be divided into four distinct geographical and ecological regions or zones with different patterns of land use, namely; the coastal plain, the arid low plateau, the highlands and the Lake Victoria basin. The rainfall patterns are extremely varied but generally follow these regions. The country is divided into eight administrative units known as provinces – Nairobi, Central, Nyanza, Western, Eastern, Rift Valley, Coast and North Eastern. In the new Constitutional dispensation, the country will be administratively and politically divided into 47 counties with each county forming a semi-autonomous government that will be partly responsible for local taxes such as property tax.

Kenya covers an area of approximately 582,646 sq. km of which 97.8 percent is land surface while the rest (2.2 percent) is water

surface. About 80 percent of the land surface is arid and semi-arid. Thus only about 20 percent of Kenya's land area can be classified as medium to high potential agricultural land. In addition, there are Indian Ocean Territorial Waters covering about 14,300sq.km and an Exclusive Economic Zone (EES) covering an area of 143,100 sq.km as stipulated in the Maritime Zone Act of 1989.

As at the Population and Housing Census of 2009, Kenya's population was counted at 39.423 million (Republic of Kenya), an increase of 37.43 percent in 10 years at the 1999 census. An estimated 34.8 percent of the total population lives in urban areas.

The capital city of Nairobi has an estimated population of 3,260,124. Other major or secondary towns include Mombasa, Kisumu, Eldoret, Nakuru, Nyeri, Embu and Kakamega.

The GDP at current price in 2009 was estimated at USD 29.3 billion, giving per capita GDP of USD 743 while the 2009/10 total revenue collection was USD 6 billion.

2.1.2 The Government Structure in Kenya

There are two levels / tiers of government in Kenya namely, Central Government and Local Authorities.

Kenya is a unitary sovereign state divided into provinces and districts for administrative purposes. The form of government is a constitutional republic with three (3) arms of government namely; legislature, executive and judiciary. Kenya has been a multi- party democracy since 1992.

The legislative power of the Republic is vested in the parliament of Kenya which consists of 210 elected members and 12 nominated members. Currently, the dominant political parties are Orange Democratic Movement (ODM) and Party of National Unity (PNU).

The executive power of the Republic is vested in the President who is the Head of State, Head of Government and Commander – in – Chief of the Armed Forces of Kenya. As per the constitution, President shall be elected by universal adult suffrage of registered voters in the Republic and shall hold office for a term of 5 years. No person shall serve as president for more than two terms.

Kenya has currently a total of 175 local authorities comprising of 1 city council, 45 municipal councils, 62 town councils, and 67 county councils. Under the Local Government Act of 1963 (Chapter 265 of the Laws of Kenya), local authorities were created and charged with the responsibility of providing and maintaining a wide range of public services such as primary education, public health, cultural and social facilities, public markets and market buildings (Syagga, 1994).

Local authorities undertake the various functions through committees, which are usually constituted under part VI of the Local Government Act, (Cap 265). Such committees include among others; finance, health, town planning and staff committees. The decisions of these committees are, however, subject to confirmation of the full council meetings of the respective authority.

The local authorities currently are under the supervision of the Office of the Deputy Prime Minister and Ministry of Local Government.

2.1.3 Land Use and Land Tenure System

When Kenya was founded as a settler colony, large tracts of the most fertile agricultural land were set aside for exclusive occupation of white settlers under freehold tenure or leasehold. The

establishment of a settler colonial economy in Kenya led to demands of ideas of land ownership that were to dominate the entire span of both the colonial and post – colonial land policy in Kenya (Kiamba, 1989: 124).

In Kenya, there are various land tenure systems existing. At independence in 1963 the newly established government in Kenya inherited three types of land holding namely;

- i. Urban land which is government owned and acquisition by individuals is on leasehold of upto 99 years;
- ii. Farm land held on freehold tenure by individuals and / or companies; and
- iii. Trust land not registered in individual or group titles but occupied by a given community and governed by customary land law. Trust land formed a greater part of the land in Kenya, particularly in the rural areas.

A particular piece of land in Kenya would ordinarily belong to one of the following classes:-

- Government or State Land
- Public freehold
- Leasehold
- Short – term leaseholds or temporary occupation license
- Trust land
- Informal private sub divisions
- Share certificates.

Most urban land in Kenya used to be either Government freehold under the direct administration of the Commissioner of Lands; or local authority land which is also administered by the Commissioner of Lands. However, the very rapid growth of urban centres exhausted such pockets of government

land. Currently, in most local authorities in Kenya, land is privately owned by individuals and companies under leasehold arrangements.

2.1.4 Overview of the Property Market in Kenya

The operations of the land and property markets are largely formal as property transactions take place within a formal registration process. The property market is fairly developed in urban areas with considerable regulation for purposes of legalizing the transactions.

With the desire of most Kenyans to own property, particularly housing there is increasing demand for land acquisition for residential development. This has resulted into high land prices in the urban areas depending on the land size and location. The land in Nairobi and its suburbs is still more expensive as influenced by both the specific land user and income levels of particular neighbourhoods.

2.2 Tanzania

2.2.1 Geographical Context

The United Republic of Tanzania is a country located in East Africa, just south of the equator. It consists of two formerly independent states, that is, Tanganyika (now known as Tanzania mainland) and Zanzibar. These two states united in 1964. Tanzania mainland is divided into 21 regions, and 106 administrative districts.

Date of Independence is December 9, 1961 for Tanganyika; December 10, 1963 for Zanzibar. The United Republic of Tanzania was formed on April 27, 1964. Mainland Tanzania lies between the area of the great lakes—Victoria, Tanganyika, and Malawi (Niassa)—and the Indian Ocean. It is bounded on the North by Kenya, on the North West by Uganda, Rwanda and Burundi, on the East by the Indian Ocean,

on the South by Mozambique and Malawi, on the Southwest by Zambia, and on the West by Zaire with a total boundary length of 4,826 km (2,999 miles), of which 1,424 km (885 miles) is coastline. Tanzania claims part of Lake Malawi, although its internationally recognized boundary is the eastern shore.

The section of the United Republic of Tanzania known as Zanzibar comprises the islands of Zanzibar and Pemba and all islets within 19 km (12 miles) of their coasts, as well as uninhabited Latham Island, 58 km (36 miles) south of Zanzibar Island. Zanzibar Island lies 35 km (22 miles) off the coast, and Pemba Island is about 40 km (25 miles) to the North East. The former has an area of 1,657 sq km (640 sq miles), and the latter 984 sq km (380 sq miles).

It covers a total area of 945,087 sq km (364,900 sq miles), including 59,050 sq km (22,799 sq miles) of inland water. Comparatively, the area occupied by Tanzania is slightly larger than twice the size of the state of California.

Tanzania has **two** capital cities, Dodoma (administrative) and Dar es Salaam (commercial), which is located on the Indian Ocean coast. The secondary towns are Arusha, Iringa, Mbeya, Moshi, Morogoro, Mwanza, Tabora and Tanga.

According to 2002 population census, Tanzania's population is 35 million as is projected to be 45 million in 2009 comprising of over 130 ethnic groups. The official languages are Swahili and English.

Tanzania has been experiencing a rapid rate of urbanization up to 8 percent per annum. The urban population has increased from 5 percent in 1967 to 23 percent in year 2002 (GOT 2002), and currently estimated to be 36 percent. The GDP per capita at current price is estimated at USD 1,300 (2007 est.) while the total tax revenue for the 2010/2011 Financial Year is estimated at USD 900 million.

2.2.2 The Government Structure in Tanzania

Tanzania is a country with two-tier system of government administration consisting of the central government on the one hand, and local government on the other.

The form of government is a constitutional republic, based on multi party democracy. The legislative power of the republic is vested in the parliament. The executive power of the republic is vested in the president who is elected by universal adult suffrage of registered voters in the Republic.

Local government authorities are composed of urban authorities and rural authorities as established under the Local Government (Urban Authorities) Act, 1982 and the Local Government (District Authorities) Act, 1982 respectively. Local government system has existed in Tanzania since the colonial period and continued after independence to 1972 when local government authorities were abolished and reinstated in 1978 (Kayuza, 2006).

2.2.3 Land Use in Tanzania

Tanzania uses the land title registration system based on Torrens as well as Deeds System for both urban and rural lands (Mukandala, 2009). This is the authentication of ownership of or a legal interest in a parcel of land – confirming all the transactions that confer, affect or terminate that ownership or interest of a person over a particular parcel of land.

The surface area of Tanzania is 94.3 million ha. Only 5 percent (5.1 million ha) of it is cultivated. An area twice this size, (10 million ha.), is arable land that is not cultivated, but to a large degree used as pasture by pastoralists. Almost a quarter of the surface area, 23%, is reserves, a larger share than any other country in Sub-Saharan Africa (URT, 2007).

Land use	(Million ha)
Forest Reserves	10.1
Arable land, not cultivated	10.0
Game Reserves	7.7
Cultivated land	5.1
National Parks	4.2

Reserved land: All land set aside for special purposes (forest reserves, game parks and reserves), land reserved for highways and public utilities, land designated under the Town and Country Planning Ordinance, and hazardous land.

General land: General land is all land that is not Reserved Land or Village Land. However, the Act opens up for ambiguity: “general land’ means all public land which is not reserved land or village land and *includes unoccupied or unused village land*” (quoted in Sundet, 2005:3). The definition of General Land in the Village Land Act does not include the last part of the sentence.

Village Land: Village land is land that belongs to registered villages. Importantly, the village councils do not *own* the land, they only manage it (Wily, 2003:19). A village is an administrative unit in the local government system and usually has a population of between two and four thousand persons. Each village has a village government. Members of the village government are hamlet/sub-village chairpersons, a Village Chairperson, and a hired Village Executive Officer. Three to four villages make up a ward. At the ward level, there is a Ward Development Committee, and a hired Ward.

2.2.4 Land Tenure system

At present, there exists a dual land tenure systems, that is, statutory and customary rights of occupancy with public land vested in the president as trustee. Customary tenure system only applies in rural areas or registered

villages within the urban areas. Certificate of occupancy provides explicit security of tenure. The present land tenure system in Tanzania is rooted in the colonial past. Prior to the coming of the colonial administration land in Tanzania (then Tanganyika) like in many other African countries was held under customary tenure whereby powers to control and allocate land were vested in a tribe, clan, family or chiefs. Chiefs, headmen, clan or tribe elders were entrusted with the administration of land of a particular community. The coming of Germans as the first colonial administrators brought remarkable changes to the land tenure system. In 1885 the German administration declared all land in the territory to be Crown land vested in the German Empire. But lands held by private persons, chiefs or native communities for whom there was proof of ownership were exempted from the application of the declaration. Subsequently, leases of definite and indefinite period (implicitly freehold) were introduced. Succeeding the Germans after the First World War, the British passed the Land Ordinance Cap 113 in 1923. Similarly under the Land Ordinance, all lands whether occupied or unoccupied were declared public lands with all the interests over the lands placed under the control of the governor. The interests over the lands were held, used or disposed of, for the common benefit of the natives. Under the ordinance land was to be held as a Right of Occupancy.

After independence in 1961 the independent government inherited the conceptual and major part of the legal framework and land tenure from the Colonial period (URT, 1994). Thus, even after independence land remained 'public land' and vested in the state as declared by the colonial Land Ordinance. Significant changes brought by the independent (Tanganyika) government were the conversion of the colonial (largely German) freeholds into government leaseholds under the Freehold

Titles (Conversion) and Government Lease Act (Cap.523) of 1963. The Government Leases were later on converted into rights of occupancy under the Government Leaseholds (Conversion to Rights of Occupancy) Act No. 44 of 1969. The independent government retained the right of occupancy land tenure with a maximum of 99 years term, as governed by the Land Ordinance 1923.

