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Real Property Taxation in Tanzania: Reflections from Dar es Salaam City

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Abstract

Property tax has great potential of becoming a major source of revenue for urban local authorities in Tanzania. It is generally acknowledged that property tax is capable of generating the bulk of locally generated revenue. However, urban local authorities in Tanzania have not succeeded in utilising this potential optimally. This article is an overview of property taxation practice in Tanzania. It highlights some procedures with respect to the key components of property tax administration in the context of the local authorities, and brings out a number of property tax issues. It argues that despite the revenue potential inherent in property tax, it is considerably undermined by policy and administrative problems that call for intervention. In conclusion some possible measures are suggested.

Key words: *Property taxation, property tax administration, local authorities*

1. Introduction

The commonly known property tax, also called 'rates' in most of the former British colonies, has great potential to be a major source of revenue for local authorities. Over the years local authorities in many tropical African countries have hardly exploited this potential due to a number of policy and administration related problems (Konyimbih, 2002). While local authorities are poorly performing in generating revenue, the authorities in east and southern African countries are confronted with many responsibilities resulting from decentralisation. Subsequently various attempts are being made by the governments to enhance local revenue. In Tanzania, for example, the Local Government Support Project (LGSP) by the World Bank is focusing on the enhancement of local revenue with property tax accorded higher possibility of generating more revenue among the various local revenue sources. Among the own sources of revenue, property tax is recognized as potentially the largest and most stable of the various sources of funding that local authorities in Tanzania can utilise to increase revenue (McCluskey et al., 2003). This article attempts to provide an overview of property taxation (rating) practice in Tanzania. It draws heavily on a study (Kayuza, 2006) conducted in the three municipalities (Ilala, Kinondoni, and Temeke) of Dar es Salaam City.

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2. A Brief History of Property Taxation in Tanzania

Property taxation has had a long history in many countries in southern and east Africa (Franzsen & Olima, 2003). A tax based on land and buildings was first introduced in Tanzania (then Tanganyika) under the Township Ordinance, Cap 101 of 1920 that imposed a 'hut' tax on indigenous property owners. This was followed by passing another legislation intended to develop the process of property rating on the assessed value of real property. The Municipalities Ordinance (Cap 105) 1946, authorised municipalities to impose a levy of 10% on the capital value of all buildings situated in municipalities except those exempted. Buildings occupied by the Governor, for example, were exempted from the property tax liability.

In 1952 the Local Government (Rating) Ordinance (Cap 317) was passed, extending the property tax base to include unimproved site value. In addition, a house tax was levied under the Urban House Tax Act Cap. 457 of 1961, and the Municipal House Act of 1963. As such a tax on land and buildings was levied on properties held under long term leases/right of occupancy, while properties held under short term right of occupancy or customary law were subject to the urban house tax (on buildings only). The Municipal House Tax was levied on houses in townships and minor settlements. This property tax system continued to independence time and thereafter.

Property taxes were abolished in 1972 following the abolition of the local government system. In the absence of local authorities the central government assumed control over all public functions, but without corresponding revenues for providing municipal services previously under the local authorities' responsibility. In an attempt to address the financial constraints the government introduced land rent and service charge in 1974. The Land Rent and Service Charge Act, 1974 introduced a new form of tax combining land rent (for use and occupation of land) and service charge levied on land held under both short and long term rights of occupancy. This statute was repealed by the Land Act 1999, the legislation that continues to charge land rent for use and occupation of land.

Local authorities were re-established in 1978, and property taxation was reintroduced in 1982. The Local Government Finance Act (LGFA) 1982 authorises local authorities to levy rates on landed property. The government further enacted the Urban Authorities (Rating) Act (UARA) 1983 that empowers urban and township authorities to impose rates on buildings.

3. Property Tax Features

Property tax in Tanzania is a local tax levied by local government authorities. The Urban Authorities (Rating) Act 1983, provides for value-based taxation. According to the rating law, rateable property is described to cover all buildings found within the taxing jurisdiction, which are in actual occupation together with the improvements on, in, or under any such building. Undeveloped land in this case is excluded from tax base and the tax is therefore levied on value of buildings only.

