

**Property Taxation in North-east Africa:  
Case Study of Ethiopia**

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## **Abstract**

The Lincoln Institute and the African Tax Institute (ATI ), located at the University of Pretoria, South Africa, have formed a joint venture to better understand property-related taxation in Africa. Its goal is to collect data and issue reports on the present status and future prospects of property-related taxes in all 54 African countries, with a primary focus on land and building taxes and real property transfer taxes. Each individual report aims to provide concise, uniform and comparable information on property taxes within a specific country or region, considering both the system as legislated and tax in practice. This paper provides a detailed case study of property taxation in Ethiopia.

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## **Introduction**

Land has a well noted prominent position in the legislative and economic history of Ethiopia.

“The system of land ownership was of crucial importance to the country’s economic and social life for besides determining questions of social class, it was the basis of administration, taxation and military service.”<sup>1</sup>

Major provisions related to property and taxation in the Constitution of the Federal Democratic Republic of Ethiopia of 1995 are as follows;

### **Article 40 The Right to Property**

(1) Every Ethiopian citizen has the right to the ownership of private property. Unless prescribed otherwise by law on account of public interest, this right shall include the right to acquire, to use and, in a manner compatible with the rights of other citizens, to dispose of such property by sale or bequest or to transfer it otherwise.

(2) "Private property", for the purpose of this article, shall mean any tangible or intangible product which has value and is produced by the labour, creativity, enterprise or capital of an individual citizen, associations which enjoy juridical personality under the law, or in appropriate circumstances, by communities specifically empowered by law to own property in common.

(3) The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the peoples of Ethiopia. Land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange.

(4) Ethiopian peasants have right to obtain land without payment and the protection against eviction from their possession. The implementation of this provision shall be specified by law.

(5) Ethiopian pastoralists have the right to free land for grazing and cultivation as well as the right not to be displaced from their own lands. The implementation shall be specified by law.

(6) Without prejudice to the right of Ethiopian Nations, Nationalities, and Peoples to the ownership of land, government shall ensure the right of private investors to the use of land on the basis of payment arrangements established by law. Particulars shall be determined by law.

(7) Every Ethiopian shall have the full right to the immovable property he builds and to the permanent improvements he brings about on the land by his labour or capital. This right shall include the right to alienate, to bequeath, and, where the right of use expires, to remove his property, transfer his title, or claim compensation for it. Particulars shall be determined by law.

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<sup>1</sup> Richard Pankhurst, Economic history of Ethiopia, HIS University press, Addis Ababa, 1968, p. 135.

(8) Without prejudice to the right to private property, the government may expropriate private property for public purposes subject to payment in advance of compensation commensurate to the value of the property.

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### **Article 95 Revenue**

The Federal Government and the States shall share revenue taking the federal arrangement into account.

### **Article 96 Federal Power of Taxation**

(1) The Federal Government shall levy and collect custom duties, taxes and other charges on imports and exports.

(2) It shall levy and collect income tax on employees of the Federal Government and international organizations.

(3) It shall levy and collect income, profit, sales and excise taxes on enterprises owned by the Federal Government.

(4) It shall tax the income and winnings of national lotteries and other games of chance.

(5) It shall levy and collect taxes on the income of air, rail and sea transport services.

(6) It shall levy and collect taxes on income of houses and properties owned by the Federal Government; it shall fix rents.

(7) It shall determine and collect fees and charges relating to licenses issued and services rendered by organs of the Federal Government.

(8) It shall levy and collect taxes on monopolies.

(9) It shall levy and collect Federal stamp duties.

### **Article 97 State Power of Taxation**

(1) States shall levy and collect income taxes on employees of the State and of private enterprises.

(2) States shall determine and collect fees for land usufructuary rights.

(3) States shall levy and collect taxes on the incomes of private farmers and farmers incorporated in cooperative associations.

(4) States shall levy and collect profit and sales taxes on individual traders carrying out a business within their territory.

(5) States shall levy and collect taxes on income from transport services rendered on waters within their territory.

