The Dilemma of Implementing Property Taxation in Tanzania amidst Unending Search for Yielding Strategy. Lessons from Dar es Salaam LGAs

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Abstract—

Abstract— Property taxation has a long history of implementation in Dar es Salaam; yet Local Government Authorities (LGAs) ability to raise revenue through property tax has remained low. This article examines various initiatives by the government to develop a functional property tax system capable of generating sufficient revenue for the LGAs. It observes that while there have been efforts to develop the capacity of LGAs in exploiting the property tax revenue source, the tax base coverage and revenue collection levels are still critical, calling for more attention. The paper documents the various strategies attempted in implementing property taxation as well as challenges experienced in property tax administration and their impact on revenue collection endeavour.

Keywords: Local government authorities, property tax administration, rating valuation, tax collection.

INTRODUCTION

Property taxation in many southern and east African countries is a fiscal instrument that was inherited from the colonial administration and continues to exist. The levy on real property is widely accepted as a necessary revenue source to support efficient land management and service delivery, and in rare situations especially in developing countries it can be utilized as a regulatory tool to influence land use patterns.

Despite the many years of implementing property taxation most property tax systems in the region are still experiencing many policy and administration related problems (Frannzsen & Olima, 2003). Some of the setbacks include limitations inherent in guiding legislation, limited capacity of many urban jurisdictions to handle the rigorous property tax administration processes as well as controls by the superior governments. Dar es Salaam city was the first urban area to attain a municipality status under the Colonial administration in 1946 and consequently required to implement property taxation. Since then property taxation has been implemented in Dar es Salaam albeit with a break of 15 years between 1973 and 1987 when it was reinstated[1]. The importance of utilizing property tax as a local revenue source grew even higher with the Local Government Reform Programme (URT, 1998) in which financial decentralization was introduced and bestowed powers to councils to levy taxes for financing increased service delivery needs among other obligations.

The reinstatement of property taxation, guided with the Local Government Finances Act 1982, commenced with property tax levied on flat rate basis until 1993 when the first rating project was undertaken in Dar es Salaam city under the Urban Sector Rehabilitation Programme (USRP), 1993. This marked the beginning of building capacity for a property tax system that would exercise tax base identification, valuation and assessment, as well as collection and assessment. A number of reforms have also been implemented so as to improve the property tax administration for the rating authorities to generate sufficient revenue. Notwithstanding the strategies toward efficient property tax system, the three local government authorities in Dar es Salaaam have yet to achieve the desired results. The situation is manifested with incomplete tax base coverage, low tax assessment and low revenue collection levels.

Background to taxing property in Tanzania

The monetary property taxation being practiced today in Tanzania originated from the Colonial times when the German administration introduced the house and hut tax in 1898 after passing the tax ordinance in 1897. Prior to that Africans had paid taxes in kind through offering

[1] Property taxation ceased following the abolition of Local Government Authorities in 1972 but reinstated in 1978, and the levy on flat rate basis was

gifts and working or cultivating the leader's fields(Koponen, 1994). Initially the major objective of taxation by German rulers was regulatory, to induce Africans to work without using direct force through compelling them to pay tax from what they earn from work and that large labour force was required for the plantations;while the fiscal purpose was secondary. In the mid 1890's the main objective of levying local tax changed to that of raising revenue for public utilities such as street lighting and sewerage in the respective towns. During the British administration property tax was also used as an instrument to deter Africans from migrating to town.

The British rule introduced a tax based on land and buildings under the Township Ordinance Cap 101 of 1920. This was followed by the Municipalities Ordinance (Cap 105) which established municipalities, conferring them with powers to levy property tax on capital value of all buildings situated within the municipalities. The Local Government (Rating) Ordinance (Cap 317) of 1952 further extended the tax base to cover unimproved site value of all properties held under long-term leases or rights of occupancy. Under this legislation properties held on long-term leases were subjected to a rate based on the value of land and buildings, while tax on short-term leases was limited to value of buildings only. Ideally the changes introduced by the different laws were meant to improve on revenue realised from property tax among other reasons.

