

**Property Taxation in Anglophone East Africa:
Case Study of Tanzania**

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Abstract

The Lincoln Institute of Land Policy and the African Tax Institute (ATI), located at the University of Pretoria in South Africa, are awarding Research Fellowships to African Scholars through a joint partnership to undertake research on property related taxation in all 54 African countries. The goal is to collect relevant data regarding all forms of property taxation and property tax systems, focusing primarily on land and building taxes and real property transfer taxes. The research seeks to determine the importance of property taxation as sources of national and municipal revenue and issue reports on the present status and future prospects of property-related taxes. Each report aims to provide concise, uniform and comparable information on property taxes as legislated and executed within a specific country. This paper provides a detailed review of property taxation in Tanzania.

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Property Taxation in Anglophone East Africa: Case Study of Tanzania

Research Scope and Methodology

Introduction

This report presents a detailed discussion of the administration of property-related taxes in Tanzania.

Objectives

The prime objective of the research is to present a comprehensive review of the property-related taxes in Tanzania. Specifically the research seeks to:

- Develop a comprehensive template to collect data regarding all forms of property taxation in Tanzania that could be updated and maintained with relative ease
- Report on property tax systems as legislated and practiced in Tanzania.
- Establish the importance and extent of property taxes as sources of national and/or municipal revenues.
- Comment on the future role of property taxation in the country
- Highlight general trends in the application of property taxation in Tanzania

Methodology

Research methodology is usually shaped by a number of factors, including the nature of the problem to be investigated and the type of information to be generated. The methodology for obtaining the primary and secondary data for this particular study comprised a number of steps and a combination of data collection techniques.

Data Collection

This study recognizes the fact that there are significant differences in how land and property are taxed across and within countries; it is often the case that the greater the degree of local discretion in establishing the tax base and setting the rates, the more diverse are property taxes within a country. The Researcher spent a period of one month (September 2009) conducting interviews with officials in the Ministries of Lands, Housing and Human Settlements Development and Finance respectively, as well as with officials of the Ilala Municipality in Dar es Salaam.

A survey of written material was also undertaken, during which relevant documents, reports and literature in relation to property related taxation were reviewed. This provided the secondary data, some of which formed the background material to the report.

Scope of the Data

An attempt was made to obtain accurate and current data on the following key areas in Tanzania.

- A brief country description providing appropriate background statistics (e.g. geographic size, population, constitutional makeup, urbanization, etc.)
- Property-related taxes: national and sub-national
- Property-related tax base provided by legislation and used in practice
- Valuation and assessment procedures and practices, including valuation cycles, objections, and appeals
- Tax rates
- Exemptions and tax relief mechanisms
- Collection procedures and practices
- Enforcement procedures and practices

Data Analysis

The basic properties of the property tax systems in Tanzania were analyzed in the context of the following key areas or ratios:

- Coverage, i.e. the number of properties taxed as a percentage of the total number of properties
- Tax base, i.e. condition that gives rise to taxation.
- Assessment as stated in the various legislations. (The number of registered valuers and their responsibility for valuation rolls were also ascertained.)
- Analytical approach and deductive reasoning is applied because a detailed understanding of the complicated relations is required.

Structure of the Report

For the purpose of this specific report, detailed and up-dated information on property related taxation in Tanzania are provided. The report comprises of background information on the country and a discussion on the implementation of property – related taxes in the country.

Presentation of Research Findings

This section presents the research findings as per the objectives of this study and as supported by the data collected.

Basic Country Information on Tanzania

Tanzania (The United Republic of Tanzania) is located in East Africa, just south of the equator. It consists of two formerly independent states: Tanganyika (now known as Tanzania mainland) and Zanzibar.

