IMPROVING LAND TAXATION IN AFRICA: PRACTICAL WAYS FOR MOVING AHEAD

Riël Franzsen

South African Research Chair in Tax Policy and Governance
Director: African Tax Institute
University of Pretoria
South Africa

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Introduction

- What is “property tax”? How important is recurrent property taxation? Should we bother?
- Understand the local (i.e. country-specific) context
- Understand the constitutional and legal environment
- Understand the political environment
- Understand the institutional environment, i.e. “who should do what?”

The context: rapid urbanization in Africa

- Africa is urbanizing more rapidly than any other region in the world
- At the pace urbanization is taking place sustainable development challenges will be increasingly concentrated in cities, especially “secondary” cities
- Urbanization in Africa is expected to grow from 38% to 55% between 2015 and 2050, which implies an additional 790 million urban inhabitants (Durand-Lasserve, 2016)
- Cities will need to increase the level and quality of public expenditure
- The immense future demand for infrastructure and services in African cities necessitates a well-functioning buoyant property tax – so indeed we must care!

What constitutes “property tax”?

- Property tax” is often broadly defined to include all taxes on the ownership, occupation and transfer of “property” (which can include real property and personal property)
- A recurrent property tax is generally a tax on the ownership or occupation of real property, i.e., land and/or buildings
- The property tax has good potential for revenue mobilization and there are incentives for African countries to reform their property tax regimes
- Real estate wealth (e.g., Cape Town, Dar es Salaam, Lagos, Nairobi)
- Growing the property tax base can also capture some of the value of location-specific capital investments
- Improving property taxation will likely also require a bigger role for city and regional planners

Property tax as a revenue source for local government?

- OECD countries: **2-3% of GDP** (Bahl & Martinez-Vazquez 2008; Norregaard 2013)
- In reality, revenue from “property taxes” is poor, or at best modest, in developing countries where it generates **0.3-0.6% of GDP**
- Recurrent property tax is not a significant revenue source in the total tax mix in African countries (McCluskey, Franzsen & Bahl 2017)
- South Africa, where it consistently exceeds 1% of GDP, is an exception. Although “property taxes” in Mauritius and Morocco exceeds 1% of GDP, property transfer taxes constitute the lion’s share rather than the recurrent property tax
- Can levels of 0.6% of GDP realistically be achieved in many African countries?
- Counterproductive tax policies and weak administration, almost always overlaid by an unwillingness to enforce the tax

The under-utilization of the recurrent property tax in Africa?

- Reality: Limited political and institutional support
- Inappropriate policies and general laws (e.g., as regards tax base)
- A highly visible and data-intensive tax, such as the recurrent property tax, is difficult and costly to administer properly – especially if value-based
- The reliance on intergovernmental transfers generally negates the potential of the property tax
- Transfers are often unpredictable and inadequate to fund local services
- Enhancing own source revenues is important to ensure local autonomy and to promote accountability

Property tax as a revenue source for local government?