The independent Tanganyika government introduced urban house tax through the Urban House Tax Ordinance 1962, broadening property tax coverage to houses in unplanned areas and went further to institute the Municipal House Tax in 1963. The two pieces of legislation remained operational until 1972 when local taxes were suspended with the abolition of local government authorities.

In the absence of local government authorities the central government assumed responsibility for services provision. This required funding and the government therefore enacted the Land Rent and Service Charge Act in 1974, which in a way introduced a new form of property tax designed to combine land rent (for use and occupation of land) and fees for services provision(Kayuza, 2006). Local authorities were reinstated in 1978 with the Local Government Finances Act No. 9 1982 enacted to enable local government authorities to collect revenue from various own sources including property tax. Under this law Local Government authorities are authorised to levy property tax on flat rate basis. The Urban Authorities (Rating) Act came to effect in 1983 and replaced the Land Rent and Service Charge Act which was also repealed in the same year. The UARA 1983 reintroduced value based (ad valorem) property tax on buildings although flat rates continued until 1993 when the first Rating Project was undertaken culminating into the first valuation roll that was operationalised in 1996. Noteworthy is the persistent use of flat rates parallel with value based approach in taxing real property in Tanzania.

Being widely recognised as a potential and important source of local revenue to support various functions of local government authorities, various strategies have been attempted in order to improve on property tax revenue performance.

Reforms in Property taxation

Various reasons are given for reforms in property tax systems albeit the end result is increased local revenue(Paugam, 1999), (Cohen, 1999)(Brown & Hepworth, 2000).

As summed up by (Bird & Slack, 2002)the main reasons for property tax systems reforms are to simplify tax system; raise more revenues from property taxes by improving tax base, collection methods; remove inequitiesin the tax system and improve tax administration. However, documented evidence indicate that property tax reforms especially in developing countries tend to focus largely on the valuation component with little attention to other factors of fundamental contribution to successful property taxation; ending up with limited impact on improvement of property tax revenue performance (Kayuza 2006). Thus too much effort is being invested on property discovery and valuation(Franzsen & McCluskey, 2005), although (Kelly, 2002)sees poor administration and the lack of political will for collection and enforcement as major hindrance to improved property tax than the valuation factor.

The rating valuation introduced in 1993 came as part of local government reforms by which local authorities were assuming more responsibilities that needed also increased revenue to support the functions bestowed upon them. In this regard the first Rating Project in 1993 was initiated by the Urban Sector Engineering Project (USEP) that was then investing in physical infrastructure in parts of Dar es Salaam city. In order to sustain the operation and maintenance of the envisaged infrastructure investment it was considered important for the then city council to initiate strategies for generating funds. Real property benefitting from the infrastructure investment was therefore considered a potential source of revenue through taxation. The existing property tax on flat rate basis was perceived an underutilization of the tax base potential to yield sufficient revenue. Hence, it was pertinent to institute a mechanism that would establish a valuation roll to enable tax assessment based on property values.

The first Rating Valuation Project was intended initially to develop a valuation roll for Dar es Salaam city and later extend to other Municipalities in the country(Kelly & Masunu, 2000)with the major objective of mobilizing sufficient revenue through value based property tax.

Essentially the phase one Rating Valuation Project introduced a systematic procedure for identifying individual rateable properties, and establishing physical and legal data/information (using maps produced in 1992) of rateable properties. Under this reform strategy rating valuation guidelines were developed to accommodate classification of properties and valuation method to be used for harmonized property values in valuation rolls and to some extent achieve fairness in property taxation. The rating project produced the first valuation roll that was operationalised in 1996. The second rating valuation project followed in 1999 extending also to other eight towns with outputs as indicated in Table 1.