Tanganyika was granted independence on December 9, 1961; Zanzibar achieved its independence on December 10, 1963. The two united to form the United Republic of Tanzania less than four months later on April 27, 1964. Mainland Tanzania lies between the area of the great lakes—Victoria, Tanganyika, and Malawi (Niassa)—and the Indian Ocean. It is bounded on the north by Kenya, on the east by the Indian Ocean, on the south by Mozambique and Malawi, on the southwest by Zambia, on the west by Zaire, and on the northwest by Uganda, Rwanda and Burundi, with a total boundary length of 4,826 km (2,999 miles). 1,424 km (885 miles) of its border is coastline. Tanzania claims part of Lake Malawi, although its internationally recognized boundary is the eastern shore.

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

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

Tanzania has two capital cities, Dodoma (administrative), and Dar es Salaam (commercial), which is located on the Indian Ocean coast. The secondary towns are Arusha, Iringa, Mbeya, Moshi, Morogoro, Mwanza, Tabora and Tanga. According to 2002 population census, Tanzania's population is 35 million and is projected to reach 45 million in 2009. The population comprises over 130 ethnic groups. The official languages are Swahili and English. Tanzania mainland is divided into 21 regions and 106 administrative districts.

Tanzania has been experiencing a rapid rate of urbanization (nearly 8 percent per annum). The urban population reached 23 percent in 2002, up from 5 percent in 1967 (GOT 2002), and currently estimated to be 36 percent. The GDP per capita at current price was estimated to be USD 1,300 in 2007. Tanzania's main economic base is agriculture.

The Government Structure in Tanzania

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

National Government

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

Local Government in Tanzania

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

Land Use and Land Tenure System

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

Categories of land

The surface area of Tanzania is 94.3 million ha, only 5 percent (5.1 million ha) of which is cultivated. An area of twice this size (10 million ha.) is arable land, but it is not cultivated; most of it is used instead as pasture by stock farmers. Tanzania holds almost a quarter of its surface area (23%) in reserve, which is more than any other country in Sub-Saharan Africa (URT, 2007).

Land use in Tanzania

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

Reserved land

Reserved land refers to all land set aside for special purposes (preserved forests, game parks, and reserves). It also refers to any land reserved for highways and public utilities, land designated under the Town and Country Planning Ordinance, or hazardous land.

Village Land

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

General land

“General land” is all land that is not reserved land or village land. However, the Land Act also includes the phrase “unoccupied or unused village land” in its definition, which leaves some ambiguity (quoted in Sundet, 2005:3). The definition of “general land” in the Village Land Act does not include the last part of the sentence.

Land Tenure system

At present, there exists a dual land tenure system, consisting of both statutory and customary rights of occupancy; public land is vested in the president as trustee. Customary tenure system only applies in rural areas or registered villages within the urban areas. A certificate of occupancy provides explicit security of tenure.

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

After independence in 1961, Tanzania’s government inherited the conceptual and major part of the legal framework and land tenure from the Colonial period (URT, 1994). Thus, even after independence, land remained ‘public land’ and vested in the state as declared by the Colonial Land Ordinance. Tanzania’s newly independent government converted the colonial (largely German) freeholds into government leaseholds under the Freehold

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

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

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

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

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

Historically, property transactions were restricted, and only in recent years has the number of properties changing hands been increasing. However, people have been unwilling to disclose the actual prices at which their property sold. Even though there have been restrictions in transacting landholdings under formal ownership, it has been easy to sell land in informal settlements where conditions attached to granted right of occupancy do not apply. As a result of restrictive land laws, the property market has not been active enough to generate market sales data for use in valuation. Thus scarcity of market data has a negative impact upon the real property valuation practice.

Overview of the Property Market in Tanzania

The operations of the land and property markets are largely formal, particularly in the urban areas as property transactions take place within a formal registration process. The property market has been fairly active since the Land Amendment Act No. 2 of 2004.

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

Overview of the Tax System in Tanzania

National Tax Structure

Tax administration in Tanzania is highly centralized and is undertaken by the Tanzania Revenue Authority (TRA) within the Ministry of Finance. There are a variety of taxes in Tanzania, both national and local. The national taxes include personal income tax, value added tax (VAT), excise and customs duties, stamp duty, capital gains tax and corporation tax.