(6) They shall levy and collect taxes on income derived from private houses and other properties within the State. They shall collect rent on houses and other properties they own.

(7) States shall levy and collect profit, sales, excise and personal income taxes on income of enterprises owned by the States.

(8) Consistent with the provisions sub-article 3 of Article [98](#), States shall levy and collect taxes on income derived from mining operations, and royalties and land rentals on such operations.

(9) They shall determine and collect fees and charges relating to licenses issued and services rendered by State organs.

(10) They shall fix and collect royalty for use of forest resources.

### **Article 98 Concurrent Power of Taxation**

(1) The Federal Government and the States shall jointly levy and collect profit, sales, excise and personal income taxes on enterprises they jointly establish.

(2) They shall jointly levy and collect taxes on the profits of companies and on dividends due to shareholders.

(3) They shall jointly levy and collect taxes on incomes derived from large-scale mining and all petroleum and gas operations, and royalties on such operations.

### **Article 99 Undesignated Powers of Taxation**

The House of the Federation and the House of Peoples' Representatives shall, in a joint session, determine by a two-thirds majority vote on the exercise of powers of taxation which have not been specifically provided for in the Constitution.

### **Article 100 Directives on Taxation**

(1) In exercising their taxing powers, States and the Federal Government shall ensure that any tax is related to the source of revenue taxed and that it is determined following proper considerations.

(2) They shall ensure that the tax does not adversely affect their relationship and that the rate and amount of taxes shall be commensurate with services the taxes help deliver.

(3) Neither States nor the Federal Government shall levy and collect taxes on each other's property unless it is a profit-making enterprise.

Ethiopia adopted a federal form of government after its constitution of 1995. The Federal Constitution indicates the power of the federal and constituent members of the federation. Nine states are indicated in the constitution as members of the federation. Addis Ababa is indicated as a federal capital and with the full measure of self-government under Article 49 of the Constitution. Addis Ababa is the capital city

of the country with about 3 million residents. The second largest city, Dire Dawa has only one tenth of the residence of the metropolis.

The pre-dominant position on land in the post 1975 period of Ethiopia is along public ownership. Individuals obtain the use right through the payment of land rent or lease payments as the case may be. The discussion of property taxation in Ethiopia is based on the review of regulations, cases and other pertinent data and documents collected from the sampled cities including Addis Ababa.

## **1. Annual Property Tax in Ethiopia**

The status of both urban and rural lands in Ethiopia is under public ownership. Thus, it is only the use right on the land that one acquires from public authorities. Buildings can be privately owned and there are lots of publicly owned buildings mostly, those nationalized during the pro-socialist governance period from 1975 to 1991. The current property taxation framework in Ethiopia is briefly discussed hereunder.

### **1.1 Tax Base and Taxpayer**

Tax base refers to the reference used for the determination of the annual property tax. Here, the Ethiopian law recognizes that only property owners not lessees, public or private, are required to pay property tax. Thus, the tax base considers the size of the plot under possession and the annual rental value of the privately owned property. (Urban Land Rent and Urban Houses Tax Proclamation No. 80/1976)

According to Article 5 of the Proclamation, a legal possessor of urban land is required to pay annual land rent that is to be assessed on the basis of the size of the plot and location of the plot in the concerned city, to be categorized as Grade 1, 2, or 3. The Proclamation clearly indicates that the plot used for the construction of residential or commercial purposes would be treated differently. With respect to the property tax payable on urban houses, the Proclamation stipulates that the percentage of the annual rental value of the concerned house will be used as a basis for determination. The schedule attached to the Proclamation specifically indicates that for the annual rental value of up to ETB 600; 1% tax rate applies. It defines the rate progressively with the increase in the annual rental value and recognizes 4.5% rate for values that exceed ETB 6,000.