Table 1: Rating Valuation Projects Output

Project Name	Period	Number of Properties in Valuation Roll
Phase I Rating Valuation Project (Dar es Salaam)	1993 - 1996	30,000
Phase II Rating Valuation Project (Dar es Salaam)	1999 - 2000	17,000
Phase II Rating Valuation Project (Arusha, Moshi, Tanga, Morogoro, Iringa, Mbeya, Tabora and Mwanza)	1999 - 2000	24,000

Following the successful completion of the two projects it was anticipated that the Dar es Salaam City Council would continue with rating valuation to complete the roll of Dar es Salaam city that would have captured all rateable properties.

Establishment of the valuation roll for Dar es Salaam resulted in a remarkable increase in revenue from property tax from Tanzania Shillings 60 million in 1995 to TZS 560 million in 1996 (Kayuza, 2006). However, operationalization of the valuation roll coincided with establishment of the City Commission that had replaced the Dare es Salaam City Council in 1996; that could also had impacted on the success in increased revenue collection.

The City Commission was short lived and the DCC was back to power in 2000, under a two-tier system that comprises three Municipal Councils of Ilala, Kinondoni and Temeke with the City Council retaining the role of overall administration of the city affairs. The three municipal councils henceforth rating authorities inherited the city valuation roll that had been established under the previous Phase I & II rating projects. On assuming the rating authority role the Municipal councils were required to carry out the anticipated Phase III rating valuation so as to expand the tax base and further complete the valuation rolls for Dar es Salaam city. By the year 2003 each Municipal council had established a valuation roll (Table 2) and the total number of Dar es-Salaam taxable properties recorded in the roll had increased to 69,957 as compared with the 47,000 properties registered by the year 2000[2]. This was an addition of 22,957 (49%) properties recorded in the valuation roll over the three years.

Table 2: Estimated No. of properties in Dar es Salaam Rating Jurisdictions by 2003

Council	Est. Number	No.of Properties		
		Val Roll	Flat Rate	VR or FR
Ilala	70,000	23,500	40,328	6,172
Kinondoni	150,000	37,020	92,008	20, 972
Temeke	120,000	9,437	78,569	31,994
Total	340,000	69,957	210,905	59,138

Source: Franzsen and Semboja (2004)

The subsequent rating valuation in the three rating authorities of Dare es Salaam was undertaken between years 2009 -2012, again facilitated by World Bank support under the Local Government Reform Programme (LRGP) II. However, the DCC was in full control of project execution that was designed to cover all properties in Dar es Salaam city. The project output was three valuation rolls with a total of 442,648 properties for Ilala (151,000); Kinondoni (138,636) and Temeke (153,012) rating jurisdictions. This presented an increase of about 600 per centum if measured against the 69,957 properties in the valuation roll in 2003. However, it remains uncertain whether this achievement has captured all properties in the valuation rolls since the number of properties in Dar es Salaam was provided at the time of commissioning the rating valuation project. Besides, with some of the rateable properties still taxed on flat rate basis; it is sufficient testimony that not all potential rateable properties are taxed. Implicitly the actual size of the tax base and potential revenue lost remain unknown.

While the numbers of valued properties have been on the increase, property tax collection has not been of matching levels, manifested by low collection rates in comparison with the potential[3]. This has been a matter of concern to the government and the driver to seeking for solution. In trying to address the low ability of LGAs in collecting property tax revenue the government attempted to shift the responsibility of collecting property tax to Tanzania Revenue Authority effective financial year 2008/09. The LGAs were considered to lack the capacity to collect property tax and TRA was thus tasked to build the necessary revenue collection capacity that was lacking. The Dar es Salaam city local government authorities (LGAs) were chosen for piloting the approach. Amendments were made to the Tanzania Revenue Authority Act, (Cap 399); Local Government Finances Act (Cap 290); and the Urban Authorities (Rating) Act (Cap 289) to accommodate the property tax collection responsibility by TRA. The TRA collected property tax for five years (2008/2009 to 2012/2013) with the aim to increasing revenue and build capacity for the Dar es Salaam LGAs.