The Land Ordinance remained operational until May 1st 2001 when the Land Act N. 4 and the Village Land Act No.5 were passed to govern land holdings under right of occupancy in urban areas and rural areas respectively. Like the Land Ordinance 1923, the Land Act 1999 treats land as 'public' property. According to Section 4 (1) of the act, all land in Tanzania shall continue to be public land and remain vested in the President as trustee for and on behalf of all the citizens of Tanzania. With the new Land Act dual land tenure system has been put in place, recognising both statutory and customary rights of occupancy. Land holding under Rights of occupancy is to be confirmed by a certificate of occupancy issued with respect to land allocated by public authority or land that is acquired through pertinent customary procedures. According to the Land Act:

“right of occupancy” means title to the use and occupation of land and includes the title of a Tanzania citizen of African descent or a community of Tanzanian citizens of African descent using or occupying land in accordance with customary law. “customary right of occupancy” includes deemed right of occupancy. “deemed right of occupancy” means the title of a Tanzanian citizen of African descent or a community of Tanzanian citizens of African descent using or occupying land under and in accordance with customary law.”

Under the dual land tenure system landholders with certificate of occupancy have explicit security of tenure. But security of

tenure for landholders in informal settlements without formal certificates of occupancy remains ambiguous. There is no clear provision in the legislation that confers security of tenure to land holdings in unplanned areas except for a certificate of validation that can be issued upon application by the occupier. Moreover, land occupiers in unplanned (urban) areas do not qualify for security of tenure under customary tenure system as this applies only in rural areas or to registered villages within the urban areas.

In practice the land tenure system has had considerable influence on the operation of the property market. According to the Land Act No. 4 of 1999, the interests in or rights over land of the occupier with a right of occupancy are limited to unexhausted improvements on the occupied land since land is the property of the state. As such transactions of vacant land are restricted under the law. However recent amendments in the law, under Land (Amendment) Act No.2 of 2004 allow sale of vacant land but subject to approval by the Commissioner for Lands. The approval is guided by provisions of Section 37 of the Land Act, which sets the conditions for disposition of vacant land (Kayuza, 2006).

For a long time in history property transactions were restricted. It is only in recent years that the number of properties changing hands has been increasing. Nonetheless people transacting in real property are seldom willing to disclose the true prices for which real property change hands. Even though there have been restrictions in transacting land holdings under formal ownership, it has been easy to sell land in informal settlements where conditions attached to granted right of occupancy do not apply. As a result of restrictive land laws the property market has not been active enough to generate market sales data for use in valuation. Thus scarcity of market data has negatively impacted upon the real property valuation practice.

2.2.5 Overview of the Property Market in Tanzania

The operations of the land and property markets are largely formal, particularly in the urban areas as property transactions take place within a formal registration process. The property market is fairly active as the number of properties changing hands has been increasing after Land (Amendment) Act No. 2 of 2004.

Despite the fact that property market is both formal and active in the urban areas, there is however, the problem of scarcity of market data. In the rural areas, most parts of the country are still having tracts of unregistered lands.

2.3 Uganda

2.3.1 Geographical Context

The Republic of Uganda is a landlocked country in East Africa. It is bordered on the east by Kenya, on the north by Sudan, on the west by the Democratic Republic of Congo, on the southwest by Rwanda, and on the south by Tanzania. The southern part of the country includes a substantial portion of Lake Victoria, which is also bordered by Kenya and Tanzania. Uganda gained its independence from United Kingdom on 9th October 1962.

The country has been divided into 80 districts, until recently when 13 new districts were gazetted making a total of 93 districts, all spread across the four administrative regions namely; Northern, Eastern, Central and Western. The districts are further subdivided into sub-districts, counties, and sub-counties, parishes and villages. Most districts are named after their main commercial and administrative towns, making all district centres urban councils.

Uganda covers an area of approximately 241,010 square kilometers of which about 15.39 percent is water surface. According to

Uganda 2002 census, the total population was 24,227 million. As at 2009, Uganda's population is estimated as 32,370 million. The population growth rate is about 4 percent per annum. The urbanization level is about 18 percent. However, it is now estimated that 34 percent of the total population lives in urban areas as small trading centres are being gazetted as Town Boards.

The capital city of Uganda is Kampala with an estimated population of 1.2 million people according to 2002 census. Other major or secondary towns include Mbarara, Gulu, Arua, Entebbe, Moroto, Soroti, Mbale, Jinja and Fort Porto.

The GDP at current price is estimated at USD 14.565 billion, giving per capita GDP of USD 454. The total tax revenue for 2010/2011 Financial Year is estimated at USD 2 billion.

2.3.2 The Government Structure in Uganda

There are two levels of government in Uganda namely, Central Government and 5 levels of local councils.

Uganda is a constitutional republic divided into administrative regions, districts and counties with three (3) arms of government namely; legislative, executive and judiciary. The legislative power of the republic is vested in the parliament, formed by the National Assembly which has 332 members. Out of the total members of National Assembly, 228 are elected with the remaining 104 nominated by interest groups, including women and the army.

The executive power of the Republic is vested in the President who is both the Head of State and Head of Government.

There are five (5) levels of local councils namely city, municipality, town, district, and division or sub-county. In addition, there

exists traditional authorities of Buganda, Toro, Bonyoro, Busoga, Acholi, and Alur.

2.3.3 Land Use and Land Tenure System

Land use in Uganda is greatly influenced by the existing land tenure system. Four systems of land holding namely leasehold, freehold, private mailo and customary exist in Uganda. Currently, there is also the issue of tenant by occupancy as at 1995 through payment of nominal rent. The Deeds System of land registration is in use with the Office of the Commissioner, Ministry of Land, and Housing and Urban Development being responsible.

In regard to land tenure system in Kampala, out of the total of 201sq.kms of land area, 20% is categorized as planned land with leasehold land titles while 80% is unplanned land, 75% of the area of both categories considered is under mailo land tenure system while 3% of the land is under freehold land titles. The slum area occupies a balance of 21%, the biggest portion of which evidently lies on mailo land. A total of 46.1% of the city land coverage is indicated as being under agriculture or simply undeveloped.

Of the four legally accepted land tenure systems in Uganda, three exist in the city, namely public land that falls under the jurisdiction of ULC, mailo (private) land where KCC has no powers to grant leases and freehold held by institutions (such as schools, hospitals). Within the above categories, there are other sub-systems of land tenure such as customary tenure on both mailo and public land where tenants or squatters enjoy some rights according to the Land Act 1997. 75% of the city land under mailo is characterized by the existence of informal settlements and occupancies on land with prime values in economically strategic areas some of which are in the CBD. The study observes that these pieces of land are unattractive to investors; depress land values/prices that neither benefits

the landowners nor the occupants. *Secondly*, absentee landlords (under mailo system) have created a state of total neglect, abandonment and wastage leading to fraud, forgeries of ownership and conflicts. This land is estimated to be at 46.1% of the city land coverage. This has consequently resulted in haphazard development of plots that are congested with poor sanitary conditions with properties of far less values in the city. This undermines property tax potentials. The study observes that following the scrapping of former public land and statutory leases and the vesting of land in the people as private land (Land Act, 1997), KCC as an urban authority can no longer effectively manage and control land, which it does not own. This has consequently affected infrastructure development because of the requirement for compensation thus worsening city development plans.

There are 6 landlords in Kampala City Council namely;

- Kampala City Council – This covers public land with Deed Document/Title of 49 years lease for residential properties and 99 years lease granted for industrial purposes.
- Uganda Land Commission
- Buganda Land Board
- Catholic Church
- Muslim Body
- Church of Uganda

The land act allows for the conversion of leaseholds to freeholds so long as the affected acreage is less than 100 acres. This is done subject to the payment of a handling fee of UGS 100,000. Specifically, land in Uganda belongs to the citizens.

2.3.4 Overview of the Property Market in Uganda

The operations of the land property markets are relatively well organized in Kampala and other big municipalities and urban councils. There is considerable amount of regulation for purposes of legalizing the transactions.

There is however, increasing demand for land acquisition for urban development, resulting into high land prices particularly in Kampala City Council.

CHAPTER 3 OVERVIEW OF THE TAX SYSTEM

This chapter gives an overview of the tax systems of the study countries of Kenya, Tanzania and Uganda. The overview includes information on: the national tax structure, property – based taxes, and the evolution/history of property tax of each country.

3.1 Kenya

3.1.1 National Tax Structure

Tax administration in Kenya is highly centralized. The collection of revenue from tax is done by Kenya Revenue Authority (KRA) in the Ministry of Finance. The tax year starts from July and ends in June of the following year.

There are a variety of taxes in Kenya. Tax revenue is mainly from direct taxes on individuals and firms, and indirect taxes on transactions of goods and services. The national taxes include tax on income and profit which include individual tax on income and profits and corporation tax; Value Added Tax (VAT), Domestic taxes on goods and services which comprises of excise and customs duties, and Fuel Levy among others. Property taxes collected by the KRA comprise land rent on leasehold properties payable annually, and stamp duty payable on transfer of real estate.

Local authority taxes in Kenya include rates, development approval charges, business fees and user charges among others.

3.1.2 Property – Based Taxes in Kenya

The property – related taxes administered in Kenya include land rent, stamp duty,

and property rates. In Kenya, property taxes collected by Kenya Revenue Authority (KRA) comprise land rent on leasehold properties payable annually, and stamp duty payable on transfer of real estate. Though the KRA is charged with the collection of these property taxes, the assessment of the tax payable is performed by the Valuation Division within the Ministry of Lands.

(a) **Land rent:** In Kenya, administration of land rent falls within the domains of the central government. The Ministry of Lands is charged with the responsibility of administering land rent. Land rent or ground rent is chargeable on all holders of government or local authorities owned leasehold properties. The person who acquires the property, that is, the leaseholder pays the tax. Billing is done annually and collection is currently undertaken by Kenya Revenue Authority. In terms of enforcement, no transfer of rights is permitted before payment of the tax and issuance of a land rent clearance certificate. As a national revenue fund, annual land rent collection is about Kshs 1 billion (USD 13.3 million).

(b) **Stamp Duty:** Stamp Duty or Property Transfer Tax is governed by the Stamp Duty Act, Cap 480 of the Laws of Kenya. It is payable upon transfers, leases, partitions, exchanges and acquisition of immovable property. The person who acquires the property is the tax payer. The tax is based on the purchase price, self declaration or market value of the property as determined by the Government Valuer.

Currently, the tax rates are 4 percent for urban properties and 2 percent for rural properties, based on market value. There are various exemptions based on who acquires the property, for example, state and municipalities, some public benefit organizations, land reform beneficiaries, and parastatals.

The administrator of the Stamp Duty Act is the Senior Collector of Stamp Duties. However, every Land Registrar and Registrar of Titles are collectors of Stamp Duties. There will be no transfer of ownership in the Deeds office unless a receipt (for transfer duty or VAT) or entitlement to an exemption is proven. The contribution of Stamp Duty is less than 1 percent of the national total tax revenue.

There are exemptions from payment of stamp duty namely;

- Statutory exemptions covering the Central Bank, Charitable organizations, Kenya National Museums, The Teacher's Service Commission, EPZs, Foreign Embassies and High Commissions, and the National Social Security Fund.
- Ministerial exemptions through a gazette notice.

- c. Land Value Tax:** Land value taxation as presently practiced in Kenya is a result of British Colonial Administration in East Africa dating back to the beginning of 20th century. It traces its origin to the feudal era in England when the Anglo – Saxon Kings delegated to the villages and towns the duties of watching over their local affairs instead of the State. Thus a number of institutions developed including one that grew amid church vesting where citizens, chaired by a priest, organized the execution of works such as road and bridge construction and church repairs. In order to meet the costs of these activities a levy was put on the occupiers of land.

Land tax commonly called rates in Kenya are levied by local government councils (also called local authorities). Land taxation was introduced in Kenya in 1900, when the first system was applied in Mombasa on an annual rental value basis under street cleaning and regulations. The following year, the same was applied in Nairobi. In 1923, annual value rating was, however, found wanting as only few properties had been developed. In order to widen the base of the tax, unimproved site value rating was introduced in 1928 to be in conformity with the systems then existing in Australia, New Zealand and West Canada.