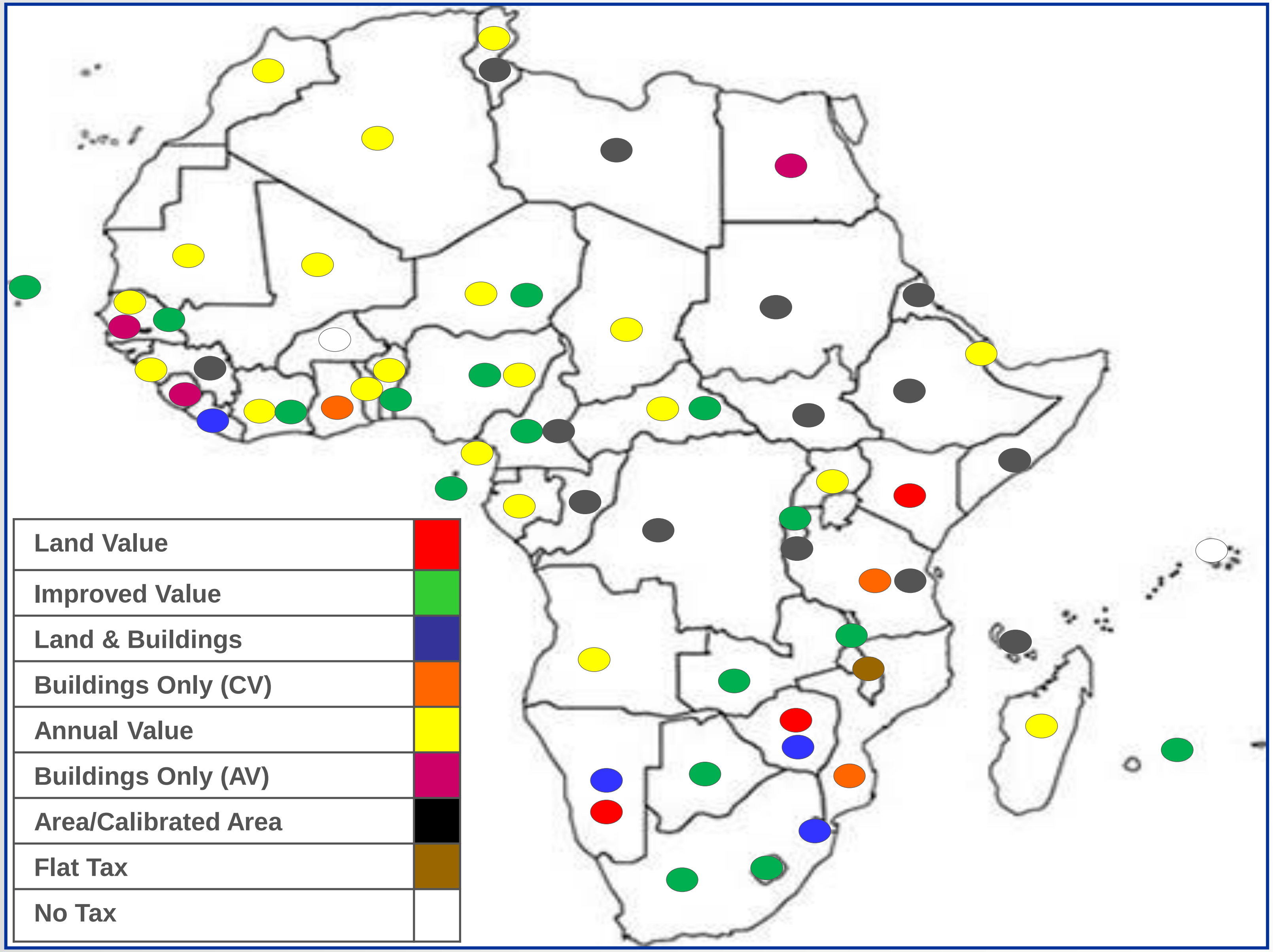
- Recurrent property taxes in Africa indeed have significant potential for mobilizing more revenue (McCluskey, Franzsen & Bahl, 2017)
- At metropolitan/city level the recurrent property tax may already be important in Africa
  - E.g., Accra (Ghana); Cape Town (South Africa); Kitwe (Zambia), Kampala (Uganda)
- Issue: Current importance of property transfer taxes in Africa (at rates of 5% or more in many countries (McCluskey, Franzsen & Bahl, 2017)
- **The focus should be on the recurrent property tax rather than the transfer tax**
  - There is a trend to reduce these taxes (World Bank, 2015; McCluskey, Franzsen & Bahl, 2017)

Importance of property tax in selected African cities

City	Population			Property tax		
	Country (million)	Metro (million)	Metro % of total	Country total	Metro	Metro % of total
Accra	25.2	3.9	15.48	3.73 (2007)	1.93	51.74
Cape Town	48.9	3.0	6.13	26.492 (2009)	3.241	12.23
Dar es Salaam	43.6	2.7	6.19	7.580 (2010)	4.212	55.57
Durban (eThekwini)	48.9	3.5	7.16	26.492 (2009)	3.912	14.77
Johannesburg	48.9	7.5	15.34	26.492 (2009)	3.331	12.57
Kampala	35.9	1.7	4.74	43.30 (2008)	4.98	11.5
Pretoria (Tshwane)	48.9	2.5	5.11	26.492 (2009)	2.257	8.52

Source: McCluskey & Franzsen, 2013.

Property tax systems in Africa



Land Value	
Improved Value	
Land & Buildings	
Buildings Only (CV)	
Annual Value	
Buildings Only (AV)	
Area/Calibrated Area	
Flat Tax	
No Tax	

Algeria
Angola
Benin
Botswana
Burkina Faso
Burundi
Cameroon
Cape Verde
CAR
Chad
Comoros
Congo
Côte d'Ivoire
DRC
Djibouti
Egypt
Equatorial Guinea
Eritrea
Ethiopia
Gabon
The Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia

Libya
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé & Príncipe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
Southern Sudan
Sudan
Swaziland
Tanzania
Togo
Tunisia
Uganda
Zambia
Zimbabwe

Map image: http://www.worldatlas.com/webimage/countrys/af.htm.

Franzsen, 2014.

Property tax bases (1)

- A surprising variety of tax bases are encountered
- The laws in some countries (e.g., Kenya, Namibia, and Swaziland) allow local governments to select a tax base most suited to their circumstances
- A number of countries, mostly in Francophone Africa also have different taxes for different property types, e.g., a capital value system for undeveloped land, a rental value system for developed land, and an area-based system for rural land
- Systems range from area-based systems (e.g., Burundi) to mature, value-based systems (e.g., South Africa)
- Where area is used, the base is often adjusted with reference to factors (e.g., location, quality, and property use) to approximate value

Property tax bases (2)

- Given the paucity of valuation skills and capacity constraints, it is surprising that many countries persist with value-based taxation

- In Cabo Verde, Liberia, and Rwanda self-assessment is used as a pragmatic response to the paucity of valuation skills

- In Tanzania some municipalities have been increasing base coverage and revenue through applying a simplified, calibrated-area approach rather than complex depreciated replacement cost system preferred by law