Efforts to realise improved property taxation in Tanzania witnessed yet another move by PMO RALG that initiated the development of the Property Rates Administration Manual. The objective was to introduce standard operating procedures with respect to property assessment/valuation, enforcement and taxpayer's education (URT PMO RALG, 2010); piloted in Mtwara/Mikindani Municipality. This was followed by another project that involved collecting core data of properties in the LGAs under the Strategic Cities Project (TSCP) aimed

[2] Although the data in 2004 indicate size of each Municipal valuation roll, there are no records to show the distribution of properties to each rating authority from the original city valuation roll.

[3] Records from the Dar es Salaam Municipal Councils indicate low percentage of revenue collection against projections.

to support preparation of the Local Government Revenue Collection System (LGRCS). It was anticipated LGAs would use the property core data for tax collection and the established data would relieve the rating authorities from the rigor of rating valuations. The project was piloted in seven LGAs of Mbeya, Mtwara, Mwanza, Tanga, Kigoma, Dododma and Arusha.

Methodology

This paper draws significantly from a study on property tax in Tanzania accomplished in 2006. Additional data were collected in order to enrich the discussion and also provide a link of the current situation of property taxation in Dar es Salaam with what had been documented in the previous study. The data were collected through interviews with Municipal Valuation offices and participating valuation consultants. In addition, various reports were examined to obtain data on how property taxation is being implemented and lessons that have emerged from various efforts by the government to improve on the capacity of the Dar es Salaam city LGAs in property tax administration. The analysis of data built upon the previous study was used to inform the discussion and conclusions presented in this paper. .

Findings and Discussion

Property taxation

Dar es Salaam city has many years experience in implementing property tax with various attempts aimed at building an efficient property tax system that would generate sufficient revenue for the LGAs functioning. The envisaged property tax system has been through administrative as well as technological changes all intended to improve the capacity of the LGAs in property taxation. The major concern at this juncture lies on whether the government efforts to build capacity for the LGAs have had significant impact on property tax administration and the ultimate goal of increasing revenue.

While Dar es Salaam city has benefitted most from the various endeavors by the government in building capacity to implement property taxation, yet the achievements are not comparable to the effort committed. With a number of rating valuation projects executed still comprehensive property tax data showing the total number of rateable properties in rating jurisdiction, properties registered on roll, exempt properties, properties taxed on flat rate and those not appearing in the roll nor in flat rate list is not readily available. In this kind of situation it becomes rather hard to measure achievement in the various attempts in property tax implementation.

The tax base and taxpayers

Knowing the taxpayer is crucial for the taxing authority to attain the tax objectives. However this is an area that the LGAs have yet to succeed. Since the first rating valuation project in 1993 and the subsequent ones, the Dar es Salaam LGAs have not been able to come up with a comprehensive property data base showing the number of all potential rateable properties in their jurisdictions. The continued dual taxation on both value based and flat rate basis is a reflection of the situation.

Records indicate that the LGAs rely on estimated number of rateable properties in executing property taxation. For instance estimates of 2003 indicated a total number of 340,000 taxable properties of which only 21% was registered in the valuation rolls. Similarly, while the rating project of “all properties” was in progress an estimate of 572,405 taxable properties in Dar es Salaam city was reported (PMO RALG 2011) and 77% of the properties had been valued on completion of the project in 2012. Besides, the estimated numbers of properties and those captured in the valuation rolls there are those not found in the roll or in the list of flat rate taxation. This is further confirmed by the last recent rating valuation project named “all properties” by which no specific number of properties was assigned to the valuation Consultants to accomplish. The outcome of the rating valuation project therefore relied much on the integrity of the consultants engaged to undertake the rating valuation.