3.2 Tanzania

3.2.1 National Tax Structure

Tax administration in Tanzania is highly centralized and is undertaken by Tanzania Revenue Authority (TRA) within the Ministry of Finance. There are a variety of taxes in Tanzania, both national and local. The national taxes include income tax, Value Added Tax (VAT), Excise and Customs Duties, Stamp Duty, Capital Gains Tax and Corporation Tax.

Local authority taxes in Tanzania include property tax, Business Licenses, Building permit fee, Development levy, Hotel levy and Bus terminal fee among others.

3.2.2 Property – Based Taxes in Tanzania

The property-related taxes administered in Tanzania include Land (Ground) rent, Stamp duty, Capital gains, and property tax (rates). Apart from the rates, the other taxes are collected by Tanzania Revenue Authority (TRA). The assessment of the tax payable is performed by the Valuation Division within the Ministry of Lands.

(a) **Land Rent:** Land rent is paid for the right to use and occupation of any parcel of land. It is charged to the holder of granted Rights of Occupancy throughout Tanzania. District Councils are responsible for enforcing and collection of land rent on behalf of the Ministry of Lands, Housing and Human Settlement Development (MLHHSD). Land rent is payable annually. Unpaid land rent for a period of six (6) months after the due date attracts interest at the rate of 1 percent per month.

Land Rent in Tanzania can be traced back to the colonial period under the Land Ordinance Cap. 113 of 1923 (repealed), under which persons holding a right of occupancy were obliged to pay land rent. The same legislation empowered the President to grant a Right of Occupancy free of rent to a non-native if the land was to be used for the purposes of religion, cemetery, crematorium, and non-profitable educational and health services only. Since the colonial era to the present day, land rent has continued to be levied on parcels of land held under right of occupancy, and is currently levied under Section 33 of the Land Act No. 4 of 1999. Essentially the

rent is payable for use and occupation of any parcel of land granted under the Act. Section 33 (1) of the Land Act prescribes that:

“The holder of a right of occupancy shall, subject to provisions of this section pay an annual rent for that right of occupancy in the manner provided for under the provisions of the Exchequer and Auditors Ordinance”

Land rent payable is determined by the Commissioner at the MLHHSD with regards to: (a) the area of the land which is the subject of the right of occupancy; (b) the use of land permitted by the right of occupancy which has been granted; (c) the value of land as evidenced by sales, leases and other dispositions of land in the market in the area where the right of occupancy has been granted, and (d) the amount of any premium required to be paid on the grant of a right of occupancy.

Land rent varies from one authority to another and thus each local authority is provided with the Handbook on Land Rent Rates for Tanzania mainland. Table 1.0 shows the land rent schedule for Kinondoni Municipality.

Table 3.1: Land Rent Schedule for Kinondoni Municipality

Zone	Subject Area	Uses	Rates in Tshs per M2
Outside CBD	Usino Estate	Residential Commercial/Residential Commercial/Service Trades	40/= 60/= 120/=
	Oysterbay	Residential Commercial/Residential Commercial/Service Trades	50/= 75/= 150/=

Source: Handbook on Land Rent Rates for Tanzania Mainland.

Section 33(7) of the Act empowers the Commissioner for Lands to exempt from paying rent any person or organization holding land exclusively used for religious worship or for burial or for both religious worship and for burial. Likewise subsection 8 empowers the Commissioner to grant a right of occupancy at a nominal rate if the land is to be used exclusively for charitable purposes. Exemptions are also granted on land holdings under informal arrangements.

Land rent in Tanzania is shared revenue, levied by the central government. Local government authorities are **allocated 20 percent** of the annual collections. Even though every landholder is required to pay land rent, the use of the resultant revenue is not clear. Likewise the reason for the allocation of 20 percent of the revenue to local government authorities is unclear. This is an issue that needs research in order to understand the use of the land rent revenue because property taxpayers have shown concern on land rent as they consider being double taxed on the same tax base. For example, property owners in Morogoro Municipality complained to the government on paying both property tax and land rent for the same property (reported in Majira Newspaper, 16 January 2003). While land parcels with certificates of title or letters of offer are subjected to paying both land rent and property tax, land holdings under informal arrangements are excluded from paying land rent (Kayuza, 2006).

The contribution of annual land rent is substantial. In the year 2008, the target collection was Tshs. 18 Billion and the actual collection was Tshs. 13 Billion. The target for the year 2009 was Tshs. 14 Billion.

- (b) **Stamp Duty:** Stamp Duty or Property Transfer Tax is governed by the Stamp Duty Act of 1972. It is levied and payable upon the acquisition and transfer of real

property, or rights in or to such property, located within Tanzania. It is based on the fair market value of the property. The tax is computed at the rate of 1 percent on the fair market value of the property, but never on a value lower than the sales price.

The taxpayer can either be the buyer or seller depending on the conditions specified in the sale agreement between the two parties. Billing is done by central government and collection undertaken by Tanzania Revenue Authority.

- (c) **Capital Gains Tax:** This is tax paid on a gain derived in conducting an investment from realization of an interest in land or building. It is governed by Income Tax Act, Chapter 332 Revised Edition of 2006. Section 90 of Income Tax Act provides for tax on profits realized from transactions on land and buildings. Tanzania Revenue Authority (TRA) is responsible for the assessment. Tax rates on disposal of property are (a) 10 percent of the gain for a resident person, and (b) 20 percent of the gain upfront payment for a non-resident person. Capital gains tax is not a final tax as it falls under the Investment Income as opposed to Business or Employment Income as provided for under tax systems. The tax is collected and used by the central government.

- (d) **Rates:** Property rates in Tanzania are levied by local government councils. The imposition of rates is governed by Authorities (Rating) Act of 1983 and Local Government Finance Act of 1982. The tax is based on the value of improvements, that is, buildings only. It is applied on all properties in both urban and rural areas. The tax payer is the rateable property owner or a tenant or occupier.

According to the rating law, building or improvements on the land constitute a taxable object in Tanzania, while land is excluded from property taxation. Property

tax is therefore levied on the market value of only buildings or improvements. In order to ascertain the market value for taxation purposes the building value is assessed so as to establish the rateable value of the property, which excludes the value of land. Land value is excluded from the rateable value because according to the land Act No. 4, of 1999 land in Tanzania is the property of the state and the rights of an individual are limited to the un-exhausted improvements put on land. Likewise the individual's tax liability should be based on the value of investment put on the parcel of land held. Thus the valuation of rateable property takes into account the value of buildings or improvements only. However, a property owner pays land rent for use and occupation of the held land parcel to the landlord (the government)

3.3 Uganda

3.3.1 National Tax Structure

Tax administration in Uganda is highly centralized. The collection of the revenue into the Consolidated Account is done by Uganda Revenue Authority in the Ministry of Finance. There are a variety of taxes in Uganda. The national taxes include income tax, licenses and fees, customs duty, excise duty, VAT, rental income tax, stamp duty, capital gains tax, and VAT on renting of buildings for commercial purposes amongst others.

Local authority taxes in Uganda include graduated tax, taxi-park charges, market fees and trading license charges, local services tax (LST), and property rates.

3.3.2 Property-Based Taxes in Uganda

Besides the property rate, owners of property in Uganda may be subjected to other property-related taxes from the central government. These include property transfer

tax (Stamp duty), rental income tax on immovable property, VAT at 18 percent on rental income from commercial building, and capital gains tax.

- (a) **Rental Income Tax:** The operation of rental income tax in Uganda is governed by the Income Tax Act. The tax base is generally on immovable properties, specifically on the commercial and residential properties that are rented out by the property owners. The Office of the Chief Government Valuer in the Ministry of Lands, Housing and Urban Development is responsible for the valuations which are based on market rental value of the subject property.

The tax rates vary depending on the category of the income earner. In the case of renting by individual, the chargeable threshold income is taxed at 20 percent whereas renting by corporate bodies/ organizations are taxed at 30 percent of the chargeable income. From the gross rental income, 20 percent in lieu of expenses and UGS 1,560,000 are deducted as tax relief measures then tax is levied on the threshold balance. Power generating units are, however, exempted from rental income tax.

Billing is done by the Ministry of Finance. Collection is annually and undertaken by Uganda Revenue Authority. The contribution of rental income tax to the consolidated account is relatively insignificant.

The challenges facing rental income tax are varied and include false declarations by the tax payers, difficulty in voluntary declarations, poor records, and improperly marked plots and roads.

- (b) **Stamp Duty:** Stamp Duty or Property Transfer Tax in Uganda is governed by the Income Tax Act. It is payable upon transfers and acquisition of immovable property. The person who acquires the

property is the tax payer. The tax is based on the purchase price as a reflection of the market value, and determined by the Office of the Chief Government Valuer, Ministry of Lands which has the responsibility for valuations.

Currently, the tax rate is one (1) percent of the market value of the property. The responsibility for setting rates lies with the national government, Ministry of Finance.

Billing and collection are done by Uganda Revenue Authority. In terms of enforcement, Income Tax Act provides the procedures and practice. Thus has resulted into high compliance level. However, the contribution of Stamp Duty to total national revenue is insignificant and difficult to determine as all the payments are lumped together in the consolidated account.

In comparison to other countries, the rate levied for Stamp Duty is very low in Uganda.

- (c) **Ground Rent:** Uganda Land Commission charges ground rent on all leaseholds and on all land being converted from customary tenure to freehold tenure as well as on land without titles that are directly transferred into freehold. However, there are a few cases of people applying for change or conversion.

Ground rent on leaseholds is charged at 1 percent of the market value of land and based on USV. The nominal rent payable as determined by District Land Board has to be approved by the Minister.

- (d) **Rates:** Property rates in Uganda are levied by local government councils. Property tax is an old tax but almost died a natural death until the enactment of the law in 2005 when it was revived and became active.

The current rating is governed by the LGRA 2005, which came into effect on 1st November 2005 replacing the Local Governments Rates Decree 1979, which was repealed. This Act provides the mechanism for carrying out the valuation, assessment, billing and collection of rates; and applies to Kampala City Council, municipal councils, town councils and districts. This Act eliminates the monopoly of the Chief Government Valuer and allows Local Governments to appoint their own choice of qualified registered valuer. The Act is supplemented by the Local Governments (Rating) Regulations, 2005.

Uganda property rating dates back in 1948 when the first valuation list was prepared for Kampala. The first property rating was conducted by KCC and later followed by a few other major towns such as Entebbe, Jinja, Masaka and Mbale. The practice was at varying degrees of success and progress over the years. Prior to 1972 property rates were mainly paid by the Asian Indian community who were the major owners of properties in Kampala and other municipalities. In this regard, the city and municipalities raised property tax revenue and provided the services.

On the expulsions of Indians and the declaration of the Economic War in 1972, many of the properties in the big urban councils were allocated to indigenous Ugandans who did not observe payment of rates. However, with the demands for improved service delivery, the government deemed it fit to introduce the property tax in local governments.

CHAPTER 4 PROPERTY TAX REGIMES IN EAST AFRICA

This chapter explores the basic properties of the property tax systems for the study countries of Kenya, Tanzania and Uganda. The specific properties considered include: the tax base, basis of assessment, exemptions and property tax rates for each country.

4.1 Kenya

4.1.1 Tax Base

In Kenya, the Rating Act allows local authorities to tax either land or land and improvements (for example, buildings). Although the first application of 'Rating' in Mombasa in 1921 was based on land and improvements (i.e. the annual rental value of occupied premises), all property Rates in Kenya are currently levied only on land using Unimproved Site Value (USV).

Improvements (e.g.; buildings and structures) are not taxed. In addition, most local authorities exclude 'freehold' land, agricultural land less than 12 acres, and indeed most private land in the area rating rolls. Public

land (both central government and council trust land) which is not yet 'registered' is also excluded from the private valuation roll – although technically this land should be listed on the public valuation roll and be liable for contributions in Lieu of Rates. Furthermore, allocated council trust land not yet registered is not liable for either rates or contributions in Lieu of Rates.