Local Authority Taxes

Local authority taxes in Tanzania include the property tax, business licenses, building permit fees, development levies, hotel levies, and bus terminal fees, among others.

Property-Related Taxes in Tanzania

The property-related taxes and dues administered in Tanzania include land (ground) rent, stamp duty, capital gains tax, and property tax (called “rates”). With the exception of the rates, the taxes are collected by Tanzania Revenue Authority (TRA). The assessment of the tax payable is performed by the Valuation Division within the Ministry of Lands.

Land Rent

Land rent is payment for the right to use and occupy any parcel of land. It is charged to the holder of granted Rights of Occupancy throughout Tanzania. District Councils are responsible for enforcing and collecting land rent on behalf of the Ministry of Lands, Housing and Human Settlement Development (MLHSD). Land rent is collected annually. Unpaid land rent for a period of six (6) months after the due date incurs interest at the rate of 1 percent per month.

Land rent in Tanzania can be traced back to the colonial period under the Land Ordinance Cap. 113 of 1923 (repealed), under which persons holding a right of occupancy were obliged to pay land rent. The same legislation empowered the President to grant a Right of Occupancy free of rent to a non-native if the land was to be used for the purposes of religion, a cemetery, a crematorium, or a non-profit educational or health service. Since the colonial era to the present day, land rent has continued to be levied on parcels of land held under right of occupancy, and is currently levied under Section 33 of the Land Act No. 4 of 1999. Section 33 (1) of the Land Act prescribes that:

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

Land rent payable is determined by the Commissioner at the MLHSD with regards to:

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

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

Table 1.0 – Land Rent Schedule for Kinondoni Municipality

Zone	Subject Area	Uses	Rates in Tshs per M ²
Outside CBD	Usino Estate	Residential	40/=
		Commercial/Residential	60/=
		Commercial/Service Trades	120/=
	Oyster Bay	Residential	50/=
		Commercial/Residential	75/=
		Commercial/Service Trades	150/=

Source: Handbook on Land Rent Rates for Tanzania Mainland.

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

Land rent in Tanzania is shared revenue, levied by the central government. Local government authorities are allocated 20 percent of the annual collections. Even though every landholder is required to pay land rent, the use of the resultant revenue is unclear. Similarly, the reason for the allocation of 20 percent of the revenue to local government authorities is unclear. This is an issue that requires further research if one is to understand the use of the land rent revenue, since property taxpayers have shown concern for land rent they consider is a double taxation for the same tax base. For example, property owners in Morogoro Municipality complained to the government about paying both a property tax and a land rent for the same property (reported in *Majira Newspaper*, January 16, 2003). While land parcels with certificates of title or letters of offer are subjected to both land rent and property tax payment, landholdings under informal arrangements are excluded from paying land rent (Kayuza, 2006).

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

Stamp Duty

The stamp duty or property transfer tax is governed by the Stamp Duty Act of 1972. It is levied and payable upon the acquisition and transfer of real property, or rights in or to such property, located within Tanzania. It is based on the fair market value of the property. The tax is computed at the rate of 1 percent of the fair market value of the property, but never on a value lower than the sale price.

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

Capital Gains Tax

The capital gains tax is a tax paid on the profit of an investment in land or in a building. It is governed by Section 90 of the Income Tax Act, Chapter 332 Revised Edition of 2006. The TRA is responsible for the assessment. Tax rates on the disposal of property are either (a) 10 percent of the gain for a resident person, or (b) 20 percent of the gain upfront payment for a non-resident person. The capital gains tax is not a final tax as it falls under the investment income as opposed to business or employment income as provided for under tax systems.