Inability to identify all potential rateable properties is attributable to the informal and uncontrolled property development of which more new properties come up but the rating authorities have inadequate capacity to identify them for inclusion in the tax net; hence risking loss of revenue since some of the potential rateable propertiesescape for being unknown. The rating jurisdictions fail to keep pace with the rapid property development taking place in the city.

Fragmented property information kept by different organs has also contributed to the failure by the LGAs to identify all rateable properties within their jurisdictions. As an example recorded data of individual property parcels by the land registry provide information on plot location, size and name of owner but little is known about the improvements put on the land. With property tax based on value of improvements such information as contained in the certificate of title becomes of limited use for the rating authority to assess and collect the tax. Inability to identify all taxable properties has had consequential implications on tax base coverage, valuation, tax assessment and collection; as well as determining the revenue potential for the councils to fulfill their assigned responsibilities, and further provides an opportunity for unnoticed properties to escape the tax liability.

Tax base Coverage

Literature suggests that a highly inclusive tax base with large number of properties captured in the tax data base has the potential to lower the tax burden to individual property owners. As noted by McCluskey et al(2003), the wider tax base coverage would require a lower tax rate for the rating authority to raise equivalent level of revenue. Inclusion of all properties in the tax base therefore is important for the tax system to qualify for fairness and equity as the tax burden is distributed fairly on all eligible tax payers. In the case of the Municipal councils, coverage of taxable properties is constrained by the inability to identify all potential properties for inclusion and therefore excluded from valuation rolls. Significant numbers of exempt properties contribute also to low coverage of tax base.
The property tax system in Tanzania however, is noted for the generous exemptions from property tax as allowed from the primary legislation (Local Government Finances Act, 1982 and Urban Authorities Rating Act, 1983) and other government declarations (McCluskey et al 2003). The situation of Dar es Salaam is quite critical when it comes to exempting government owned buildings since it was the government capital with many high value buildings occupying prime locations that enjoy most services and yet exempt them from the tax base. The exemptions automatically increase the tax burden assumed by other properties. Despite the strong observations on tax exemptions, there have been no attempts to measure the extent to which exemptions erode the tax base.

The effects of exemptions are further amplified by properties excluded from the tax base because they are not identified and recorded in the valuation roll. Similarly, some of the properties not captured in the roll are taxed on flat rate basis bearing comparatively smaller tax burden while those neither in the roll nor in flat rate list add to the increasing of the tax burden to the properties captured in the tax base.

Valuation of rateable properties and tax assessment

Prior to the first rating project in 1993, properties were subjected to flat rate property tax. The first and second rating projects (accomplished in 1994 & 1999) respectively were undertaken with the major objective of increasing revenue for the then Dar es Salaam City Council (DCC). However, with ad valorem property tax, valuation of individual properties is also imperative to enable distribution of the tax burden across the taxable properties. The two projects enabled also capacity building in property tax administration for the DCC that was later split into the present three Rating Jurisdictions. The Municipal Councils assumed the role of implementing the valuation roll as inherited from the DCC. More properties were valued and by year 2003 a total of 69,957 properties had been included in the valuation roll.
A gap of records with respect to valuation output is noticed between 2003 and 2009 when another rating valuation project was executed in the three municipalities under World Bank support. The latest rating valuation project was

undertaken during the period 2009 to 2012 and noteworthy is the fact that the scope of work for the rating valuation project covered “all properties” in each municipality, including properties already in old valuation rolls. The valuation performance if measured against the estimated number of properties indicates 77% of the properties in the three municipalities have been captured in the property tax database. Whereas, the total number of potential rateable properties remains uncertain, suggestive of doubts that more properties could have been left out of the counting or some are those developed after the registration in the roll. The real situation on the ground might be different given the rapid and un monitored property development as well as extensive sprawl of the city also aggravated by the present liberal practice of planning, surveying plots and selling them to developers.