Although variation in rating is allowed under the law, in practice, all local authorities limit their assessment to area rating and valuation rating. Out of the 174 local authorities in Kenya, there are 102 that use some form of property taxation. Of these 102 rating authorities, 75 use valuation rating, 55 use area rating, while 29 use a combination of both area and valuation rating. Municipalities and towns tend to rely on valuation rating while counties tend to use area rating or a combination of area and valuation rating. Area rating tends to be used for rural or agricultural properties while valuation rating tends to be used for more urbanized properties. Table 1 provides a breakdown of property rating in Kenya.

Table 4.1: Breakdown of Property Rating in Kenya (2001)

Type of local Authority Councils	No. of Rating Authorities	No. using Valuation Rating	No. Using Area Rating	No. Using both Area and Valuation Rating
Municipalities	36	36	8	9
Towns	27	24	12	9
Counties	39	15	35	11
Total	102	75	55	29

Source: Ministry of Local Authorities, 2001

4.1.2 Basis of Assessment

The basis of assessment of land for purposes of levying rates are provided in Section 8 of the Valuation for Rating Act as the value of land and the value of unimproved land.

Section 8(1) provides the definition of the value of land as ‘.....the value of land shall for the purposes of a valuation roll or supplementary roll, be the sum which the freehold in possession free from encumbrances therein might be expected to realize at the time of valuation if offered for sale to a willing buyer by a willing seller in an arms length kind of transaction

Section 8(2) provides the definition of the value of unimproved land as “..... improvement in relation to land, means all work done or material used on, in or under such land by the expenditure of money or labour in so far as the effect of such work done or material used is to increase the value of the land, but does not include machinery, whether fixed to the soil or not.

In arriving at the value of land, the valuer is empowered to use any suitable method of valuation since the act does not specify methods of valuation to be used. This has, however, given rise to several conflicting interpretations in valuation methods which in turn introduces uncertainty and complexity in valuations (Olima, 1999). The Kenyan experience is that these uncertainties in valuations introduce unnecessary disputes and costly litigation between the rateable owners and rating authorities.

4.1.3 Exemptions

There are certain properties, which are exempted from valuation for rating purposes. The nature of properties exempted are provided under section 27(1) of the valuation for Rating Act, and include;

- Places for public religious worship;
- Cemeteries, crematoria and burial or burning grounds;
- Hospitals or other institutions for the treatment of the sick.
- Educational institutions (including public schools within the meaning of the Education Act), and including the residence of students provided directly by educational institutions or forming part of, or being ancillary to, educational institutions;
- Charitable institutions and libraries;
- Outdoor sports; and
- National parks within the meaning of the National Park of Kenya Act.

However, the listed properties are exempted from rating in as much as they are not used for profit making or for residential purposes other than for the residence of students.

4.1.4 Valuation

In Kenya, land is valued using the market value. Property tax assessment is the responsibility of the local authority, which must identify a valuer to prepare the valuation roll. The valuer can either be a council employee, from the Ministry of Lands or from the private sector. The valuer, as an individual, is responsible for gathering the necessary land information, ascertaining a value, and producing the valuation roll for the local council. The council then tables valuation roll, informs the public, and handles the objections. The valuation is then certified by the council and used for taxation purposes.

Valuation rolls were to be prepared every five years but this was changed to every ten (10) years in 1991. However, the law does provide for the production of supplementary tax rolls

on an annual basis as required. The various valuation rolls are not kept up to date. Many of the current valuation rolls date back to the early 1980s, with sporadic and ad hoc issuance of incomplete supplementary valuation rolls.

This cannot be attributed to the availability of valuers. Kenya has a long tradition in the training of valuers, dating back to late 1960s. As at the end of 2009, the total number of those who have been registered as valuers stood at 428. However, currently there are a total of about 282 registered valuers, out of whom about 130 are licensed and practicing valuers.

Local authorities do not have the capacity to systematically maintain and coordinate their fiscal cadastre information. With the exception of Nairobi, Mombasa, Nakuru and Kisumu, local authorities depend on the Rating Department under the Ministry of Lands to create and update their valuation rolls.

4.1.5 Property Tax Rates

In Kenya, the Rating Act gives the local authority the power to set the tax rate. The tax rate can be set either as a per unit rate in the case of area rating or as a per value rate

in the case of valuation rating. The unit area or the value rate can be either uniform or differential. The differential rates can either be proportional or graduated based on land use, value, or size. Local authorities are allowed to choose a valuation rate of up to four per cent without central government approval. The Minister of Local Government must approve all tax rates higher than 4 percent as a precautionary measure to protect the interests of the taxpayers.

In general, local authorities in Kenya tend to use a uniform area rate or a uniform tax rate structure. Table 4.2 indicates that the tax rates range from 2 to 22 percent applied to the values contained on the valuation rolls. The median tax rates are 6 percent for both municipalities and towns and 5 percent for counties. Those jurisdictions with the higher tax rates tend to be those with the oldest valuation rolls. Tax rate is charged annually. Therefore the tax rate of 14% for Nairobi may look high but the site values are far much lower than their corresponding current market values. The land values are the assessed market values that the property could be sold at if offered for sale in the open market.

Table 4.2: Range of Tax Rates by Type of Local Authority, 2000

Type of Local Authority	Range Tax Rates (% of USV)	Median Tax Rates (% of USV)
Nairobi City Council	14%	14%
Municipality	2% to 10%	6%
Towns	2% to 8%	6%
Counties	2% to 22%	5%

Source: Ministry of Local Government, 2001

Only a few local governments apply a classified tax rate structure. The most notable is Mombasa, which differentiates tax rates by location; properties located on Mombasa Island are taxed at a higher rate than properties located on the mainland. Nairobi City Council also uses differential rates based on land use (e.g., residential, commercial and industrial).

4.2 Tanzania

4.2.1 Property Tax Coverage

The objective of any property tax system should be the identification and assessment of all rateable properties within the geographic area of a council. However, this particular objective was not considered in relation to any of the 11 urban local authorities in Tanzania. The methodology adopted by each council was to identify only substantial, high-value properties up to a maximum number that would then be valued.

This selection process by its very nature meant that only a small percentage of the overall potential tax base was to be valued – with the remainder of the properties to be valued at some later date (McCluskey and Franzsen, 2000).

4.2.2 Assessment Basis

Tanzania allows for either a simple flat rating system or ad valorem taxation. All local authorities in Tanzania may impose the flat rating system through the enactment of local by-laws under the Local Government Act of 1982. This system was originally applied as a flat per unit amount per building but was later refined to include adjustments for location, size and building use.

Under the Urban Authorities (Rating) Act of 1983, Tanzanian urban and township authorities are also authorized to levy an ad valorem property tax. Although properties

under the ad valorem system should be based on market values, all valuations are now based on the cost replacement approach due to the perceived lack of market value information. All properties not contained on the valuation rolls are taxed under the flat rating system. For instance, currently Dar es Salaam taxes about a third of their properties under the ad valorem system and two thirds of their properties under the simple flat rating system (Kelly, 2000).

4.2.3 Exemptions

Taxable property is exempted from property tax liability in accordance with the provisions of both the Local Government Finance Act, 1982 and the Urban Authorities (Rating) Act, 1983. The law excludes the following buildings from property taxation:

- Property in the personal occupation of the President;
- Property used for public utility undertakings;
- Premises used primarily for public worship but excluding property used for residential or social purposes in connection with places of public worship;
- Public libraries and public museums;
- Cemeteries and crematoria;
- Civil and military aerodromes;
- Property appropriated for sporting purposes and that used solely for educational purposes;
- Railway infrastructure;
- Other property as may be prescribed by the concerned urban local authority.

Furthermore, in accordance with Section 19 a council is authorized to exempt any tenement from paying rates subject to ensuring that there are other sources of revenue to compensate for the revenue of exempted property. Besides a local government may reduce payment of a

rate on account of the inability to pay it; or exempt, any person or category of persons from liability to pay the rate. Additionally, the Minister is authorized under S. 13(5) of the LGFA, 1982 to exempt any category of persons from payment of any rate levied as per the provisions of the Act.

Apart from the exemptions stipulated in the Urban Authorities (Rating) Act, 1983 another exemption order was given in accordance with the Local Government Finances Act, 1982 by the Prime Minister in 1997 and became effective from January 1998. The order extended powers to exempt property and increased the type of properties to be exempted from liability of rates. Thus under the exemption order the Minister (responsible for local government administration) is authorised to exempt property from property tax. Provision No.4 of the exemption order states that:

“The property and improvements within the area of jurisdiction of a Local authority specified in the schedule hereto and which in the opinion of the Minister are being used for public purpose are hereby exempted from liability of rates payable under the provisions of The Urban Authorities (Finance) Act.”

Property and improvements specified in the Schedule:

- i. Property owned and used exclusively as office accommodation, laboratories and godowns by the government and its departments
- ii. Government residential property used exclusively by government officers and employees
- iii. Property used by or reserved for use by a Local Authority
- iv. Property used exclusively for educational institution.
- v. Property owned by a religious institution

not used in any way for commercial purposes.

A notable practice with the property tax system in Tanzania is the exclusion of government buildings from the property tax base although it is nowhere stated in the law that such properties should be exempt from property taxation. However, the responsible Minister is required to pay service charge in lieu of property rates but the central government has not been remitting finances to the local authorities in this respect. This has a significant impact on the size of the property tax base as government buildings are many and occupy prime locations of urban areas. In addition exemptions granted by the discretion of empowered government officials do not take into account the provision of Section 9 of the Rating Act. For example no consultations are made with the responsible council when the Minister exempts a property from tax liability in order to establish the alternative source for compensating the revenue from the exempted property.

Land for public utilities, public worship, crematorium and burial grounds, public libraries and museums, civil and military aerodromes, property occupied by diplomatic mission, properties in personal occupation of the president are exempted from tax. There are also ad hoc exemptions that may be granted by the responsible minister.

The position in Tanzania is rather unique in that the present legislation provides for an extremely liberal approach to the granting of exemptions. Widespread exemptions often create difficulties for municipalities, particularly where there are significant numbers of exempt properties within the municipal area.

The range of exemptions needs to be tightly controlled. At present the legislation confers extremely generous provisions which are resulting in a significant loss of

potential revenue to urban local authorities. For example, information supplied by Iringa council indicates that there are 333 government and educational properties and 49 buildings used for public religious worship. This represents approximately 3.7 percent of the total tax base (of 10,412 properties).

If one makes a broad assumption that these exempt properties are generally quite substantial and an estimated average value of TSh120 million per property is used then the total rateable value is TSh45.84 billion. Applying the tax rate of 0.4 percent (for non-residential properties), results in a potential revenue loss of TSh183 million (McCluskey and Franzsen, 2000).

4.2.4 Tax Rates

There are no uniform tax rates for the whole country. In Illala municipality, the rates are set out for the various categories of properties – residential, commercial and industrial with the maximum and minimum rate per square metre.

The rates are **0.15%** for all property use categories, **0.2%** on non residential in Illala Municipality and Kinondoni Municipality

4.2.5 Tax Assessment Basis

The Urban Authorities (Rating) Act of 1983 stipulates that property should be valued based on the capital market value of the premise or, where the market value cannot be ascertained, the replacement cost of the buildings, structures and other developments, adjusted for depreciation (UARA Section 22). To date, due to the perceived lack of market information, all valuation for rating is being done on a cost replacement approach. The law provides for a maximum allowable depreciation rate of 25 percent. And according to the UARA (Section 9), the property tax roll is to be valued every five years or for such longer period as the responsible Minister may

approve.

4.3 Uganda

4.3.1 Tax Base

The rate is based on the annual rental value, with the owner of the property liable for payment. The rate is levied on properties in urban areas and all commercial and industrial buildings outside urban areas. According to the amended Act, the tax is also levied only on rented residential premises. The LGC sets the minimum amount of rate at 2,000/= per annum and a maximum of twelve percent of the rateable value. In the case of void or vacancy, the tax is based on rental market potential of the property.