All buildings within the jurisdiction of an urban authority are liable to pay property tax. Nonetheless, property tax coverage ratio is in many cases small since the number of properties captured in the property tax base and those taxed represent a smaller proportion of the total number of rateable properties in any taxing jurisdiction in the country. For example, about 59,000 properties had not been captured in the property tax database of Dar es Salaam city estimated at 340,000 potential rateable properties in 2003 (Franzsen & Semboja, 2004). This is an indication that 59,000 properties easily escaped the property tax net, given that they are neither registered in the valuation rolls nor in the flat rate property tax registers maintained by the councils.

The responsibility to pay property tax rests on the owner of the property. However, the LGFA, 1982; and the UARA, 1983; exclude some properties from property tax liability.[1] Besides, properties specified in the exemption may be exempted from property tax in accordance with the Urban Authorities (Rating) Exemption from Liability of Rates Order, 1997. Furthermore, under the Rating Act unoccupied buildings are generally exempt form property rates.

Under the value based property tax system rateable property must be valued to determine the rateable value. In Tanzania, market value of buildings or improvements forms the basis of property tax. In accordance with the UARA, 1983, the rateable value of the property is the market value or replacement cost of the building, or improvements where the market value cannot be ascertained. However, given the socio-economic and political circumstances in Tanzania, rating valuation has turned to rely more on the replacement cost approach.

A number of factors such as less active property market, and insufficient property transaction data impact upon the use of the sales comparison approach (Kayuza, 2006). In addition, the scanty sales data available is not readily accessible, being mostly confined to individual valuation firms in possession of such data (Mwasumbi, 2001). Also the culture of sharing valuation data among professional valuers is somewhat lacking. The UARA, 1983, provides also for property owners self-assessment where it deems necessary, although there are no indications that rating authorities ever use this provision.

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[1] Properties exempted from property taxation include property occupied by the president, property used for public utilities, public worship, crematorium and burial grounds, civil and military aerodromes, property occupied by diplomatic mission etc. also ad hoc exemptions by the responsible minister.

Rating authorities are authorised to utilise the dual property tax system whereby *ad valorem* and flat-rate systems are utilised in levying property tax. Under the value-based system of taxation, tax rates need to be determined on the basis of revenue amount to be generated from tax as a difference between the taxing authority's annual expenditure budget and the total revenue from other sources. Then the proportion of revenue from property tax determines the tax rate to be imposed on each rateable property. However, this is not the practice in Tanzania. It is worth noting that the approach used in arriving at the tax rates chargeable on the market value of buildings is unknown to many. For instance, 0.15% and 0.2% tax rates[2] have been adopted in Dar es Salaam from the time the Phase I Rating Project was implemented in 1993. On the other hand the Local Government Finances Act of 1982, provides for flat rates levied on all buildings that have not been valued under the UARA, 1983. Flat rates vary according to property size, use of the property, and in some instances location. Apart from the general rate, the UARA (Sections 18 and 19) authorises local authorities to levy special rate on properties that have benefited from capital works schemes developed in a section of the rateable area as a means of recovering costs of a special project.

3. Property Tax Administration

Property tax administration constitutes a number of processes. The key components are identification or discovery, valuation, and collection. During the two and half decades since property tax was reintroduced, local authorities have demonstrated a very modest success in property tax administration. A considerable number of urban councils have not been able to identify a significant proportion of rateable properties within their rating jurisdiction, and subsequently undertake rating valuations. It is worth noting that after the enactment of the UARA in 1983, only a handful of councils had managed to undertake property rating in their jurisdictions using own generated revenue. These were Mwanza, Mbeya, Arusha, Morogoro, and Moshi. Failure to undertake rating valuation was due to financial constraints and insufficient qualified personnel. The same reasons have been behind the continued practice of charging property tax on flat rate basis.