Regarding the rating practice, there have been critiques on the valuation approach in terms of valuing individual properties and the use of replacement cost method. While recommendation to shift to mass appraisal techniques for cost and time reduction is welcome, the attributes of the Tanzanian property market have a share to the limiting factors. One apparent reason is the diversity property types for which clustering of properties for mass valuation is rendered challenging. The banding approach for example is normally applied to homogeneous property types (FAO, 2004), although diversity is also common within categories for objective rateable values assessment. The existence of informal settlements characterized by a mix of high value, ordinary and poor quality properties in the urban settings of Tanzania is yet another obstacle to adoption of mass appraisal approaches.

The rateable values established in the roll rely on attributes of individual properties that are captured through physical inspection, and field data collection constitutes the bulk of the valuation component. While the use of technology in valuation is necessary, computers do not assist directly with the capture of information in the field (FAO 2004), implying that valuers or skilled data collectors must visit the properties. Thus adopting the mass appraisal techniques in the obtaining environment may require heavy investment to accommodate the inherent obstacles for minimal objections to the resultant rateable values and also fairness in tax burden distribution. Nonetheless, computerization of the property tax system is inevitable for efficiency.

Concerning the valuation methodology, the cost approach remains the most appropriate since the tax is focused on building/improvements part of the property leaving out the land component. The replacement cost schedules developed to guide valuation have been useful in guiding rating valuations although a lot more work is needed to improve on the cost rates in line with the continuous changes in the construction sector.

The Legislation guiding property taxation in Tanzania provides also for flat rate tax on buildings not valued yet. Flat rate taxes have significant contribution to local revenue considering the pace of increasing numbers of new properties which are not valued yet. Estimates of properties found in Dar es Salaam signify an ever increasing number of unvalued properties so long as measures to address uncontrolled development are lacking.

Tax assessment

Rating authorities are empowered to set property tax rates as a percentage of rateable values and levy sufficient revenues required from property tax under the Urban Authorities Rating Act 1983(S.17). Implicitly this provision is aimed to allow the rating authorities determine levy on property on the basis of revenue needs of the jurisdiction. However, property tax rates applicable in Dar es Salaam have remained the same (0.15% – 0.2%) for many years since ad valorem property tax was reinstated in the early 1990s. There could be a number of reasons for this kind of scenario that practically defeat the revenue objective. One possible explanation could be linked to the Municipal councils’ budgets which are hardly a reflection of the actual financial needs as manifested by the inability to fulfill their services provision responsibilities as well as meeting property tax administration costs. Setting the tax rates is the means of distributing the tax burden with due consideration to

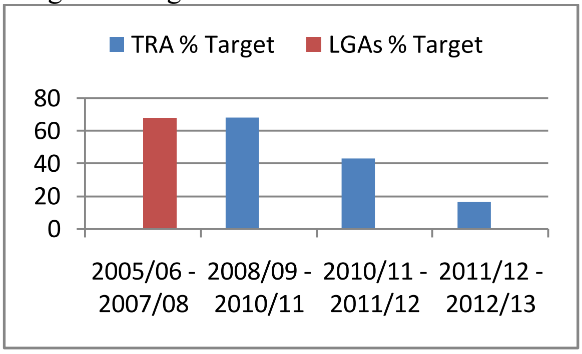
financial needs in a given period of time. Yet determining realistic tax rates is rendered difficult in circumstances which comprehensive size of the tax base is lacking whereas compliance is also not guaranteed from the taxable properties registered in valuation rolls.
One could also speculate control by the superior government as another reason for the non-changing of tax rates for many years operation. Probably the requirement under the Local Government Finances Act 1982 that rating authorities should seek approval of the Minister responsible for local government in making and levying rates is a hindrance towards changing the charged property rates.