All property within the jurisdiction of the local government is rateable except that which is exempt by law. Rateable properties include:

- All properties in urban areas, unless exempt
- Commercial buildings outside urban areas.

4.3.2 Exemptions

Rural areas are exempted. Exemptions are generally offered on the basis of ownership, the use to which the property is put, the incidence or tax burden on the taxpayer and the necessity of the property. The general principle of exemption is that property should be exclusively used for the purposes for which the exemption is given.

A list of exempt buildings is given in the Second Schedule to the LGRA 2005. Other exemptions are contained in Section 5 of the LGRA 2005 and include:

- All residential houses in urban areas which are used by the owners as their family homes
- Cemeteries/burial grounds and crematoriums

- Places of worship and residences of religious leaders like churches
- Any official residences of the president and traditional leaders
- All public outdoor sports/recreation facilities or properties designated as public open schemes under the Town and County Planning Act and controlled under the rules approved by the local government.
- Charitable and educational institutions of a public nature supported by endowments or voluntary contributions e.g. Kampala School for the deaf
- Properties of institutions with which government has contractual obligations not to levy taxes
- Properties of organizations with which Uganda is obliged to exempt taxes under international treaties
- Properties owned by organizations entitled to diplomatic privileges
- Properties owned by local councils.

Exemptions from rates should be applied on a properly-by-property basis and not to a broad spectrum of properties. For example not all property that is situated on the same plot of land that has a church is exempted.

It should not be noted that a property may change from being an exempt property to a rateable one or vice versa any time depending on the use that property is put. Therefore, local government staff and the valuer should review all previous exemptions to determine whether such properties still qualify for exemption. Every owner of an exempt rateable property shall notify the local government concerned in writing the exempt status of the rateable property every year (Regulations 5.1 LGRRs 2005).

Apart from exemptions, there are other relief measures. These include rebates for expenditure on renovations and repairs on property, relief on the basis of old age, sickness or loss of employment on the part of the rate payer. These reliefs can be considered by the executive of the local councils.

4.3.3 Tax Rates

The law gives discretion to the Local Government to set a rate not exceeding 12% of the rateable value and a minimum of 2,000/= per rateable property. The regulations are silent on how the rates are set. In practice, currently the local governments do not have a systematic way of setting the rate. Each local government sets its own rate after considering:

- i. Rating area
- ii. Class of property (Residential or Commercial)
- iii. Ability of ratepayers to pay
- iv. Political and social considerations

The LGRA 2005 demands property rates to be used to provide specific services such as road construction and maintenance, street lighting, anti-malaria drains, garbage collection, physical planning and such other services required by the tax payers within their areas. Secondly, the LGRA requires that a minimum of 75% is used for the above services. Given this requirement, a systematic way of setting rate would be as follows:

- Project the total budget for the services and administrative matters for the financial year
- Based on the required revenue for the purpose to be covered by rates, establish the rateable properties and their rateable value
- The total rates to be collected should be equal to the expenditure plans of the year i.e the budget

An example:

If the expenditure budget is 100 million

If total rateable value is 1 billion

The rate would be $\frac{100m \times 100}{1b} = 10\%$

It has to be noted, that the rate which is set must not be more than 12% of the rateable value of the property and not less than one tenth of a currency point (S 3.2 LGRA 2005). A currency point is currently UGShs. 20,000. The local government may also take into consideration other factors in setting the rate such as:

- i. the desire to have a uniform rate for all sub counties or divisions in the local government
- ii. the ratepayer's ability to pay
- iii. the likely reaction from the public to an increase in rates
- iv. trends in the general economic performance within the area

Some Local Governments have been setting different rates for commercial and industrial properties as opposed to residential properties e.g Entebbe Municipal Council. The Kampala City Council was placing a 10% rate on commercial and industrial properties in the central division and a 6 percent on residential

properties in all divisions and on commercial property in other divisions. Most tax policy analysts argue for a uniform rate across different types of property and locations, and those different property tax liabilities should reflect only different property annual values.

4.3.4 Tax Assessment Basis

All local authorities in Uganda follow the law governing valuation of property for purposes of levying rates. Before the amendment of Local Government (Rating) Act of 2005, all properties were covered for rating.

The valuation and assessment is based on annual rental income of the property as determined by registered valuers appointed by Local Government. The preparation of valuation rolls is done by both government and private valuers. Currently, there are a total of only 32 registered valuation surveyors in the whole country, making it extremely difficult for local authorities to prepare valuation rolls, leave alone updating them. The valuation cycle is 5 years.

Kampala City Council has 3 in house valuers, whereas the Ministry of Lands, Housing and Urban Development has 4 valuers. The remaining 25 valuers are in private practice. Kampala City Council undertook a revaluation of all their properties in all the 15 zones during the 2003/4/5 period. The total number of properties revalued stood at 110,470 parcels.

CHAPTER 5 PROPERTY TAX COLLECTION AND ADMINISTRATION

This chapter considers the tax collection and administration systems of the study countries of Kenya, Tanzania and Uganda. The main features of the systems considered include: the billing and collection of tax, the enforcement procedure and practices, capacity to administer property tax, an overview of local authorities revenue sources, and analysis of property tax revenue of each country.

5.1 Kenya

5.1.1 Billing and Collection of Tax

Billing and collection of tax are property tax administrative functions. The local authority can use in – house staff, other government departments or the private sector to carry out the functions. In some of the major municipal councils, revenue collections have been contracted to private sector lawyers – typically with disappointing results.

Billing is done by local authorities annually. When the tax is due, demand notes stating the assessed value and the tax due is sent to rate payers for payment. In general, collections are low with collection rates ranging from 5 – 60 percent of liabilities. This is attributable to such factors as (1) lack of taxpayer confidence or understanding in how the tax is levied, collected, and enforced, and used, (2) lack of legal and administrative collection and enforcement mechanisms, and perhaps most importantly (3) lack of political will.

The reduction in rates revenue is closely linked to non-payment by property owners leading to cumulative arrears. The problem

of endemic rates arrears is easily visible in the print media. A week hardly passes without a notice on the local dailies posted by a local authority outlining rates arrears owed to the local authority by various rateable owners. In August 2009, the city council of Nairobi posted such a notice where only rateable owners with arrears of more than Kshs 100,000 (USD 1335) had their names and amounts owed by them included in the notice (Daily Nation, August 31, 2009). Conspicuously missing on this notice were the central government and state corporations despite the former owing the council the bulk of the arrears in contribution in Lieu of Rates (CILOR) and in spite of a study commissioned by the Ministry of Local Government itself revealing that CILOR was the main non-performing revenue source (Akello, 2008; GOK, 2007).

Similarly, in September 2009 Mombasa Municipal Council put a notice in a local daily where rateable owners with arrears of more than Kshs 20,000 (USD 270) had their names and amounts owed by them included in the notice.

The law is very explicit on the collection on the collection procedures. Section 15 (1) of the Rating Act, Chapter 267 provides that every rate levied by the rating authority shall become due on the first day of January in the financial year for which it is levied and shall become payable on such day in the same financial year as shall be fixed by the rating authority. The payment day and the amount of rate are to be made public by the rating authority by giving at least 30 days notice. Upon such notice, it shall be the duty of every person liable for

such rate to pay the amount of such rate at the offices of the rating authority or at any place.

5.1.2 Enforcement procedure and practices

Section 17 of the Rating Act, Chapter 267 deals with procedures for enforcing rate payment by defaulters. When a rateable owner fails to pay rates due within the stipulated time period, plus any interest on any such unpaid rate, the rating authority may make a written demand notice on the rateable owner requiring him or her to make rate payment plus any interest that has accrued thereto within 14 days after service of the written demand notice.

The various instruments spelt out in law for encouraging and ensuring compliance include charging interest on arrears, giving discounts for prompt payment of the rates, fines, tax liens, foreclosures, and recovery from tenants. However, these mechanisms are either not employed or are not effective in achieving compliance.

Despite having a variety of options under the Rating Act, the rating authorities have taken a largely passive role in enforcement, relying almost exclusively on rate clearance certificates. This clearance certificate option relies on taxpayer initiative to clear outstanding debt and is thus only effective when the property is being transferred or when a local business license or permit is being requested from the local authority.

Active enforcement (through fines, tax liens and foreclosures) by the government is virtually non-existent. To date, no local authority has applied the legal option of tax caveats to titles or used property foreclosures as a means to enforce tax payment.

5.1.3 Capacity to Administer property Tax in Kenya

Local authorities do not have the capacity to systematically maintain and coordinate their fiscal cadastre information. With the exception of Nairobi, Mombasa, Nakuru and Kisumu, local authorities depend on the Rating Department under the Ministry of Lands to create and update their valuation rolls. This seriously inhibits the possibility of adhering to the valuation cycle and makes it difficult to cover the entire country. In addition, the use of market value in the assessment of individual property as well as existence of informal property market makes the whole entire process ineffective.

Most local authorities do not have valuers due to lack of financial resources to recruit and retain the valuers in employment.

Furthermore the local authorities do not have the capacity to enforce payment, resulting into the accumulation of huge rate arrears.

5.1.4 An Overview of Local Authorities Revenue Sources

Local governments, the world over are the primary providers of basic infrastructure including water, local public schools, waste management, and local roads among others. To perform their role, the authorities must generate revenue. Rates are one such avenue through which local authorities mobilize local financial resources for service provision. However, the growth in expenditure has always surpassed that of revenue resulting in budget deficits over the years.

Table 3 and 4 provide for the sources of recurrent revenue for both Municipal Councils and the County and Town Councils, respectively.

Table 5.1: Municipal Councils:- Economic Analysis of Current Revenue (in million units of Kenya currency, 2004/05 – 2008/09)

Current Revenue	2004/05	2005/06	2006/07	2007/08*	2008/09+
Property Rates	1674.27	1696.26	2050.21	2365.28	2459.89
Indirect Taxes (Licences & Cesses)	411.97	769.12	853.48	993.68	952.36
Property Rents	531.93	726.35	805.65	896.27	926.26
Current Transfers	1236.84	1294.58	1468.37	1701.17	1487.52
Sale of Good and Services	2369.69	2722.35	3125.32	3451.00	3082.56
Total	6224.70	7208.66	8303.03	9407.40	8908.59
Rates as % of Total	26.90	23.53	24.69	25.14	27.60

Source: Kenya Economic Survey, 2009

* Provisional

+ Estimates

¹ Includes Nairobi City Council

Table 5.2: Town, Urban and County Councils; Economic Analysis of Recurrent Revenue in (million units of Kenya currency, 2004/05- 2008/09)

Current Revenue	2004/05	2005/06	2006/07	2007/08*	2008/09+
Property Rates	224.11	285.69	502.22	388.72	400.38
Indirect Taxes (Licences & Cesses)	305.38	498.17	789.31	765.90	685.91
Property Rents	25.83	39.89	43.58	178.31	200.81
Current Transfers	658.02	798.34	994.78	797.79	681.51
Sale of Good and Services	761.59	862.78	1235.45	1323.88	1304.27
Total	1974.93	2484.87	3565.34	3454.60	3272.88
Rates as % of Total	11.35	11.47	14.08	11.23	12.24

Source: Kenya Economic Survey, 2009

5.1.5 Analysis of property Tax Revenue in Kenya

As indicated in Tables 5 and 6, property taxes constitute quite a small percentage averaging (0.054%) of the total tax generated in the country. However, in real terms the amount of tax from property is significant as it runs into hundreds of millions of shillings, which in an emerging economy like Kenya's is useful in financing capital development projects.