Property Tax (i.e. Rates)

Property rates in Tanzania are levied by local government councils. The imposition of rates is governed by the Authorities (Rating) Act of 1983 and Local Government Finance Act of 1982. The tax is based only on the value of improvements, i.e. manmade structures. It is applied on all properties in both urban and rural areas. The tax payer is the ratable property owner, tenant, or occupier.

According to the rating law, building or improvements on the land constitute a taxable object in Tanzania, while land is excluded from property taxation. Property tax is therefore levied on the market value of only buildings or improvements. In order to ascertain the market value for taxation purposes, the building value is assessed so as to establish the ratable value of the property, which excludes the value of land. Land value is excluded from the ratable value because according to the Land Act No. 4, of 1999, land in Tanzania is the property of the state and the rights of an individual are limited to the unexhausted improvements to the land. Likewise the individual's tax liability is based on the value of investment in the parcel of land held. Thus the valuation of ratable property takes into account the value of buildings or improvements only. However, a property owner pays land rent for use and occupation of the held land to the landlord (in other words, the government).

Property Tax Coverage

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

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

Assessment Basis

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

Under the Urban Authorities (Rating) Act of 1983, Tanzanian urban and township authorities are also authorized to levy an ad valorem property tax. Although properties under the ad valorem system should be based on market values, all valuations are now based on the cost replacement approach because of the perceived lack of market value information. All properties not contained on the valuation rolls are taxed under the flat rating system. For instance, currently Dar es Salaam taxes about a third of their properties under the ad valorem system and two thirds of their properties under the simple flat rating system (Kelly, 2000).

Exemptions

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

- Property in the personal occupation of the President;

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

Furthermore, in accordance with Section 19, a council is authorized to exempt any tenement from paying rates subject to ensuring that there are other sources of revenue to compensate for the revenue of exempted property. Furthermore, a local government may reduce payment of a rate on account of the inability to pay it; or exempt any person or category of persons from liability to pay the rate. Additionally, the Minister is authorized under S. 13(5) of the LGFA, 1982 to exempt any category of persons from payment of any rate levied as per the provisions of the Act.

In 1997, the Prime Minister extended the power of the Minister responsible for local government administration to exempt property from the property tax by approving more property types for exemption status. This became effective in January 1998. Provision No.4 of the exemption order states that “the property and improvements within the area of jurisdiction of a Local authority specified in the schedule hereto and which in the opinion of the Minister are being used for public purpose are hereby exempted from liability of rates payable under the provisions of The Urban Authorities (Finance) Act.” The property and improvements specified in the schedule are:

- Property owned and used exclusively as office accommodation, laboratories and godowns (i.e. warehouse) by the government and its departments
- Government residential property used exclusively by government officers and employees
- Property used by or reserved for use by a Local Authority
- Property used exclusively for educational institution.
- Property owned by a religious institution not used in any way for commercial purposes.

A notable practice with the property tax system in Tanzania is the exclusion of government buildings from the property tax base, even though this exclusion remains unstated in the law. However, the responsible Minister is required to pay service charges in lieu of property rates but the central government has not been remitting finances to the local authorities in this respect. Because government buildings are numerous and occupy prime locations in urban areas, this has a significant impact on the size of the property tax base. In addition exemptions granted by the discretion of empowered government officials do not take into account the provision of Section 9 of the Rating Act. For example no consultations are made with the responsible council when the Minister

exempts a property from tax liability in order to establish the alternative source for compensating the revenue from the exempted property.

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

The range of exemptions needs to be more tightly controlled. At present the legislation confers extremely generous provisions, which are resulting in a significant loss of potential revenue to urban local authorities. For example, information supplied by Iringa council indicates that there are 333 government and educational properties and 49 buildings used for public religious worship. This represents approximately 3.7 percent of the total tax base (of 10,412 properties).

If one makes a broad assumption that these exempt properties are generally quite substantial and an estimated average value of TSh120 million per property is used, then the total ratable value is TShs 45.84 billion. Applying the tax rate of 0.4 percent (for non-residential properties), results in a potential revenue loss of TShs183 million (McCluskey and Franzsen, 2000).