Collection of property tax revenue

The tax collection function relies much on ability to distribute tax bills to the property owners and enforcing compliance following successful completion of the valuation of taxable properties. While a significant impact has been made in respect of valued rateable properties and production of valuation rolls, the collection function has not recorded comparative results. Revenue collection from property tax by the Municipal councils has been consistently low owing to reasons including tax bills not reaching the taxpayers in time and subsequent low compliance. In addition taxpayers are less motivated to honour their tax obligation.

Previous studies (Kayuza, 2006; (Franzsen & Semboja, 2004)observed low property tax collection levels, a situation that reflects inadequate capacity of the three Municipal councils to collect revenue. Even the attempt to have property tax collected by TRA in order to enhance LGAs revenue has not attained the expected results. Prior to engaging TRA in property taxation during the financial years 2005/2006 to 2007/2008 the revenue collection by the three Municipal councils was 68% of the estimated collection. The Tanzania Revenue Authority on the other hand collected 68.14 % of the target during the period 2008/2009 to 2010/2011 (Figure 1). The collection levels declined down to 16.5% of the collection estimates in the fifth year of the revenue collection piloting. Despite the good intention by the government, it is important to note that TRA's performance in revenue collection was even poorer when compared with that of the Municipal councils. Yet the reported property tax collection levels depict a picture far from reality considering that the size of the tax base is not certain.

Figure 1: Actual Property Tax Collection Against Targets 2005-2013 in Dar es Salaam



Source: Dar es Salaam LGAs Municipal Valuation Office (June 2014)

The piloting of property tax collection by TRA was set to end in five years period and therefore responsibility to collect property tax reverted to the Municipal councils effective January 2014. Judging from the revenue collection levels realised by the TRA it is apparent that property tax revenue did not increase beyond what was being collected by the Municipal LGAs. Reasons attributed to low revenue collection levels include incompatible systems (LGAs and TRA) of revenue collection and incorrect information about property taxpayers used by TRA that left some of the taxes unpaid. Moreover regulations to guide property tax administration and revenue collection for execution of the exercise were lacking as TRA collected revenue for the LGAs.

While the motive for engaging TRA in property taxation was intended for capacity building for the LGAs, results in the five years of piloting proved different. TRA's focus was on revenue collection function and little attention was accorded to other critical areas of the property tax administration. Noteworthy, is the fact that property taxation is a lot more than revenue collection as it involves lengthy, time consuming and costly processes of identifying the rateable property, valuation to estimate property value forming the basis of tax assessment, generating tax bills and ensuring they reach the taxpayers, collection of revenue and enforcement of compliance. In this regard the involvement of TRA in property taxation had little impact on the performance of the LGAs.

Challenges facing the implementation of property tax

Dar es Salaam city has had long experience in terms of implementing property taxation and has benefited from various reforms aimed at promoting efficient property tax system for sufficient revenues. The three LGAs have established property tax administration systems in their jurisdictions that ensure processes of property identification, valuation, assessment, billing, collection and enforcement are exercised albeit with limited achievement. Regardless of the twenty years of implementing property taxation the Municipal councils in Dar es Salaam are yet to demonstrate that they have built the required capacity to efficiently manage property taxation and generate sufficient local revenues to support the service delivery responsibility among others. The property tax administration practice is constrained by a number of hitches as highlighted hereunder.

Knowing the taxpayer

Identification of taxable properties with the taxpayers (owners) is still a challenge that needs also input from other government agencies such as Registry of Titles, Lands, Survey and Mapping Departments. Significant numbers of properties are out of the valuation rolls because they are yet to be identified.

Valuation of rateable properties

Valuation of properties for rating is largely constrained by insufficient financial resources to fund the requisite rating processes. The LGAs have insufficient in house valuers to execute both new valuations and supplementary valuations for maintenance of the valuation rolls. Apparently all the major rating valuation projects undertaken in Dar es Salaam have been possible through World Bank support with engagement of valuation consultants. Consequently lack of funds to support the valuation function has made Municipal Councils less powerful in deciding matters of benefits for the rating authorities. Practically the Municipal valuation office ought to be at the centre of rating processes, yet this is not the case. As previously noted in other studies (McCluskey, et al., 2003), the municipal valuer has not been given the status that is required in the endeavor to perform the important activity in property tax administration.