In 1993 the government embarked on a rating project as a component of the Urban Sector Rehabilitation Project (later Urban Sector Engineering Programme). The aim of the project was to produce valuation rolls in eleven municipalities and subsequently increase revenue from property tax for the rating authorities. The project covered Ilala, Kinondoni, and Temeke Municipalities in Dar es Salaam; plus eight (then) regional towns of Arusha, Iringa Mbeya, Morogoro, Mwanza,

[2] Ilala Municipal Council levies 0.15% of value of residential buildings and 0.20% of value of commercial properties

Tabora, and Tanga. Under this project, a total of 57,000 properties in 11 jurisdictions were valued and listed in valuation rolls. Approximately 30,000 properties, all in Dar es Salaam, were valued under Phase I. Further 17,500 properties in Dar es Salaam were valued under Phase II, and also approximately 26,000 properties in eight secondary project towns. ,

The implementation of this World Bank funded rating project set in the beginning of administering property tax for revenue generation for some local authorities. Although effective property tax administration is only obtained through successful functioning of all the components, the focus on valuation enabled the establishment of valuation rolls in which some of the rateable properties were recorded and rating authorities imposed tax on them accordingly. Some local authorities' valuation officers had acquired some experience on property tax administration from that rating project.

3.1 Property Identification

This involves determining the existence of each parcel of rateable property within a rating jurisdiction. The identification of rateable properties is being performed with difficulties due to lack of accurate tax maps that are comprehensive and up to date in terms of providing adequate information such as size of parcel of land, location, street names, identifiers, and also documents detailing ownership records. The few outdated maps available have to be used with assistance from local leaders and neighbours around who are more informed about the locality. On the other hand, prevalent existence of informal settlements adds to the problem as the areas are neither planned nor surveyed, and therefore lacking the necessary records. Again, in informal settlements identification of property and owners is facilitated by the use of local leaders. In general, the process of identifying rateable property largely depends on the assistance of local leaders and neighbours, even for areas where maps are available.

3.2 Valuation

This is a crucial stage in determining rateable values of rateable properties within a tax jurisdiction. Rating valuation is guided by the Urban Authorities Rating Act 1983, of which section 22 stipulates property valuation to be market value basis; or where the market value cannot be ascertained, the replacement cost of the buildings and other improvements adjusted for depreciation shall form the rateable value. For many years the replacement cost approach has continued to dominate rating valuation for reasons of inactive property market and subsequent lack of market data to facilitate valuation. While the assessment of the depreciated replacement cost is assumed to produce a proxy for market value, the law provides for a maximum allowable depreciation rate of 25%. The specified maximum depreciation rate is a peculiar feature of rating valuation adopted in Tanzania as no other country has such practice. Besides, the maximum allowable depreciation limits consideration of the factors that are built in the depreciation rate as per the principles of valuation. As such the modification in the cost approach diverts from what a typical replacement cost approach would produce in relation to the building attributes.

The practice with rating authorities is discrete valuation for each (individual) rateable property found in the jurisdiction. The valuation process involves field visits to each property so as to conduct physical inspection, and subsequently compute rateable values. This demands availability of large workforce of qualified valuers to undertake the valuation task. Rating authorities have been engaging consultant valuation firms to carry out rating valuation for reason of insufficient numbers of in-house qualified valuers. In the end the valuation process turns out to be very costly for the local authorities.

Upon completion of the rating valuation, valuers are also required to assess the tax amount to be levied on all properties included in the valuation roll. The tax amount for each property in the valuation roll is determined using tax rates specified and passed by council resolution, and approved by the responsible Minister. Both the rates applied on property value to ascertain the tax amount and the flat rates are determined in accordance with what is agreed by the councillors. However, the responsible officials have not come out to reveal the variables they use in determining the tax rates. The valuation and tax assessment culminate to the preparation of a valuation roll into which all data about valued rateable properties are recorded. Completion of the valuation roll sets a basis for the appeal's stage for the owners of rateable properties.