### **1.2 Valuation and Assessment**

The valuation and assessment of annual property tax begins with the assumption that land is extra-commercial. Thus the land rent is a nominal amount. The annual rental value of buildings is determined again without appreciating rent as an investment return. The Proclamation itself and the thinking this socialist legislation considered rent as exploitative in nature. Thus the annual assessed rental value of properties for tax purposes was far below the market rate.

### **1.3 Rates setting and Tax Relief**

Rate setting depends on two factors; plot size (for land rate) and assessment of annual rental value (for building tax). Article 6 of Proclamation 80/1976 stipulates that land



rate shall be based on the grade of the land. To this effect, cities define the grading of urban land in light of the infrastructure and urban growth preference. The annual rental value of a given house is estimated by government institutions (Ministry of Public Works and Housing) or other persons or organizations designated by the Ministry where it appears to be more than ETB 100. Where the annual rental value of the property appears to be less than ETB 100, the estimation could be made in cooperation with the local government institution at the urban center (named as Cooperative Societies of Urban Dwellers).

The rate set by governmental institutions involving the local government shall be submitted to the concerned city so that the property tax differently assessed for land and structures could be implemented. The Proclamation, on Article 14, states the scope of exemption from land rent and property tax.

The exemptions are made to:

- a. Public Roads, Squares, Recreation and Sports Centers and cemeteries
- b. Places of worship and their compound, non-profit making private schools, hospitals, charitable institution
- c. Government institutions drawing their budgets from the central treasury

Further more, properties with annual rental value less than ETB 300 are provided exemption.

#### **1.4 Tax administration**

Tax administration covers the tasks of billing and collection. Article 7 of Proclamation 80/1976 states that notification of assessed property tax shall be given by the city administration to the tax payer through registered mail or in person. With no street based postal addressing practice in Ethiopia and the lack of efficient postal system linked with effective property owners identification, notification to the property owner through direct handover is the practiced option. Consistent with the procedure of providing summons, delivery to the property owner is given priority. Failing this, the Proclamation recognizes delivery to “any adult member of his family or to his agent at his residence”. This is a form of substituted service. The receipt of the notice by any adult member of the family or agent of the property owner could legally be considered as a notice given to the property owner. The law requires that the receiver of the notice (either in person or substituted) shall sign a receipt to verify same. This document serves as evidence in case where the reception of the notice is contested. In case where the tax payer himself or his substitutes refuse to accept the notice, the tax administrator has the power to affix the notification at the entrance of the property or publish a notice in official newspapers requiring the tax payer to attend the tax office to receive the notification. The law clearly indicates the costs incurred for publication shall be borne by the tax payer. However there is a wide gap between the detailed property tax administration procedures and the practice.

## **2. Income tax related to properties**

### **2.1 Legislation review**

Ethiopia has a unified income tax legislation issued as Income Tax Proclamation No. 286/2002. This Proclamation provides for the taxation of income in accordance with four schedules, as follows:

- 1) Schedule ‘A’, income from employment;
- 2) Schedule ‘B’, income from rental of buildings;
- 3) Schedule ‘C’, income from business, but not including activities covered by the Rural Land Use Fee and Agricultural Activities Income Tax Proclamations issued by regional states;
- 4) Schedule ‘D’, other income including income from:
  - (a) royalties;
  - (b) income paid for services rendered outside of Ethiopia;
  - (c) income from games of chance;
  - (d) dividends;
  - (e) income from casual rental of property;
  - (f) interest income;
  - (g) specified non-business capital gains.

We consider here the tax related to income from properties.

## 2.2 Tax base and Taxpayer

The provisions in Proclamation No. 286/2002 as related to property ownership and rental are referred to as follows;

### Section III

#### Schedule ‘B’ Income from Rental of Buildings

##### 14. Taxable Income

Income tax shall be imposed on the income from rental of buildings.

##### 15. Tax Rate

The tax payable on rented houses shall be charged, levied and collected at the following rates:

- (a) on income of bodies thirty percent (30%) of taxable income,
- (b) on income of persons according to Schedule B (hereunder)

#### Schedule ‘B’

##### 16. *Determination of Income*

1) Income from rental of building shall be computed as follows:

- (a) if the tax payer leased furnished quarters the amounts received attributable to the lease of furniture and equipment shall be included in income.