The Property tax collection.

The revenue collection levels are a measure of performance of any property tax system. Historically the Municipal councils have not done well in collecting property tax revenue despite the increasing numbers of properties captured in the valuation rolls and those on flat rate basis. This is for example reflected by the collection level at 68% of the estimated revenue potential during the period 2005/06 - 2007/08. The revenue targets are not determined by the size of the tax base in place but yearly council budgets which rarely provide a realistic reflection of the financial needs. It has been unclear as to why the LGAs do set low revenue collection targets when compared with the potential based on rateable properties captured in the roll. Involvement of TRA in property tax collection trial is a confirmation of low revenue collection levels by the LGAs, although the situation remained unchanged.

The property tax collection function is also constrained by the inability to charge all the rateable properties in the roll as well as enforcing compliance by the billed property owners. Lack of appropriate property addresses is a hindrance to sending out tax bills in time and subsequent collection of revenue. On the other hand the LGAs have been setting low revenue collection targets when compared with the potential rateable properties registered in the rolls. Likewise TRA encountered similar challenges with regard to incomplete records of the taxpayers that impacted on delivery of tax bills and subsequent revenue collection. Besides, the tax bills disregarded taxes in arrears and also no enforcement action was attempted to recover the taxes in delinquency.

While exemptions have strong contribution to narrowing the tax base, this may not be the case with the three LGAs in that annual collection targets rarely represent all properties captured in the tax rolls and those on flat rate. Where the rating authorities are unable to fully collect revenue from the properties identified in the roll little attention is given to the exempted and unidentified properties.
Furthermore both the rateable values and revenue potential of exempt properties remain unknown because they are not valued and the potential tax obligation not assessed. Hence, measuring the impact of exemptions remains tricky. Revenue collection levels are also affected by poor compliance and lack of enforcement by the rating authorities. Property taxpayers are not much motivated to pay the tax, requiring follow ups for them to comply. However, with the shortage of staff the rating authorities find it difficult to scale up revenue collection levels.

Conclusion

It has been observed that varying initiatives have been taken to improve efficiency in property taxation with the aim of generating sufficient revenue to support the various responsibilities assumed by the local government authorities. The implementation of property taxation however, demonstrates lack of focused strategies to improving the performance by rating authorities in generating revenue through property tax. Experience shows that over the years there has been significant investment in the valuation function whereas performance in other aspects of tax base coverage and revenue collection is still wanting.

Findings indicate that the rating jurisdictions operate with uncertain tax base characterized with not all rateable properties registered in the valuation rolls, but some under flat rate taxation and unknown numbers missing from either of the two categories. The rating valuation projects undertaken have not captured all taxable properties for inclusion in the tax system. It is undisputable that rating valuation has had significant contribution to putting in place valuation rolls and enabled the rating jurisdictions in Dar es Salaam to collect property tax. However, property tax amounts actually collected are below the levels that would be achieved if all rateable properties in the rolls were made to comply with the tax obligation. It is important to note that the investment in rating valuation is yet to realise the required results.

Apart from the low capacity by the rating authorities to collect the tax, there are good numbers of potential rateable properties left out of the tax net, properties taxed on flat rate basis and those unknown to the tax authorities, which escape the tax liability. Implicitly it is tricky for the rating authorities to project realistic revenue levels and measure performance with the uncertain size of the tax base. The issue of tax collection is critical and requires employment of an approach that will ensure efficiency if revenue levels are to increase and the investment in rating valuation is not wasted.
On the overall the various endeavors to improve the property taxation practice have had limited impact, reflecting weak tax administration approaches. It is important that the struggle towards capacity building for the rating authorities continues for improved property tax implementation.

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