Tax Rates

There are no uniform tax rates for the whole country. In Ilala Municipality, the rates are outlined for the various categories of properties – residential, commercial and industrial with the maximum and minimum rate per square metre. The rates are 0.15 percent for all property use categories whereas a rate of 0.2 percent applies in respect of non-residential properties in Ilala Municipality and Kinondoni Municipality.

Valuation (Tax Assessment Basis)

The Urban Authorities (Rating) Act of 1983 stipulates that property should be valued based on the capital market value of the premise or, where the market value cannot be ascertained, the replacement cost of the buildings, structures and other developments, adjusted for depreciation (section 22). To date, due to the perceived lack of market information, all valuation for rating is done using the cost replacement approach. The law provides for a maximum allowable depreciation rate of 25 percent. According to the Urban Authorities (Rating) Act (section 9), the property tax roll is to be valued every five years unless the responsible Minister approves less frequent revaluations. Relevant property data is reflected on a property data card. The Urban Authorities (Rating) Act also provides for supplementary valuations where changes occurred in respect of properties during a valuation cycle.

Tax Collection and Enforcement

While the local level valuation department is responsible for the valuation roll and issuance of the tax demand notices, the actual revenue collection activities are administered through the Town Treasurer's office. With the exception of Dar es Salaam

which introduced computerized billing for about 30,000 parcels in 1996, all tax demand notices are produced manually, creating problems of delay and transcription errors.

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

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

Despite the various legal provisions to enforce payment, collection rates appear to be quite low (e.g., less than 50% in Dar es Salaam). There are a variety of possible explanations for this low collection rate, including lack of taxpayer education/understanding, inadequate local services levels and even blatant resistance. Some attribute the low collection rates largely to lack of political will and administrative inefficiency. (Kayuza, 2006)

Improvement in the application of the legal provisions available for improving the collection ratio would improve revenue, equity and efficiency. There are four critical ratios that affect property tax performance: coverage, valuation, tax rate and collection. Although the tax policy concerning tax base definitions, exemptions, valuation standards, and collection/enforcement provisions are important, the efficiency of the property tax administration is of equal, if not more, importance. Consequently, the government must ensure that all buildings are on the tax rolls (i.e., improve the coverage ratio), that these buildings are valued close to market value (i.e., improve the valuation ratio), that the tax is assessed correctly (improve the tax ratio), and that the revenue is collected (i.e., improve the collection ratio). (Kelly and Musunu, 2000)

Objection and Appeals Procedures

After a valuation roll has been published it remains open for inspection at the offices of the rating authority. The rating authority is required to set a date for lodging objections, which should not be at least 23 days after the date of publication of the notice in the Gazette. A property owner, occupant or an appointed representative may inspect such a roll. The individual may submit a written complaint against the valuation to the rating authority in accordance with Section 13 of the Rating Act. The objection must be served on or before the date specified by the rating authority and must identify the concerned property, the value of the property as entered in the roll, the grounds for the objection, and the value the owner considers more appropriate.

The rating authority may also object to a property value entered into the roll or the omission of a property that should have been included in it. The objection is presented to

both the valuation surveyor responsible for the roll and the owner or occupant of the property or his appointed representative.

All objections are referred to the Rating Valuation Tribunal, which must determine the validity of all objections lodged in connection with the roll. The law provides for an appeal to the High Court against a decision of the Rating Valuation Tribunal on a point of the law but not against the amount awarded by the Tribunal or against a decision of the Tribunal as to whether the objection has been properly determined. Property owners are notified of the Tribunal's decisions after the hearings.