3.3 *Collection*

The collection stage reflects the outcomes of the discovery and valuation processes of property tax administration. As such success in the collection of property tax revenue relies much on efficient identification and valuation of the rateable properties, as well as tax assessment. For instance, where rateable properties have not been identified there will be no tax object and tax subject from which the rating authority can collect tax payments. Similarly, the level of property tax revenue stands to be lower where rateable properties are not valued as they would be taxed on flat rate basis. For example, property tax in Dar es Salaam before 1996 was levied on flat rate basis. However, revenue from property tax increased ten times from Tsh60m in 1995 to 559m in 1996; and Tsh1 billion in 1997 (Kironde, 2001) as a result of the valuation roll that had been operationalised. Table 1 illustrates the increase of revenue collection resulting from identified and valued rateable properties registered in the roll.

Table 1: Property Tax Collection for Dar es Salaam City 1988 – 2002

Year	Revenue Collection (Tsh)
1988	31,010,000
1989	23,150,000
1990	45,350,000
1991	38,430,000
1992	57,290,000
1993	108,110,000
1994	110,040,000
1995	60,010,000
1996	559,490,000
1997	1,006,000,000
1998	1,134,000,000
1999	1,077,000,000
2000	1,243,000,000
2001	1,532,026,000
2002	1,663,290,000

Source: Urban Sector Rehabilitation Project and Municipal Councils' Annual Financial Reports

The collection of property tax is closely linked to billing and enforcement of compliance. Prior to collecting revenue, tax billing demands are sent to each property owner. Since the rating authorities operate a dual tax system, the bills are sent to property owners listed in the valuation rolls and on the flat rate levy registers. Delivery of the tax demand notices to individual ratepayer is done by post mailing, or by hand with the help of local leaders. Post mailing has proved to be unreliable as in most cases post addresses are found to be wrong. Moreover, the post mailing system in the country is not designed to deliver mails at physical addresses. Again, even if mails were delivered to physical addresses, land information system to support such practice is lacking. As such there is high reliance on delivery of tax demand notices by hand largely with assistance from local leaders.

Following delivery of tax demand notice, a billed property owner can make payments at the council cash office, ward office or bank (for some councils). Council valuers are responsible for the distribution of tax demand notices and follow-ups to ensure delivery and payment of tax bills.

Property tax delinquency is a common phenomenon such that property tax systems are compelled to institute enforcement mechanisms to ensure compliance. Tanzania is not alone in experiencing low levels of property tax revenue collection with high level of tax arrears. There are observations that level of delinquency is more alarming in many developing countries where property tax systems are confronted with high level of property tax arrears (Bird & Slack, 2002; Bahl, 1998).

Both the UARA, 1983; and LGFA, 1982, provide for instruments for enforcement of property tax compliance. Notwithstanding that legislation provide for an array of enforcement instruments, councils seldom implement them. It remains unclear as to whether local authorities lack the capacity to institute the enforcement instruments, or are limited by some political interference. Apart from the enforcement mechanisms stipulated in the legislation, some municipalities (for example, Ilala, Kinondoni, and Temeke) have been trying to publicise names of defaulters as a way to induce compliance. Similarly, the extent of the effectiveness of such strategy remains unclear.

4. Property Tax Issues

Despite the long history of property taxation in Tanzania, local authorities have for many years registered minimal success in generating revenue from this lucrative source. Various reasons related to policy and administration capacity are responsible for the poor performance.

4.1 Property tax administration issues

While the property tax administration components need to be closely linked for success revenue generation, the situation has been different with the local authorities in Tanzania. As also noted by proponents of property taxation, the general poor performance of property tax in most African countries is primarily the result of weak administration (Dillinger, 1992; Kelly, 2002). Consequently, property tax as a source of local revenue is not utilized optimally, as manifested by low revenue yields. The situation of property tax in Tanzania prompts the need for rating authorities to pay attention to several issues, as highlighted below, if the tax is to generate the required revenue.

4.1.1 Property identification

A significant proportion of the tax base remains unidentified. Councils have not been able to establish the actual number of rateable properties in their tax jurisdictions, relying mainly on estimates. The identification process is rendered difficult for reasons of lacking comprehensive and up-to-date cadastre information. Cadastral maps are lacking, and where they exist it is common to find that not every part of the jurisdiction is covered. The situation is more critical with unplanned areas where significant proportion of rateable properties is found. Identification inefficiencies impact upon the tax base with unsatisfactory coverage. Similarly, failure to identify rateable properties affects property tax collection as the unidentified property owners are left untaxed. In conclusion, inefficiencies in tax base identification negatively impact upon property coverage and the entire property tax administration process.