<b>Taxable Income from Rental (per year)</b>		<b>Income Tax payable (%)</b>
<b>Over Birr</b>	<b>to Birr</b>	
0	1800	exempt threshold
1,801	7,801	10
7,801	16,800	15
16,801	28,200	20
28,201	42,600	25
42,601	60,000	30
Over 60,000		35

## 16. *Determination of Income*

1) Income from rental of building shall be computed as follows:

(a) if the tax payer leased furnished quarters the amounts received attributable to the lease of furniture and equipment shall be included in income.

(b) sub-lessors shall pay the tax on the difference between income from sub-leasing and the rent paid to the lessor, provided that the amount received from the sub-lessor is greater than the amount payable to the lessor.

(c) the following amounts shall be deducted from income in computing taxable income:

(i) taxes paid with respect to the land and buildings being leased; except income taxes; and

(ii) for taxpayers not maintaining books of account, one fifth (1/5) of the gross income received as rent for buildings, furniture and equipment as an allowance for repairs, maintenance and depreciation of such buildings, furniture and equipment;

(iii) for taxpayers maintaining books of account, the expenses incurred in earning, securing, and maintaining rental income, to the extent that the expenses can be proven by the taxpayer and subject to the limitations specified by this Proclamation; deductible expenses include (but are not limited to) the cost of lease (rent) of land, repairs, maintenance, and depreciation of buildings, furniture and equipment in accordance with Article 23 of this Proclamation as well as interest on bank loans, insurance premiums.

2) The owner of a building who allows a lessee to sub-lease is liable for the payment of the tax for which the sub-lessor is liable, in the event the sub-lessor fails to pay.

3) At the earlier of the time construction of a rental building is completed or when the building is rented, the owner and the builder are required to notify the administration of the kebele in which the building is situated about such completion and the name, address, and tax identification number of the person (or persons) subject to tax on income from rental of the building. The kebele administration has the obligation to communicate this information or information obtained by the administrations own initiative to the appropriate tax authority.

## 35. *Income from Rental of Property*

Every person deriving income from the casual rental of property (including any land, building, or moveable asset) not related to a business activity taxable under Article 17 shall pay tax on the annual gross income at the rate of fifteen percent (15%). This tax is a final tax in lieu of a net income tax.

### **2.3 Valuation, Assessment and Tax administration**

Apart from the legislation, the declared amount of rent income is based on the arms length negotiation of the two parties, the owner/lessor and the lessee. The tax authorities use the negotiated amount of rental income as a basis for valuation of tax.

The billing and collection of rental income tax is executed by the local government.

Proclamation No. 361/2003, The Addis Ababa City Government Revised Charter Proclamation, provides the city government the authority to collect and administer taxes on buildings and property in the city. Similar powers are given to the cities in other regions. For instance Nazareth, Awassa, Diredawa, Mekelle and Bahrdar have the power to administer the rental income tax in their respective urban domain.

With respect to the rental income tax, the billing commences with the knowledge of the tax office about the fact of rental of a given property. Based on the declared contract between the lessor and lessee and the applicable rates, the billing is dispatched to the owner of the building. In this setting, the problem of understating the amount of rental income through collusion of the contracting parties is a common challenge undermining the revenue base. The lack of systematic property registration and follow up by the tax administration system and failure of declaration of rental income by property owners contributes for a large part of forfeited revenue from rental income tax.

### **3. Property Transfer Tax**

#### **3.1 Tax Base and Taxpayer**

In case where property is transferred to another, in sale or gift, there is a legal requirement to the effect that stamp duty be paid for such transactions. The Stamp Duty Proclamation No. 110/1998 specifies that the buyer of an immovable property shall pay stamp duty at the rate of 2% of the sales amount. Therefore, title transfers on buildings are effected through land administration organs after collecting the above amount on the sale of buildings.