- In South Africa the tax base is “market value” which works well in metropolitan municipalities (e.g., Cape Town), but is not appropriate for rural municipalities with predominantly communal land and no real market

Present challenges

- **Realities**
  - Insignificant source of revenue at country level
  - However, it is an important tax for some cities in some countries
  - Rapid urbanization
  - Lack of valuation skills and capacity (most countries)
  - Poor billing and collection practices; weak enforcement
- **Inappropriate policies?**
  - High transfer taxes
  - Utilizing inappropriate tax bases
    - South Africa
  - Base erosion through exclusions and exemptions
    - E.g., owner-occupied residential properties and new construction
  - Laws insisting on valuations by expert valuers
    - E.g., South Africa; Tanzania; Uganda; Zambia; Zimbabwe

Addressing the challenges

- Reduce the reliance on transfer taxes (McCluskey, Franzsen & Bahl 2017)
- Use an appropriate, broad tax base with few exemptions
- Consider more pragmatic valuation/assessment approaches, e.g. –
  - Self-assessment (combined with improved auditing) (e.g., Liberia)
  - Value banding (i.e., does not require discrete values for each taxable property (e.g., Great Britain, Republic of Ireland)
  - An adjusted area-based approach (that approximates value) (e.g., Bangalore and Delhi, India)
- Improve administration and compliance through the use of appropriate IT
  - E.g., M-Pesa mobile phone payments in Kenya and Tanzania; LGRCIS in Tanzania
- Improve enforcement
  - Requires political support – sadly lacking at present in many countries
  - Requires proper hardship relief programs – lacking in many instances

National property tax administration? (1)

- A number of revenue administrations in Africa are already involved, or getting involved, in property tax collection. Is this a good idea? Are there lessons to be learned?
- Where can tax administrations start if they are willing to embark on this road and what issues should be considered?
- National administration
  - Many Francophone and Lusophone countries
    - Revenue sharing (Benin, Cabo Verde, Niger) versus collection on an agency basis (Morocco)
  - Egypt; Liberia
- Recent decisions in Anglophone Africa to collect property tax nationally
  - The Gambia; Rwanda; Tanzania
  - Kenya to follow?

National property tax administration? (2)

Issues

- Which functions should be “centralized”?
- Risk of fragmentation…
- Is property tax a priority tax for the national revenue authority?
- “What is in it?” for the revenue authority
- Local data, local political support, and local government cooperation?
- Economies of scale, pooling scarce skills, uniformity and standardization
- Tax rate setting?

Lessons to be learned?

- Tanzania (2008-2013)

Where should a taxing authority start?

- The tax administration/revenue authority can only do what the law (i.e., relevant statute(s)) allows
- **Clarity on the division of functions and responsibilities is crucial**
  - Who must provide and maintain tax base data?
  - Who must value/measure the property?
- **Training**
  - Recognize that property tax is quite different from other taxes
- **Administration**
  - Tax base and taxpayer data sharing and maintenance
    - Local government; relevant ministries or entities
  - Ensure proper tax base coverage
  - Payment options?
  - Enforcement
    - Allow for local level hardship relief programs

Are there success stories? (1)

- Yes, and these are often at city rather than country level
- For example, in **Kitwe, Zambia**, revenue was enhanced through regular supplementary valuations, capturing newly constructed high-value buildings in the tax base
- In **Uganda**, the creation of the **Kampala Capital City Authority** provided political and institutional support to address the poorly performing property tax; a collection-led strategy was implemented with huge and sustained revenue increases
    - Kopanyi & Franzsen, 2018; Haas 2018
- The investment in the technology and skills to introduce a CAMA system in **Cape Town, South Africa**, paid off handsomely; more than 800,000 properties valued three-yearly with few property owners objecting to their property values

Are there success stories? (2)

- **Tanzania** introduced the Local Government Revenue Collection Information System (LGRCIS), developed with the support of the World Bank, and it is showing promise.
- Cities (e.g., **Arusha**) have been increasing revenues from the property tax and other own-source revenues using LGRCIS
- Interestingly, none of these “success” stories stem from a comprehensive, well-designed property tax reform, but rather resulted from being innovative, using IT appropriately and effectively, and having strong local political support

Future prospects?

- If African countries did what it takes to improve the practice of property taxation, the result could likely be more revenue mobilization and more efficient property markets, both of which would stimulate economic growth
- The track record with tax reform in Africa has not been good; overall revenue mobilization lags behind that in other regions
- A well-functioning property tax should be a natural choice as a local government revenue source in a ***proper*** fiscally-decentralized system
- Improving collection, base coverage, and ***valuation***, preferably in that order
- Without effective collection and enforcement there is little to be gained from increasing base coverage and property valuations
- Arguably the greatest failing of the property tax in Africa is the unwillingness of governments to enforce it

Future research

- Focus on the issues around property transfer taxes
- Role of a Capital Gains Tax
- The impact on land values from large scale infrastructure projects and land value capture instruments
- The potential of ICT for assessment and revenue collection