Table 5.3: Tax Collection by Tax Regime in Kenya (In Kshs Billions)

	2004 - 05	2005 - 06	2006 - 07	2007 - 08
Taxes on income, profit, capital gains	99.3	114.6	130.7	151.8
Property Taxes	0.2	0.21	0.25	0.33
Goods & services	133.5	141.6	174.4	201.4
VAT	76.0	79.9	96.5	111.8
Excise taxes	44.15	46.6	56.1	65.6
Custom duties	19.1	20.5	27.9	32.3

Source: *Kenya Facts and Figures 2008*, Kenya National Bureau of Statistics

Table 5.4: Property Tax as a % of Total Tax Collection

Year	Property tax (Kshs Billion)	Total tax (Kshs Billion)	Property tax as % of Total Tax
2004 - 05	0.2	372.25	0.054
2005 - 06	0.21	403.41	0.052
2006 - 07	0.25	485.85	0.051
2007 - 08	0.33	563.23	0.059

Revenue from property taxation has been an important component of revenue sources for Local Authorities in Kenya. For instance, before Kenya attained her independence in 1963, the city of Nairobi generated 45 percent of its revenue from rates. Nationally, rates contributed 42 percent of all local authorities' revenue. For Nairobi, this ratio increased to over 50 percent from the mid 1970s all through to the 1980s. In 2003, rates contributed an average of 20 percent of the local government revenue, a trend that has continued.

Property rates have therefore made a significant contribution over the last 10 years. For all the municipal councils put together, the rates have been contributing an average of 27 percent of the revenue over the years, depending on the efficiency of recovery. The figures have fluctuated from a very low rate of 23.5 percent in 2005 to a rate of 27.6 percent in 2008.

In the case of Town and County Councils, the contribution of rates to revenue has averaged 12.15 percent, and varying from very low 11.35 percent in 2005 to a reasonably good rate of 12.24 percent in 2008.

The reduction in the percentage contribution of rates can be attributed to the Kenya Local Government Reform Programme, an initiative that saw the introduction of central government transfers locally known as Local Authorities Transfer Fund (LATF).

If rates are declining in real terms and in many local authorities, the rates struck used has been increasing over time, it can only mean that the reduction in rates revenue is closely linked to non-payment by property owners leading to cumulative arrears.

5.2 Tanzania

5.2.1 Tax Collection and Enforcement

While the local level valuation department is responsible for the valuation roll and issuance of the tax demand notices, the actual revenue collection activities are administered through the Town Treasurer's office. With the exception of Dar es Salaam which introduced computerized billing for about 30,000 parcels in 1996, all tax demand notices are produced manually, creating problems of delay and transcription errors.

Demand notices are delivered either manually or through the postal system—often with difficulty due to incomplete or out of date addresses and names. In Dar es Salaam, for example, 15.7 % of the demand notices were returned as undelivered in 1996 (Kironde, 1997: 19).

The Urban Authorities (Rating) Act (UARA) law is silent on the due dates and the number of installments for the property taxes—leaving these to the by-laws of each local authority. Under the by-laws issued by Dar es Salaam, for example, the tax deadline is defined as 30 days “after receipt of the property tax bill. In practice, tax payments in DSM are made in one installment, although large taxpayers are allowed more than one installment.

Despite the various legal provisions to enforce payment, collection rates appear to be quite low (e.g., less than 30-50% in Dar es Salaam). There are a variety of possible explanations to this low collection rate—ranging from a lack of taxpayer education/understanding to outright resistance, due to lack of local services. Some attribute the low collection rates largely to lack of political will and administrative efficiency (Kayuza, 2006).

Improvement in the application of the legal provisions available for improving the collection ratio would improve revenue, equity

and efficiency. There are four critical ratios that affect property tax performance, namely, the coverage, valuation, the tax rate and collection. Although the tax policy concerning tax base definitions, exemptions, valuation standards, and collection/enforcement provisions are important, the efficiency of the property tax administration is of equal or perhaps more importance. That is, the government must ensure that all buildings are on the tax rolls (i.e., improve the coverage ratio), that these buildings are valued close to market value (i.e., improve the valuation ratio), that the tax is assessed correctly (improve the tax ratio), and that the revenue is collected (i.e., improve the collection ratio) (Kelly and Musunu, 2000).

5.2.2 Objection and Appeals Procedures

After a valuation roll has been published it remains open for inspection at the offices of the rating authority and the rating authority is required to set a date for lodging objections, which should not be less than 23 days after the date of publication of the notice in the Gazette. A property owner or occupier of any hereditament included in the roll, or his appointed representative, may inspect such a roll and take any extracts there from. The rating authority or property owner or occupier of any rateable property may lodge an objection in accordance with Section 13 of the Rating Act. A representative of the owner or occupier may also appeal against the valuation.

On the other hand the rating authority may object to the valuation in respect of any rateable property entered in the roll or any property that has been omitted from the **roll** but it should have been included. The objection should be served on the owner-occupier of the property concerned or his appointed representative and on the Valuation Surveyor responsible for the roll.

The objection by owner or occupier or his representative is served to the rating authority

in writing as prescribed in First Schedule Form designed for serving notice of objection. The objection must be served on or before the specified date and must state the concerned property, the grounds for objection and the entry in the roll, which the objector considers that it should be replaced.

All objections are referred to the Rating Valuation Tribunal, which must determine all objections lodged in connection with the roll. The law provides for an appeal to the High Court against an award on a point of the law but not against the amount of the award made by the Tribunal or against a decision of the Tribunal as to whether or not the objection has been properly determined. After the hearing of objection rateable property owners are notified of the decisions taken by the tribunal.

5.2.3 Determining Objections

The role of the Rating and Valuation Tribunal is to hear and determine all objections that may be raised in connection with the valuation roll or supplementary roll in question. The Tribunal's responsibility involves analysis of objections or complaints against information provided in the valuation or supplementary roll and that in the property data card. In the course of deciding on the appeal the Tribunal is obliged to conduct site visits to the property for which there is objection to the roll in order to verify the existence of the property and its description. Information obtained from the physical inspection conducted by the tribunal is then compared with that contained in the property data card and valuation roll, as well as that presented in the objection form. Finally, the decision is reached on the basis of the Tribunal's findings. The decision together with the facts guiding the ruling in respect of each objection is recorded in a special form designed for that purpose. The resultant ruling by the Tribunal enables the rating authority to proceed with the levying of the tax accordingly.

5.2.4 Enforcement mechanisms

For those taxpayers that do not pay the tax, the DSM By-Laws provide for a 25 percent penalty per year or imprisonment for a term not to exceed one month, or both fine and imprisonment, or any other penalty as contained in the UARA. The UARA itself provides for a 1 percent per month interest penalty on all outstanding amounts (UARA Section 47). In 1999, the UARA was revised to increase the level of fines and penalties to more appropriate levels in line with current economic conditions.

The Law also provides for a warrant to be issued to seize the personal goods and chattels of defaulters up to the value of the outstanding rates. The Rating Authority may, at their discretion, recover any amount due by civil action without further notice or demand (UARA Section 26).

In addition, all outstanding rates are to be charged on the premise, having priority over other claims (UARA Section 27) and the law allows for the premise to be auctioned to recover the rates outstanding (UARA Section 29).

Procedures for enforcement of property tax compliance are provided for in the Urban Authorities Rating Act of 1983 and the Local Government Finances Act of 1982. The legal provisions that empower Councils to enforce rates compliance include:

- i. Penalty imposed at the rate not exceeding one *per centum* per month or part thereof or the amount of rates that remain unpaid (Section 47 of the UARA, 1983)
- ii. Distrain upon the personal goods and chattels of the rates defaulter under Section 26 of UARA, 1983.
- iii. Instituting proceedings for the sale of the premises whose rates are in arrears in order to recover the amount due. (Section 29 UARA, 1983)

- iv. Recovery of unpaid rates through deductions from the defaulter's wage or salary by employers in accordance with Section 30 of the Local Government Finances Act, 1982.
- v. A penalty of twenty five (25%) percentum per annum of the amount of tax in arrears or imprisonment for a term not exceeding 12 months, or both. This is prescribed in the by-laws made under S. 13 and 15 (c) and (e) of the LGFA, 1982.
- vi. A fine not exceeding fifty thousand shillings or imprisonment for a term not exceeding three months to a person who fails or refuses to pay rates under the Local Government Finances Act (S. 21), 1982.

Notwithstanding that the law provides for enforcement instruments, councils find it difficult to implement them in enforcing property tax compliance. For instance, most local authorities find the procedures of going through courts as time consuming and costly. Given the resource constraints confronting rating authorities, enforcement of property tax compliance is an activity seldom undertaken.

Even though the law provides clear guidance on the procedures for rating practice, rating authorities experience difficulties in adhering to the legal provisions. For example municipal valuers responsible for property tax face problems in interpreting the extent of exemptions, as some of the exempted properties do not legally qualify to be exempted from property tax liability. Also delays in completion of the valuation process and preparation of a valuation roll are a common problem. This subsequently delays the billing process, the appeals process and determination of the appeals (Kayuza, 2006).

5.2.5 Handling objections – practical examples

The Rating Tribunal is charged with determining objections lodged to a valuation

roll or supplementary roll in accordance with the law. Under Section 11 (1) c of the Urban Authorities (Rating) Act 1983 the notice to publish the roll must state the date and specify the place at which the Tribunal will sit to determine any objections within twenty-one days after the appointed date for lodging objections. Despite this clear provision under the law the Tribunal has not been able to accomplish the responsibility in time. As an illustration, public notices for the Phase I valuation roll were given on the 23 September 1994st, stating the date of the valuation roll as 1st January 1995 and the date of valuation as 7th November 1993. Moreover the public notice had stated that the Rating and Valuation Tribunal would sit in Dar es Salaam for the purpose of determining objections at a date to be announced but not earlier than 20th November 1994. But it took thirty months (2 1/2 years) for the Tribunal to sit and decide on the objections since the sitting was held in September 1997.

Similarly it took quite long for the Tribunal to sit for the objections lodged against Ilala Municipal Council. While the revaluation and supplementary valuation for the central areas of Ilala Municipality were completed in April 2002 and the Phase IV rating valuation for Segerea ward was completed in February 2004, both the valuation roll and supplementary roll were published on 4th May 2004. The public notice had stated 24th day of April 2004 as the effective date of both the Valuation and revaluation rolls, and that the independent Rating Tribunal would sit to determine objections to bothth rolls within twenty one days from the 11th day of June 2004. But the Tribunal sat to decide on the objections to both rolls on 13th to 19th January 2005, some six months after.

At the Rating and Valuation Tribunal sitting the valuation firm that undertook the rating valuation and property owners who filed objections were invited to attend the session. The Consultant valuer was required to attend

in order to defend their valuation and respond to queries arising from the valuation roll. Surprisingly none of the property owners who had filled objection forms, with respect to the valuation roll showed up at the Tribunal meeting (Kayuza, 2006).

5.2.6 Capacity to Administrator Property Tax in Tanzania

The payment of property rates is the responsibility of any rateable property owner as provided for under Section 48 of the Rating Act. In the absence of the owner of the rateable property the rating authority is empowered to demand the amount due and payable rate from a tenant or occupier in accordance with Section 46 of the Rating Act. The tenant or occupier is then entitled to recover the paid amount from any rent or other amount payable by him/her to the property owner or his/her successor in title. The collection of property tax is made possible by the billing, collection and enforcement procedures.

Valuation offices of the rating authorities are responsible for the preparation of the bills or demand notices, which are mailed or delivered by hand to the property owner. Upon receiving a demand notice the property taxpayer decides on when to settle the tax liability despite the thirty days period within which payment should be made. It has been observed that there is neither a statutory date for the billing, nor a statutory date for payment (McCluskey et al, 2003).

Instead each rating authority specifies a due date on the demand notice as it is sent out to the ratepayer. The common due date is stated as thirty days from the date the notice was sent to the ratepayer.

Property tax rates are levied annually and in most instances payable in one instalment. When the demand notice is sent to the

taxpayer it states the due date that the whole annual amount of the property tax should be paid to the rating authority.

However, now days the procedure of property tax collection has been changed where by for example the Kinondoni municipal has outsourced the Tanzania Revenue Authority to collect the property tax on its behalf and the agent is paid a commission in return basing on the amount of property tax collected. It is paid between 20-25% of the total amount of tax collected.