4.1.2 Valuation

For an efficient value-based property taxation system all rateable properties within the rating jurisdiction must be valued. Councils in Tanzania have not been able to have all properties assessed and placed in valuation rolls for varied reasons, including the lack of adequate number of qualified valuers to undertake rating valuations, high valuation costs, and lack of facilities. Limited financial resources have resulted in poor valuation coverage. For instance, in 2000 (following the completion of Phase II rating project) among the eight project towns Tabora and Tanga had 50% or more of the rateable properties listed in the valuation roll; whereas Iringa and Moshi had above 80% of the rateable properties valued. Other councils had less than 50% coverage.

Property tax coverage for Dar es Salaam municipalities is comparatively small. According to 2004 estimates, only 21% of the estimated 340,000 potential rateable properties had been valued and placed in the roll. While the rating jurisdictions are not able to value all potential rateable properties, they are also not able to carry out revaluations and supplementary valuation, hence failure to meet the maintenance requirements of the valuation rolls.

Apart from capacity constraints on rating valuation, the methodology aspect is also a subject of concern. With the replacement cost approach in use, the cost rates applicable in rating valuation have remained outdated since they were used in 1998 during the Phase II Rating Project. Similarly, the tax rates imposed on property values are noticeably low and have remained unchanged for years. The outdated cost rates and low tax rates impact negatively upon the rateable values, and consequently property tax revenue.

4.1.3 Collection

While significant efforts have been directed to the valuation component in recognition of the importance of property tax in increasing revenue for local authorities, there has been minimal achievement with property tax collection. The collection function has received less attention as manifested by low actual revenue sums collected from property tax. Thus strategies adopted in improving property tax performance have been valuation-driven (Kelly & Masunu, 2000). Lessons from Dar es Salaam indicate that contribution of property tax to locally generated revenue for the three municipal councils has not exceeded 30% despite the increasing number of rateable properties in the valuation roll. On one hand collection of property tax revenue is affected by deficiencies in identification and valuation in terms of outdated cost rates and low tax rates that result in low rateable values, and subsequently smaller tax amounts. Also low valuation coverage ratio with high percentage of properties taxed on flat rate basis affect the ultimate revenue collection. On the other hand, much effort is concentrated on valuation and less attention is dedicated to collection and enforcement. Supporting this, Dillinger (1992) argues that where much effort is spent in mapping and valuation without corresponding efforts to improve collection administration, such effort is likely to be wasted. Thus the significant proportion of discovered and valued property in Dar es Salaam does not yield revenue, as the system of collection administration is inefficient.

4.1.4 Insignificant funding towards property tax administration

Local authorities spend very little on property tax administration. With limited finances council valuation units responsible for property rating have failed to execute the property tax administration functions efficiently. The processes of property discovery, valuation and revenue collection require substantial investment, which has been lacking. While part of the revenue generated from property tax can be ploughed back to enhance property tax administration such expenditure is being neglected.

5. Policy Issues

The property tax system in Tanzania operates under fairly comprehensive legal instruments that facilitate the levying of the tax. The Local Government Finances Act 1982 empowers local authorities to levy rates, while the Urban Authorities (Rating) 1983 spells out guidelines for determining tax base, rating valuation methodology, appeals machinery, enforcement procedures, as well as powers of different organs involved in the implementation of property tax. However, some of the provisions in the enabling statutes contribute to inefficiencies in property tax administration.

Tanzania taxes buildings only, and land is excluded from the property value subject to taxation. The exclusion of land from taxation has the effect of lessening the rateable value on one side, and the failure of the rating law to serve as a regulatory instrument for efficient use of land on the other.

On the question of exemptions, Tanzania has been noted (McCluskey et al., 2003) to be unique with respect to the legislation that provides an extremely liberal approach to granting exemptions from property tax liability. A significant proportion of revenue for the local authorities is lost through the extremely generous exemptions granted by organs of different levels in the government.