Property transfer tax base is the sales price of the property as agreed between the transacting parties. However, there is an estimate price for buildings that could be checked from the records of the government offices. Where the negotiated price is below the estimate kept by the government office, the tax will be based by the estimate of the government office. This measure appears to discourage underestimation of the price to avoid tax obligations.

For residential buildings, property transfer tax of 6% is payable by the buyer. The rate is 21% for commercial buildings. Title transfer of buildings and vehicles is valid only upon getting registered in the concerned government office, and the buyer is required to settle the property transfer tax.

It is worthwhile to note here the May 2007 controversial ruling of the cassation Bench of the Federal Supreme Court in the case between *Gorfe Gebre Hiwot and Aberash Dubarge et.al.* (File. No. 21448). The court held that a contract of sale of an immovable can only be valid if both the requirements as to writing and registration before a court or a notary are met with. Under the provisions of Article 1723 (1) of the Civil Code, a contract creating or assigning rights in ownership of an immovable has to satisfy two requirements in order to be valid. The first requirement relates to written form; the contract has to be rendered in writing. The second is that it should be registered with a court or notary. Since a contract of sale is one of the ways through which a right of ownership is transferred, it is included within the ambit of this provision. As a result, a contract of sale of an immovable can only be valid if

both the requirements as to writing and registration before a court or notary are satisfied.

### **3.2 Rate setting and tax relief**

Transfer tax is applied for both buildings and vehicles. The transfer may be a transaction or gratuitous. In case of properties, value assessment of the engineer from the public office is used as a reference for the determination of the base for the transfer tax. One idea behind a public officer valuing property transactions is to discourage the transfer of vacant plots of land.

### **3.3 Tax administration**

Upon receiving the contract or judicial order on the transfer of a building or vehicle, the government office for this task pursues the billing and collection of the property transfer tax. As both the transferor and transferee are available in most contractual settings, tax collection is usually not complicated. Even when only one of the parties appear after processing the sales or donation contract before a public notary or court of law, the transferee could get the title transfer service upon settling the transfer tax.

### **3.4 Other comments**

Article 37 of income tax proclamation 286/2002 has the following provisions.

#### *Gain on Transfer of Certain Investment Property*

- 1) Income Tax shall be payable on gains obtained from the transfer (sale or gift) of property described in this Article at the following rates:
  - (a) building held for business, factory, office 15% (fifteen percent)
  - (b) shares of companies 30% (thirty percent)
- 2) Gains obtained from the transfer of building held for residence shall be exempt.
- 3) The basis for computation of gains obtained from the transfer of properties described in this Article shall be determined by Regulations to be issued by the Council of Ministers.
- 7) Any person authorized by law to accept, register or in any way approve the transfer of capital assets shall not accept, register or approve the transfer before ascertaining that the payment of the tax has been duly effected in accordance with this Article.

## **4. Value-Added Tax (VAT) and Turnover Tax (TOT)**

The Value Added Tax Proclamation 285/2002 imposes a 15% tax rate on each sales transaction. In accordance with article 8 (2) (a) of the Proclamation the sale or transfer of a used dwelling or the lease of a dwelling is exempted from VAT.

The Turnover Tax Proclamation No. 308/2002 imposes a tax of 2% on goods sold locally. The introduction of the turnover tax (TOT) as described in its preamble states that, administrative feasibility considerations limit the registration of persons under the value-added tax to those with annual taxable transactions the total value of which exceeds 500,000 Birr; and an equalization turnover tax imposed on persons not registered for value-added tax allows them to fulfill their obligations and also

enhances fairness in commercial relations and makes complete the coverage of the tax system.

Article 7 (1) of the Proclamation exempts the sale or transfer of a dwelling used for a minimum of two years or the lease of a dwelling from TOT.

#### **4.1 Tax base and Tax payer**

The tax base for the sales transaction involving houses is the sales price. VAT and TOT being indirect taxes, the buyer is expected to pay the tax.