Determining Objections

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

Enforcement mechanisms

For those taxpayers who do not pay their property tax, the DSM bylaws provide for a 25 percent penalty per year or imprisonment for a term no more than one month, or both fine and imprisonment, or any other penalty as contained in the Urban Authorities (Rating) Act; this Act itself provides for a 1 percent per month interest penalty on all outstanding amounts (section 47). In 1999, the Urban Authorities (Rating) Act was revised to increase the level of fines and penalties to more appropriate levels in line with current economic conditions.

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

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

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

1. Penalty imposed at the rate not exceeding one percent per month or part thereof or the amount of rates that remain unpaid (Section 47 of the UARA, 1983)
2. Distrain upon the personal goods and chattels of the rates defaulter under Section 26 of UARA, 1983.
3. Instituting proceedings for the sale of the premises whose rates are in arrears in order to recover the amount due. (Section 29 UARA, 1983)
4. Recovery of unpaid rates through deductions from the defaulter's wage or salary by employers in accordance with Section 30 of the Local Government Finances Act, 1982.
5. A penalty of twenty five (25%) percent per annum of the amount of tax in arrears or imprisonment for a term not exceeding 12 months, or both. This is prescribed in the by-laws made under S. 13 and 15 (c) and (e) of the LGFA, 1982.
6. A fine not exceeding fifty thousand shillings or imprisonment for a term not exceeding three months to a person who fails or refuses to pay rates under the Local Government Finances Act (S. 21), 1982.

Although the law provides for enforcement instruments, councils find it difficult to implement them in enforcing property tax compliance. For instance, most local authorities find the procedures of court to be too time-consuming and costly. Given the resource constraints confronting rating authorities, enforcement of property tax compliance is an activity seldom undertaken.

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

Handling objections – practical examples

The Rating Tribunal is charged with determining objections lodged to a valuation roll or supplementary roll in accordance with the law. Under Section 11 (1) c of the Urban Authorities (Rating) Act 1983 the notice to publish the roll must state the date and specify the place at which the Tribunal will sit to determine any objections within twenty-one days after the appointed date for lodging objections. Despite this clear provision under the law the Tribunal has not been able to accomplish the responsibility in time. As an illustration, public notices for the Phase I valuation roll were given on September 23, 1994, stating the date of the valuation roll as January 1, 1995 and the date of valuation as November 7, 1993. Moreover the public notice had stated that the Rating and Valuation Tribunal would sit in Dar es Salaam for the purpose of determining objections at a date to be announced but which would not be earlier than November 20, 1994. However, it took 30 months (two and a half years) for the Tribunal to sit and decide on the objections. The sitting was only held in September 1997.

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

At the session of the Rating and Valuation Tribunal, both the valuation firm that undertook the rating valuation and the property owners who filed objections were invited to attend. The consultant valuer was required to attend in order to defend their valuation and respond to queries arising from the valuation roll. Surprisingly none of the property owners who had filed objection forms were present (Kayuza, 2006).

Capacity to Administrator Property Tax in Tanzania

The payment of property rates is the responsibility of any ratable property owner as provided for under Section 48 of the Urban Authorities (Rating) Act. In the absence of the owner of the ratable property, the rating authority is empowered to demand the amount due and payable rate from a tenant or occupier in accordance with Section 46 of the Urban Authorities (Rating) Act. The tenant or occupier is then entitled to recover the amount from either the property owner or the owner's successor in title. The collection of property tax is made possible by the billing, collection and enforcement procedures.

Valuation offices of the rating authorities are responsible for the preparation of the bills or demand notices, which are mailed or delivered by hand to the property owner. It has been observed that there is neither a statutory date for the billing, nor a statutory date for payment (McCluskey et al, 2003); rather, each rating authority specifies a due date on the demand notice sent to the ratepayer. The common due date is stated as thirty days from the date the notice was sent to the ratepayer. However, upon receiving a demand notice, the property taxpayer decides when to settle the tax liability, despite the 30 days period within which payment should be made.