Exemptions have significant negative impact on property tax revenue as high value properties are excluded from the tax base; subsequently eroding revenue. However, the impact of exemptions is not easily appreciated due to the fact that rating authorities have neither established the numbers of exempt properties nor valued them to ascertain the extent of rateable value exempted from tax liability, and subsequently the amount of revenue lost as a result of such exemptions.

The very low property tax rates as determined by councillors in the local authorities have significant effect on the level of revenues realised. Tax rates have remained stagnant, and are not likely to change as decision makers tend to defend the rates on the pretext of taxpayers not affording tax rates higher than the prevailing ones. It could be fairly speculated that the tax rates are kept low because most of those setting the rates own high value rateable property, and raising them would mean an increased tax burden to them.

The compliance enforcement machinery is weak in all local authorities, not withstanding the well spelt-out enforcement machinery in the rating statute. In addition, even though local authorities operate with by-laws that provide for enforcement measures, they have failed to utilise them for recovery of unpaid property taxes.

Acceptability of property tax by the tax paying public

Service to the taxpayer and subsequent taxpayer satisfaction are important elements for efficient property taxation. Where property tax is not acceptable to the taxpayer, the administration of such a tax is rendered difficult. In Tanzania there are indications of unacceptability of the property tax manifested in the form of tax payer's resistance to pay, late remittance of the tax sums, prolonged property tax delinquency, as well as insensitivity to threats by the rating authorities.

Several reasons can be advanced for non-compliance to property tax. It has been observed that unwillingness to pay property tax and other local taxes are a result of lack of public services (Kayuza, 2006; Fjeldstad, 2004) to the taxpayer. This is in agreement with the view that a tax that did not support the provision of public services will be subjected to limited taxpayer acceptance. On similar account, commentators (McCluskey, et al, 1998; Musgrave & Musgrave, 1976) on property tax point out that in the long run the majority of people in a democratic society will not be willing to tolerate a fiscal system from which they do not benefit directly.

From the taxpayer's point of view in Tanzania, little benefit is received from the councils in terms of services. Besides, the failure by the councils to punish the delinquent taxpayers has induced others to behave the same. Moreover, failure by the councils to identify and register all property owners leaves the unidentified property owners untaxed. This amounts to disincentive to property owners who are billed and are willing to comply.

Conclusion and Recommendations

Although property tax has been recognised to be an important source of revenue, urban local authorities in Tanzania are yet to realise the potential increase in revenue generation. Property tax stands to generate revenue that could contribute substantially to the government coffers if properly administered. Even though the valuation component has been a priority to the rating authorities, large numbers of rateable properties are yet to be valued and listed in the valuation rolls. Furthermore, the identification, billing, collection and enforcement components of the property tax administration have received relatively less attention. The overall result has been poor performance of the property tax as reflected in low revenue yields.

The potential increase of revenue from property tax may be realised if the following measures are taken.

- Local authorities need to recognise that property tax administration is a chain that demands all parts to function effectively, with each component contributing to the success of the other, and finally to the entire process. Thus success in property taxation may be realized if rateable properties are identified, valuation rolls are put in place, properties are properly billed, the tax is collected, and compliance enforced.
- Valuation methodology need be simplified by adopting approaches that allow mass valuation so as to lessen valuation costs and extend coverage within lesser time.
- Local authorities should increase efforts on billing, collection and enforcement through using trained and well-paid personnel. This is likely to result in realising untapped revenue from all properties registered in valuation rolls and flat rate registers.
- Enabling laws need be revisited so as to reduce exemptions, raise property tax rates, and enhance enforcement instruments by introducing high penalties for defaulters.
- Local authorities should provide funding from generated revenue to enhance property tax administration. Property taxation needs to be regarded as an investment that promises returns in the form of revenue if part of the income is expended on property tax administration.
- Taxpayers should be regarded as partners in property taxation through responding to their concerns. Taxpayers need to know how their money is spent. Thus local authorities should improve municipal services delivery to win the hearts of the taxpayers who expect property taxation to be a 'give and take' relationship between the taxing authority and the taxpayer.

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