#### **4.2 Tax rate**

The tax rate for VAT is 15% while it is 2% for TOT. It is required to be collected from the buyer and be transferred to the tax authority by the seller.

#### **4.3 Tax administration**

In relation to VAT & TOT, the tax authority benefits from the collection responsibilities of the seller of goods and services. Section 7 of the VAT proclamation and section 3 of the TOT proclamation provide detailed administrative procedures respectively. In cases where VAT or TOT obligation is not duly settled, the tax authority can issue an order to secure the concerned property with an effect of legal mortgage on the property. The tax authority could also exercise seizure of the property to get the debt settled. This arrangement gives the tax authority greater latitude to ensure payment of debts. There is a procedure for review of the actions of the tax authority. The person who objects the decision of the tax authority is duty bound to prove that the assessment or the procedures followed were wrong. Tax evasion is also considered as crime.

### **5. Legal and administrative practices in property taxation**

The preceding part briefly reviewed the various laws related to property taxation. The legal and administrative practice on these legislations is noted as follows.

#### **5.1 Legal issues**

Following the February Revolution of 1974, all rural lands were nationalized by a Proclamation of March 4, 1975. (Public Ownership of Rural Lands Proclamation, No. 31/1975). This was soon followed by the nationalization of all urban lands and extra houses by a Proclamation of July 26 of the same year. (Government ownership of Urban Lands and Extra Houses Proclamation, No. 47/1975). The rural lands nationalization Proclamation declared that all rural lands are “the common property of the Ethiopian People” and that, henceforth, no person or business organization or any other organization may hold rural lands in private ownership. The Government Ownership of Urban Lands and Extra-Houses Proclamation too, in the same vein, proclaims that all urban land is the property of the Government and that no person, family, or business organization may thus hold urban land in private ownership.

The Constitution presently in force, the Constitution of the Federal Democratic Republic of Ethiopia of 1995, endorses the principles underpinning the above proclamations. Article 40 (3) states, in no uncertain terms, that: “The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the peoples of Ethiopia. Land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange.” As a result, no significant change has been made in the land holding system ushered in by the earlier Proclamations as regards the modes of acquiring as well as the use and transfer of both rural and urban lands. (See the Federal Rural Land Administration Proclamation, No. 89/1997.)

The re-enactment of Urban Lands Lease Holding Proclamation No. 272/2002, creates another system of land holding, *the leasehold*, and seems to suggest that this will be the exclusive system in times to come. Lease is defined as a “leasehold system in which use right of urban land is transferred or held contractually” (Art. 3(1)). An urban land shall be permitted to be held by lease “on auction or through negotiation” or “according to the decision of Region or City Government” (Art. 4) A leasehold title deed shall be conferred on a person to whom urban land is so permitted. The leasehold possessor may transfer his right of leasehold, mortgage it, and may also use it as a capital contribution to the amount of the lease payment he has made. A leasehold is thus equivalent to *ownership* of the land *for a slice of time*.

Condominium Proclamation No. 370/2003 was enacted to address the acute housing shortage in urban areas in an attempt to create favorable conditions to individuals to build their own houses by pooling their limited resources and those with the means to invest in the sector to ameliorate the existing conditions.

The idea that land belongs to the people and is thus *extra commercium* whereas houses could be objects of private ownership and thus *subject to commerce* is at best a legal fiction (see Yohannes Heroui, *Ethiopian Bar Review*, Vol. 2 No. 2, March 2008, p.74). The legal issue of separability of land from the structure built on it is controversial. In actual fact, what is the subject of transfer in consideration or in gratuity in relation to buildings is the actual location and the structure in unison or inseparably.

What the financial institutions obtain as a mortgage and even float for auction upon foreclosure is largely the vacant plot or location of the plot rather than the built up brick and mortar. The politico-legal anomaly ignores to acknowledge the significant socio economic factor of locations in property values. The effect of such a fictitious stand adversely affects the practice of transparent property taxation.