5.2.7 An Overview of Local Government Authorities Revenue Sources

Local government authorities in Tanzania are authorized to generate revenue from an array of sources provided for in the Local Government Finances Act (No. 9) of 1982. But powers to raise their own revenues are subject to the approval of the Ministry responsible for Regional Administration and Local Government. Thus, despite the sources of revenue being listed in the legislation, a local authority can only utilize a source from the list after approval by the Minister responsible for local government.

The sources of revenue for local government authorities are broadly categorized as internal (or own) and external. Internal sources of revenue include all local taxes and miscellaneous receipts while external sources constitute central government grants and borrowing. Previously the Local Government Finances Act, 1982 provided for fifty six revenue sources from which a local authority may choose to exploit. At present local authorities have less revenue sources at their disposal following the abolition of sources identified as nuisance taxes. Table 2.0 below illustrates some of the revenue sources for urban local government authorities.

Table 5.5: Own Sources of Urban Local Government Revenue in Tanzania

1. Business Licences
2. Property Tax
3. Advertising Fees (Billboards)
4. Industrial Cess/City Service Levy
5. Liquor Licence
6. Human Resource Licence
7. Transport of Mineral Products Fees
8. Health Inspection/Food Handling Fees
9. Billboards Tax
10. City Buildings Rent
11. Transport of Quarry Products Fees
12. Abattoir Slaughter Fees
13. Medical Services Fees
14. Building Permit Fees
15. Hotel Levy
16. Fence Building Fees
17. Meat Inspection Fees

Table 5.6: Aggregated revenues from main sources of own revenue for Dar es Salaam Councils 1998 - 2002 Amount collected in TShs Millions

Sources of revenue	1998	1999	2000	2001	2003
1 City Service Levy	2,705	2,723	2,879	3,849	4,328
2 Development Levy	1,385	1,695	1,883	1,770	1,890
3 Property Tax	1,134	1,121	1,241	1,525	1,664
4 Business licences	655	851	1,881	1,859	2,444
5 Advertising and billboard fees	319	398	571	822	1,030
6 Bus terminal fees	-	-	310	448	479
7 Abattoir and slaughter fees	130	157	209	268	296
8 Motor vehicle parking	91	127	167	280	258
9 Market dues and stall rent	10	116	169	153	137
10 Cattle market charges	15	57	174	135	120
11 Hotel levy	100	83	96	117	122
12 Forestry produce fees	62	105	118	131	107
13 Town bus licences	-	33	71	83	0.73
14 Intoxicating liquor	88	75	102	97	80
15 Sale of fish	-	33	42	50	68

Source: Franzsen & Semboja (2004)

Property tax is a very important source of local authorities own revenue especially in city and municipalities. For Illala municipality, property tax contributes about 30 percent of the total local revenue.

5.2.8 Major impediments to raising property tax revenue

The primary function of property tax as a local source of revenue is to generate sufficient revenue for local government expenditure. The local government authorities partly depend on this revenue for the provision of public services. However, like many local authorities in the developing world the Municipal Councils in Dar es Salaam are failing to adequately exploit the property tax source of revenue. It is evident that property tax collection levels have remained very low over the years the Municipal Councils have been operational. It is unlikely that property tax revenue as a shared locally raised revenue would increase to satisfactory levels unless deliberate measures were taken to change the situation. Currently property tax on average contributes less than 20% of the locally generated revenue for the municipal councils in Dar es Salaam.

While records on property tax revenue collection depict a gradual annual increase as compared to the previous years, collection levels with respect to the actual potential should be an issue of concern if the municipal councils in Dar es Salaam are to improve on their financial strength. It is of more concern when the increasing number of taxable properties captured in the property tax database does not bring a corresponding increase in collected revenue. The major factors undermining property tax revenue collection include low compliance with property tax liability.

5.3 Uganda

5.3.1 Tax Billing and Collection

Tax billing is done annually by local authorities. Local authorities are required under section 26 of the act to publish the chargeable rates in the Gazette and local newspapers. Under section 29, local governments are only required to prepare and send demand notes to all property rate payers who have failed to pay by the due date indicating the amounts due for payment. In case of Kampala City Council, demand notes and notices are currently being generated using computer programmes.

Actual revenue collection activities are administered by local authorities own staff. However, Kampala City Council has contracted private collectors to undertake revenue collection. The private debt collectors are paid a commission of 10 percent of amounts collected. Despite the engagement of private debt collectors, the collection rate is still low at about 50 percent of the projected figures.

5.3.2 Enforcement Mechanisms

Local authorities enforce the payment of property rates among tax payers through the following:

- administering demand notices
- recovery by action
- charge of penalties/interest
- recovery from tenants and occupiers
- prohibition of transfer of property
- imposition of a rate first charge on property

However, there is still low compliance rate as tax payers do not want to pay.

5.3.3 Capacity to Administer Property Tax in Uganda.

Local authorities do not have the required capacity to effectively administer property tax. There is generally lack of property tax administrative system, trained personnel and synchronization of improved local service delivery with enhanced revenue mobilization. With the exception of Kampala City Council, all other local authorities depend on the Ministry of Lands, Housing and Urban Development to create, prepare and update the valuation rolls. The low capacity to systematically maintain and coordinate the fiscal cadastre information has seriously inhibited the possibility of adhering to the valuation cycle.

In terms of human resource, until recently, the training of valuers has been undertaken outside the country. Makerere University started training valuers in the year 2004 with the first batch (5 out of 7) graduating in 2008. There are currently 27 students, 43 students and 55 students in 4th, 3rd and 2nd years, respectively.

The issue of trained personnel is not limited to valuation alone. There are serious problems with collection, enforcement and monitoring of change of user particularly from owner-occupier properties to rental market.

5.3.4 Overview and Analysis of Local Authorities Revenue Sources

LGs are allowed, under the 1995 Constitution of the Republic of Uganda and the Local Government Act Cap 243 Laws of Uganda, to collect local revenue within their jurisdictions. Article 191 of the Constitution

of Uganda allows LGs to levy, charge, collect and appropriate fees and taxes in accordance with any laws enacted by parliament by virtue of Article 152 of the constitution. Article 152 itself forbids the imposition of taxes in Uganda by anybody or entity without authorization by parliament. The major sources of revenue which LGs are allowed to collect revenue from are specified in the LGA, Cap 243 and property rates is among these sources.

Revenue collected by LGs includes licenses and fees, user fees, property rates, urban authority permits, revenues from departments. Property rates are a major source of local government revenue in Uganda accounting for about 14% of total local revenue. The remaining 86 percent of the local government revenue is obtained from Central Government. Typically, property rates generate about 2 percent of total government revenue and about 0.5 percent of Gross Domestic Product (GDP). The LGA provides for revenue raised from property rates to be used on delivering services to residents of the areas. The requirement is that at least 75% of rates collected should be used on road construction, garbage collection, anti-malaria drains (S2 and 3GRA 2008).

Table 1 provides the details of revenue sources for Kampala City Council for periods 2004/2005 to 2007/2008.

Table 5.7: Revenue Sources for Kampala City Council

Collection July to June 2004-2005			
No	Revenue Source	Estimates	Actual Collection
1	Graduated Tax	3,983,830,961	3,519,504,330
2	Rates (current)	5,695,781,305	3,030,917,444
3	Licenses	4,525,630,433	3,862,071,507
4	Taxi-park (General)	5,636,520,000	3,548,936,887
5	Markets	2,167,990,608	1,048,741,031
6	Ground rent	1,316,926,555	2,465,522,034
7	Other revenues	6,393,410,543	4,655,879,592
8	Rates Arrears	6,201,891,700	1,753,709,838
9	Other arrears	0	264,265,000
10	Sub-Total Local Revenue	31,938,151,144	20,630,043,333
11	Capital income	1,486,461,400	3,644,647,216
12	Total Local Revenue	33,424,612,544	24,274,690,549
	Rates as % of Total Local Revenue		12.5%
13	Other funds		
14	Government Transfers	25,534,952,700	24,983,327,130
15	Development Income from: 15 Government		
16	External Funds	12,104,822,434	16,320,819,138
17	Sub Total		
18	Total Revenue	71,064,387,678	65,578,836,817
	Rates as % of Total Revenue		3.2%

Source: Kampala City Council Financial Report

Table 5.8: Collection July to June 2005-2006

No	Revenue Source	Estimates	Actual Collection
1	Graduated Tax		
2	Rates (current)	10,006,700,000	2,654,977,707
3	Licenses	4,619,000,000	3,572,317,000
4	Taxi-park (General)	4,463,000,000	3,833,555,567
5	Markets	3,229,000,000	1,064,748,497
6	Ground rent	1,465,000,000	2,465,522,034
7	Other revenues	2,089,000,000	2,049,140,837
8	Rates Arrears	4,696,000,000	2,442,336,383
9	Other arrears	1,670,000,000	386,843,367
10	Sub-Total Local Revenue	32,237,700,000	18,469,441,392
11	Capital income	1,107,000,000	3,781,654,720
12	Total Local Revenue	33,344,700,000	22,251,096,112
	Rates as % of Total Local Revenue		11.9%

13	Other funds		
14	Government Transfers	25,158,784,501	26,451,700,013
15	Development Income from: 15 Government		
16	External funds	10,242,447,002	972,670,850
17	Sub Total		
18	Total Revenue	68,745,931,503	49,675,466,975
	Rates as % of Total Revenue		5.3%

Source: Kampala City Council Financial Report.

The collection in the year 2005/2006 decreased due to the presidential campaign then whereby all politicians promised abolition of some taxes like the graduated tax. The residences occupied by owners are exempted from paying property rates.

Table 5.9: Collection July to June 2006-2007

No	Revenue Source	Estimates	Actual Collection
1	Graduated Tax		
2	Rates (current)	5,110,727,000	6,350,764,251
3	Licenses	4,794,830,000	3,797,540,987
4	Taxi-park (General)	4,332,000,000	3,050,274,361
5	Markets	1,563,700,000	1,849,495,716
6	Ground rent	1,502,830,000	2,555,077,112
7	Other revenues	2,824,152,000	2,229,528,332
8	Rates Arrears	4,349,226,000	1,094,459,085
9	Other arrears	3,036,800,000	298,047,880
10	Sub-Total Local Revenue	27,514,265,000	21,225,187,724
11	Capital income	969,200,000	3,076,697,617
12	Total Local Revenue	28,483,465,000	24,301,885,341
	Rates as % of Total Local Revenue		26.1%
13	Other funds		
14	Government Transfers	25,013,296,182	22,822,840,089
15	Development Income from: 15 Government		
16	External Funds	1,745,000,002	87,685,700
17	Sub Total		
18	Total Revenue	55,241,761,184	47,212,411,130
	Rates as of Total Revenue		13.5%

Source: Kampala City Council Financial Report.

Regarding rates, there was marked improvement in collection of property rates tax by addition 3bn from 2.6bn. This was due to collection effort put by the Central Division. There was a slight increase of UGX 286 million in licenses and improvement in markets collection due to clearance of arrears by contractor of Nakesero Market

Table 5.10: Collection July to June 2007-2008

No	Revenue Source	Estimates	Actual Collection
1	Graduated Tax		
2	Rates (current)	4,904,580,000	7,177,677,217
3	Licenses	4,846,000,000	4,980,444,860
4	Taxi-park (General)	5,115,697,345	3,988,757,042
5	Markets	1,812,000,000	1,551,812,529
6	Ground rent	1,476,104,000	2,307,694,120
7	Other revenues	2,981,783,000	2,277,228,676
8	Rates Arrears	4,054,347,000	334,028,205
9	Other arrears	2,316,800,000	850,590,000
10	Sub-Total Local Revenue	27,507,311,345	23,468,232,649
11	Capital income	1,312,900,000	4,335,932,502
12	Total Local Revenue	28,820,211,345	27,804,165,151
	Rates as % of Local Revenue		25.8%
13	Other funds		
14	Government Transfers	40,362,026,337	38,996,781,192
15	Development Income from: 15 Government		
16	External Funds	1,042,000,000	35,433,125
17	Sub Total		
18	Total Revenue	70,224,237,682	66,836,379,468
	Rates % of Total Revenue		10.7%

Source: Kampala City Council Financial Report

Rates collected increased due to effective billing, periodic advertisement and the weekly programme conducted by the Council. The projected revenue for KCC was UG 20 billion, but with the amendment of the act, the expected revenue for 2009 was UG 9 billion with the prime central properties generating about UG 7.7 billion.