Property tax rates are levied annually and in most instances payable in one installment. When the demand notice is sent to the taxpayer it states the due date that the whole annual amount of the property tax should be paid to the rating authority. However, the procedure of property tax collection has changed. For example, recently the Kinondoni Municipality in Dar es Salaam has outsourced the collection of property tax to the Tanzania Revenue Authority and the collection agent is paid a commission in return which is based on the amount of property tax collected. It is paid between 20-25% of the total amount of tax collected.

An Overview of Local Government Authorities Revenue Sources

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

The sources of revenue for local government authorities are broadly categorized as internal and external. Internal sources of revenue include all local taxes and miscellaneous receipts, while external sources constitute central government grants and borrowing. Previously the Local Government Finances Act, 1982 provided for fifty six revenue sources from which a local authority could choose. At present local authorities have less revenue sources at their disposal, since sources identified as “nuisance taxes” have been abolished. Table 2.0 below illustrates some of the revenue sources for urban local government authorities.

Table 2.0: Own Sources of Urban Local Government Revenue in Tanzania

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

Aggregated revenues from main sources of own revenue for Dar es Salaam Councils 1998 - 2002 Amount collected in TShs Millions
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Sources of revenue		1998	1999	2000	2001	2003
1	City Service Levy	2,705	2,723	2,879	3,849	4,328
2	Development Levy	1,385	1,695	1,883	1,770	1,890
3	Property Tax	1,134	1,121	1,241	1,525	1,664
4	Business licences	655	851	1,881	1,859	2,444
5	Advertising and billboard fees	319	398	571	822	1,030
6	Bus terminal fees	-	-	310	448	479
7	Abattoir and slaughter fees	130	157	209	268	296
8	Motor vehicle parking	91	127	167	280	258
9	Market dues and stall rent	10	116	169	153	137
10	Cattle market charges	15	57	174	135	120
11	Hotel levy	100	83	96	117	122
12	Forestry produce fees	62	105	118	131	107
13	Town bus licences	-	33	71	83	0.73
14	Intoxicating liquor	88	75	102	97	80
15	Sale of fish	-	33	42	50	68

Source: Franzsen & Semboja (2004)

Property tax is a very important source of revenue for local authorities. For Illala Municipality, property tax contributes about 30% of the total local revenue.

Major impediments to raising property tax revenue

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

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

Identifiable Problems

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

1. In the case of property rates, the tax coverage is haphazard in both rural and urban areas. For instance, in Illala Municipality, tax coverage is less than 50 percent.
2. Low compliance levels as manifested by high property tax sums in arrears are a noticeable feature with the Municipal Councils in Dar es Salaam. This is despite the fact that the unpaid tax amounts are the result of taxpayers' failure to discharge their property tax liability (Kayuza, 2006)
3. Enforcement mechanisms are weak. Most local authorities are grappling with challenges associated with collection and enforcement that have resulted in widespread non-compliance by taxpayers. In Dar-es-Salaam, the collection rates are between 30-50 percent.
4. Lack of political will among the leaders has negatively impacted the efficiency and effectiveness of property related taxes. This is coupled to the unwillingness of local authorities to invest in the improvement of the tax base through adequate information management systems.
5. Limited human capacity is a problem. Both the local authorities and central government suffer from a limited capacity to effectively undertake tax assessment, valuation, tax collection, and enforcement. The local authorities are unable to recruit and retain qualified valuers to improve on the valuation and assessment of property for taxation purposes. The Tanzania Revenue Authority also suffers from a limited capacity to police all the potential taxpayers, which results in heavier tax burdens for individuals who are formally employed.

Recommendations

There is continued need for property tax reforms to support local authorities in realizing their revenue potential and enhancing their service delivery capacity. The potential of the property tax is still high, considering the rate of redevelopment and urban renewal currently evolving in major urban centers. Reforms should target the creation of good property databases using GIS to map new developments. Improved technology, such as the application of computer-aided mass appraisal and valuation, should be encouraged.

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