The significance of property taxation in terms of serving as a source of local government revenue and as means of providing basic services to urban residents is undermined.

The other significant problem in relation to property taxation is the sheer magnitude of informal property ownership in urban centers. Transactions in this market are outside of the domain of the tax authorities and the systematic registration of all properties is a long overdue task. The proliferation of informal property ownership is directly attributed to the vague politico-legal definition in practice which attempts to separate the land and the buildings on it. The social and economic prism of the state

of affairs favors informal property transactions no matter how risky it appears. So long as houses in the informal sector are freely bought and sold, as is presently the case in the towns, it is actually the land too which is qualified as “public property” that is being bought and sold. And taxation related to property needs to address this fact and tuned accordingly.

## 5.2 Administrative issues

Property tax being a local tax and a revenue source for local government destined for the provision of urban services, the tax administration side highly depends on the unbalanced tax policy aspect that undermined the importance of property taxation.

Urban local governments are not that assertive in terms of identifying the tax payers and serving tax notices. The land rent being calculated on the basis of plot size and the location factor that has a direct link with the property market and urban services is not usually up to date. There are cases where the plot size and annual rental value of properties in the public record before long ago are still in use.

Lack of integrated approach and absence of assertive management for maximum revenue from property related taxes is the fact in Ethiopia. This is due to clear policy gaps with respect to property tax and absence of administrative capacity by regions and local government. A case in point is the fact that the only guiding legislation for property taxation up to now is Urban Land Rent and Urban Houses Tax Proclamation No. 80/1976. This legislation served for thirty years and there are lots of legal, political, economic and social changes that demand revision in the property tax framework.

Lack of transparency in the administration of property taxes and their weak enforcement contribute to lower level of compliance to the law. This has in turn resulted in the limited contribution of property tax to local government revenue.

According to data obtained from Urban Information Center of Addis Ababa City Administration, from a total of 380,318 buildings, about 172,061 or 45.2% are excluded from property tax coverage. This figure could be taken as descriptive of similar trends in other urban centers.

<b>Fiscal year</b>	<b>Revenue from property tax (million Birr)</b>	<b>Total revenue (million Birr)</b>	<b>Total expenditure (million Birr)</b>	<b>% of property tax from revenue</b>	<b>% of property tax from expenditure</b>
2000	14.12	729.47	404.53	1.92	5.8
2001	13.76	830.50	458.11	1.68	5.0
2002	13.69	879.02	488.60	1.59	4.8
2003	12.03	905.53	569.00	1.32	3.5
2004	16.17	1642.94	705.84	0.97	3.7

Source: Finance and Economic Development Bureau of Addis Ababa Administration.

In light of the international experience (see Roy Bahl *et al* Experiences in Developing and Transitional Economies), the ratio of property tax to expenditure for developed countries in 2000 was 18.37% and for transition economies it was 9.43%. The Ethiopian average of 4.56% is far below the above figures. In terms of the revenue potential of the property tax, the above Table shows that Addis Ababa collected



below 2% of its revenue from property tax and this reveals that there is a lot of room for improvement.

## **6. Annexes**

1. Government ownership of Urban Lands and Extra Houses Proclamation No. 47/1975.
2. Urban Land Rent and Urban Houses Tax Proclamation No. 80/1976.
3. Addis Ababa Land Rent and House Tax Regulation No. 36/1976.
4. Constitution of the Federal Democratic Republic of Ethiopia, Proclamation No. 1/1995.
5. Federal Rural Land Administration Proclamation NO. 89/1997.
6. Stamp Duty Proclamation No. 110/1998.
7. Re-enactment of Urban Lands Lease Holding Proclamation No. 272/2002.
8. Value Added Tax Proclamation No. 285/2002.
9. Income Tax Proclamation No. 286/2002.
10. Turnover Tax Proclamation No. 308/2002.
11. Addis Ababa City Government Revised Charter Proclamation No. 361/2003.
12. Condominium Proclamation No. 370/2003.
13. ATI Country Template for Ethiopia.