An analysis of the revenue sources for Kampala City Council reveals that property rates are a major component of local revenue. In terms of actual collection, rates contributed 12.5%, 11.9%, 26.1% and 25.8% of the total local revenue in 2004/05, 2005/06, 2006/07 and 2007/08, respectively. Of the total revenue, the rates contribution were 3.2%, 5.3%, 13.5% and 10.7% in 2004/05, 2005/06, 2006/07 and 2007/08, respectively.

CHAPTER 6 CONCLUSION AND RECOMMENDATION

This chapter gives a summary of the problems identified in the tax systems of the study countries of Kenya, Tanzania and Uganda and makes corresponding recommendations towards the solutions to the said problems.

6.1 Kenya

6.1.1 Challenges to Property Tax Implementation

The problems that face local authorities in the administration of property taxation include incomplete cadastral coverage making physical identification of property difficult, lack of human resources capacity, weak enforcement mechanisms, and taxpayer attitude.

Kenya must therefore strengthen the Local Authorities capacity to manage and administer all aspects of the property rates in order to increase the collection coverage and valuation ratios, as necessary.

6.1.2 The context and Rationale for Property Tax Reform

The Government of Kenya is currently implementing a series of local government reform initiatives through its Kenya Local Government Reform Programme (KLGRP). The ultimate KLGRP objective is to strengthen the ability of local authorities to improve service delivery, enhance economic governance and alleviate poverty. It is expected that better functioning local authorities will lead to an enabling environment for improved economic and social development ultimately

leading to increases in incomes and to the alleviation of poverty.

The KLGRP was initially conceptualized in the early 1990s and became operational in 1998. From its beginning, the local government reform focused on (a) rationalizing the central – local fiscal relationship, (b) enhancing local financial management and revenue mobilization and (c) improving local service delivery through greater citizen participation.

The KLGRP reform strategy recognized that successful local government reform must focus both on the **internal** operating environment within the local authorities themselves and the **external** intergovernmental environment – that strong local governments can only function well internally within a strong enabling external intergovernmental fiscal environment. The key then was to strategically implement the KLGRP reform initiatives, focusing first on establishing a rational external environment and then linking those intergovernmental reforms to provide incentives to strengthen the internal functioning of local authorities.

Improved local financial management and revenue mobilization are also critical components of the KLGRP reform initiative. In 1999, the Government introduced the Single Business Permit (SBP) system that replaced the previous system of multiple local licensing. Linked to the establishment of SBP, the Government developed a prototype Integrated Financial Management System (IFMS) to assist improve the management, operation and control of all local financial operations. This IFMS includes a property tax

administrative management system to assist in all operations related to tax base maintenance, valuation, assessment, billing, collection, enforcement and taxpayer service.

The KLGRP property tax reform strategy was designed to be implemented within the context of this broader KLGRP reform initiative. Linking the property tax reform as an integral component of the broader local government reform effort provides the proper context for the reform itself and builds on the existing political support and reform momentum – for example, the establishment of the Local Authorities Transfer Fund, the Single Business Permit and the Integrated Financial Management System. The KLGRP reform – and its property tax reform component – will need strong and sustained political, policy, operational, public and technical assistance support to be successful.

One of the key KLGRP objectives is to establish a suitable local revenue mobilization capacity to generate the needed own-source resources-to be combined with the central – local transfers – for improving local service delivery, enhancing economic governance and alleviating poverty.

6.1.3 Recommendations

An evaluation of the legal basis for the property rates showed that there are virtually no legal constraints to improved property rates collections. The primary problem is weak administration and the lack of political will. The law itself provides flexibility in tax base definitions, tax rate structures, valuation techniques, assessment, billing, collection and enforcement.

The property tax reform strategy under the Kenya Local Government Reform Programme (KLGRP) was therefore designed to focus on administrative reform – primarily improving the collection and enforcement systems – and the mobilization of political will.

An evaluation of revenue collections from property rates shows an extremely low collection rate with virtually no enforcement against non-compliance. Thus, rather than focusing on legal provisions, the rates reform has focused on improving the basic administration components. The focus has been on improving the basic administration management of the property rates system – linking the basic revenue administrative component (e.g. database maintenance, assessment, billing, collection, enforcement and taxpayer service) with other revenue sources such as the single business permits, house rents, plot rents, and user charges.

There is need to shift from the current single parcel appraisal approach to a simpler, more cost effective mass appraisal approach. However, the work on property tax revealed that the major obstacle to improved property rates is not valuation but poor administration and the lack of political will for collection and enforcement. The focus however should be on improving the property rates administrative procedures through developing a rates module within the Integrated Financial Management System (IFMS). There is urgent need to strengthen the revenue collection and enforcement components.

Mobilizing political will requires education and incentives to those involved in the revenue mobilization effort. The taxpayer must be convinced to pay the tax through receiving improved local services and perceiving that the taxes and fees are being administered fairly.

As with all taxes, attention should also be given to educating the taxpayer on the rationale, procedures, obligations and responsibilities related to the business licenses and property tax. Linking revenue collections to improved service delivery and a better – educated taxpayer population will enhance compliance.

The government must strictly follow the established laws, regulations and procedures

to earn the credibility that the taxes and fees are administered in a transparent, accountable and fair manner. Management and operational staff must be motivated to assist in the revenue mobilization effort – to ensure that the property tax/business registers are complete and kept up to date, assessments are calculated properly, tax demand notices are distributed, tax payers are made aware of their obligations and the procedures to pay, and taxes and fees are collected systematically and fairly from all rate payers and businesses.

In short, the major constraint to improved property rates is not technical (i.e. the ability to administer the property tax) but rather political (i.e. the willingness to administer the property tax). The focus must be on mobilizing the necessary political will to administer the tax in a comprehensive and equitable manner.

6.2 Tanzania

6.2.1 Challenges to Property Tax Implementation

In all cases of property related taxes, there are some problems that have been identified.

- (a) In the case of property rates, the tax coverage is haphazard in both rural and urban areas. For instance, in Illala municipality, tax coverage is less than 50 percent.
- (b) Low compliance levels as manifested by high property tax sums in arrears are a noticeable feature with the Municipal Councils in Dar es Salaam. This is despite the fact that the unpaid tax amounts are resultants of taxpayers' failure to discharge their property tax liability (Kayuza, 2006)
- (c) There is weak enforcement mechanism. Most local authorities are grappling with challenges associated with collection and enforcement resulting in widespread non-compliance by tax payers. In Dar-es-salaam, the collection rates are less than 30-50 percent.

- (d) Lack of political will among the leaders has negatively impacted on the efficiency and effectiveness of property related tax. This is coupled to the unwillingness of local authorities to invest in the improvement of tax base through adequate information management system.
- (e) Limited Human Capacity. Both the local authorities and central government suffer from Limited Capacity to effectively undertake tax assessment, valuation, tax collection, and enforcement. The local authorities are unable to recruit and retain qualified valuers to improve on the valuation and assessment of property for taxation purposes. Tanzania Revenue Authority also has got limited capacity to police all the potential tax payers, resulting in those in formal employment bearing the tax burden.

6.2.2 Recommendations

There is continued need for tax reforms to support local authorities in realizing their revenue potential and enhancing their service delivery capacity. The potential of property tax is still high considered the rate of redevelopments and urban renewal currently being undertaken in major urban centres. The areas to be targeted for reforms should be creation of good data base through use of GIS and Mapping of developments. Improved technology such as the application of computer aided mass approval and valuation should be encouraged.

6.3 Uganda

6.3.1 Challenges to Property Tax Implementation

Much as property rates are considered to be an ideal source of local revenue for local government, the potential has hardly been exploited. Of all the national and local taxes, the tax on the urban property has been the

least effectively exploited and the potential revenue lost has been very large. There are many factors which contribute to this poor performance and these include:

- Inability to administer property rolls adequately. Many properties are not on the valuation list.
- Outdated valuations lists, for example the property in the central business district of Kampala City were revaluated in 2005 after 15 years i.e the last valuation list was done in 1990. The law provides that revaluation should be carried out after every 5 years to update the valuation list.
- Lack of an efficient property information base
- Property valuation has been extremely expensive and slow because prior to the amendment in 2005, the law designated the Chief Government Valuer as the valuer for all urban authorities. The valuation are done on contract basis, are at a high cost, and unaffordable by most urban authorities.
- On collection, many bills served to ratepayers remain unpaid over long period of time creating big arrears. Further, many districts fail to enforce the legal penalties for non-payment. Because of the big size of arrears, many municipalities have transferred the collection of rates to private firms who work on commissions.
- The general public is ignorant about rating law and their civic duty to pay rates.
- Shortage of technical officers and valuers, which slows the pace of valuation work.
- Many urban authorities lack the political will to enforce the payment of rates imposed much as the law gives them a lot of power.

- In case where building is used both as a residential or commercial property, it may be difficult to apportion the levy for the qualifying property for rates.

The legal basis for LGs value, assess and collect rates on properties however is the Local Government (Rating) Act, 2005. Parliament enacted the LGRA 2005 to replace the LGRD of 1979 and repeal Part III in the fifth schedule of the Local Government Act 243. It became effective on 1st November 2005. The Act empowers local government to levy rates on property within their areas of jurisdiction. The Act is operationalised by the Local Government (Rating) Regulations, of 2006.

According to the LGRA 2005, all Local Governments in Uganda are allowed to impose, levy such rates as they may determine on the basis of the rateable value of any property within their areas of jurisdiction (S3.1 LRGA 2005). Therefore districts, cities, municipalities and town councils in Uganda are allowed and should in fact levy rates on properties in their jurisdictions.

6.3.2 Recommendations

There is low performance of property tax due to both taxes administration inefficiencies and poor political perceptions of the public. Currently, taxpayers are demanding from the local councils to be told what rates collected are being used for. The failure to address reforms in property taxation has practically made it impossible for cities and local councils to effectively deliver the required services. Rates currently suffer from political interference, particularly when it comes to the implementation of structure plans.

The main shortcomings of the current property tax administration including inefficiencies in maintaining tax base coverage

amidst a poor fiscal cadastre, and over reliance on individual parcel valuation have to be addressed.

As the key to revenue buoyancy largely depend on improved administration, the focus ought to be on the following;

- i. Tax compliance education
- ii. Imposition of stringent punitive measures to deter non-compliance
- iii. Networking with other stakeholders such as National Water and Sewerage Corporation and Uganda Electricity Board to improve on the information data base.

The above if effectively undertaken will go along way in addressing the shortcomings that have continued to affect the realization of full potential of property taxation.

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The report covers three basic issues: property tax legislation and practice, the significance and magnitude of property tax revenue, and the prospects of property taxation in the three East African countries. For instance, during the period of analysis, property taxes contributed quite a small percentage (on average 0.054%) of annual national revenue in Kenya and between 23-27% of annual municipal council revenue. However, property taxes are not major contributors of revenue to local governments without municipal status where its contribution ranges from 11-14% of total local revenue collection. Concerning the prospects, inadequate institutional capacity is a major challenge to property taxation in Kenya. Nevertheless there is potential for its development including the levying of improvement value tax. The same problem of inadequate institutional capacity afflicts property taxation in Tanzania where the use of GIS is recommended to weed out inconsistencies in the applications of taxes. In Uganda too, the potential of property taxation is hardly exploited which calls for awareness creation among all stakeholders.

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