Property Taxation in Anglophone East Africa: Case Study of Uganda

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Abstract

The Lincoln Institute of Land Policy and the African Tax Institute (ATI), located at the University of Pretoria, South Africa through a joint partnership are awarding Research Fellowships to African Scholars to undertake research on property related taxation in all the 54 African countries. The goal is to collect relevant data regarding all forms of property taxation, property tax systems both as legislated and practiced, and importance as sources of national and or municipal revenue; and issue reports on the present status and future prospects of property – related taxes with 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, considering both the system as legislated and taxation in practice. This paper provides a detailed review of property taxation in Uganda.

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SECTION A: RESEARCH SCOPE AND METHODOLOGY

Introduction

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

Objectives

The prime objective of the research is to present a comprehensive review of the property-related taxes in Uganda. 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 Uganda.
- 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; and
- Highlight general trends in the application of property taxation in Uganda.

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 both primary and secondary data comprised a number of steps and a combination of data collection techniques.

Data Collection

The study recognized the fact that there are significant differences in how land and property are taxed across and within countries. Often, the greater the degree of local discretion in establishing the tax base and setting the rates, the more diverse will be the property taxes within a country. The researcher spent a period of two weeks in June 2009 to conduct interviews with officials in the Ministries of Lands, Housing and Urban Development (Office of the Chief Government Valuer), Ministry of Finance (the Uganda Revenue Authority in particular), as well as with officials of the Kampala City Council.
A desk survey 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

Attempts were made to obtain accurate and current data on the following key areas in Uganda.

- A brief country description providing appropriate background statistics (e.g. geographic size, population, constitutional make – up, 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; and
- Enforcement procedures and practices.

Data Analysis

The basic properties of the property tax systems in Uganda 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 responsibility for valuation Rolls were also ascertained.

An analytical approach and deductive reasoning were applied because a detailed understanding of the complicated relations is required.

Structure of the Report

For the purpose of this report, detailed and updated information on property-related taxation in Uganda are provided. The report comprises background information on the country and a discussion on the implementation of property-related taxes in the country.

SECTION B: 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 Uganda

The Republic of Uganda is a landlocked country in East Africa. It is bordered on the east by Kenya, on the north by Sudan, on the west by the Democratic Republic of Congo, on the southwest by Rwanda, and on the south by Tanzania. The southern part of the country includes a substantial portion of Lake Victoria, which is also bordered by Kenya and Tanzania. Uganda gained its independence from United Kingdom on October 9, 1962.

Until recently, the country was divided into 80 districts; with the addition of 13 new districts, the total is now 93, spread across the four administrative regions: Northern, Eastern, Central and

Western. The districts are further subdivided into sub-districts, counties, sub-counties, parishes and villages. Most districts are named after their main commercial and administrative towns, making all district centres urban councils.

Uganda covers an area of approximately 241,010 square kilometers, of which approximately 15.39 percent is water surface. Uganda's current estimation of its population is 32,370 million, which demonstrates an increase since the last official count of 24,227 million in the 2002 census. The population growth rate is about 4 percent per annum. The urbanization level is about 18 percent. However, it is now estimated that 34 percent of the total population lives in urban areas, since small trading centers are being announced as Town Boards.

The capital city of Uganda is Kampala, which houses an estimated population of 1.2 million people according to 2002 census. Other major or secondary towns include Mbarara, Gulu, Arua, Entebbe, Moroto, Soroti, Mbale, Jinja and Fort Porto.

The GDP at current price is estimated at U$D 14.565 billion, giving the country a per capita GDP of U$D 454.

The Government Structure in Uganda

There are two levels of government in Uganda: the central government and five levels of local councils.

National Government

Uganda is a constitutional republic divided into administrative regions, districts and counties with three arms of government – legislative, executive and judiciary. The legislative power of the republic is vested in the parliament, formed by the National Assembly of 332 members. Out of the total members of National Assembly, 228 are elected, with the remaining 104 nominated by interest groups, including women and the army.

The executive power of the Republic is vested in the President who is both the Head of State and Head of Government.

Local Government in Uganda

There are five levels of local councils namely city, municipality, town, district, and division or sub-county. In addition, there exist the traditional authorities of Buganda, Toro, Bonyoro, Busoga, Acholi, and Alur.

Land Use and Land Tenure System

Land use in Uganda is greatly influenced by the existing land tenure system. Four systems of landholding exist in Uganda; these are leasehold, freehold, private mailo, and customary. Since the Land Act of 1995, there is also a category of "landholding" called "tenants by occupancy" who are required to pay nominal rent as approved by the Minister currently in charge of lands. The nominal rent payable has to be determined by the District Land Board. The responsibility for the Deeds System of land registration in use in Uganda rests in the Office of the Commissioner, Ministry of Land, and Housing and Urban Development.

Of Kampala's 201sq.kms of land area, 20% is categorized as planned land with leasehold land titles, while 80% is unplanned land. Within both categories, 75% is under mailo land tenure system, while 3% of the land is under freehold land titles. The slum area occupies a balance of 21%, the biggest portion of which lies on mailo land. A total of 46.1% of the city land coverage is indicated as being agricultural or simply undeveloped.

Of the four legally accepted land tenure systems in Uganda, three exist in the city; these are public land that falls under the jurisdiction of ULC, mailo (private) land where KCC has no powers to grant leases, and freehold land held by institutions (such as schools, hospitals). Within the above categories, there are other sub-systems of land tenure, such as customary tenure on both mailo and public land where tenants or squatters enjoy some rights according to the Land Act 1997. 75% of the city land under mailo is characterized by the existence of informal settlements and occupancy of economically strategic land, some of which are in the central business district (CBD) and would otherwise garner prime value. The study observes that these pieces of land have become unattractive to investors because of their depressed land values/prices which benefit neither the landowners nor the occupants. Additionally, absentee landlords under the mailo system have created a state of total neglect, in which abandonment and wastage has lead to fraud, forgeries of ownership and conflicts. This land is estimated to be at 46.1% of the city land coverage. Consequently, land tends to be haphazardly developed and congested, with poor sanitary conditions, resulting in depreciating urban property that undermines property tax potential. The study observes that since the country converted formerly public land and statutory leases to private land, the KCC as an urban authority can no longer effectively manage and control development because it no longer owns the land. This has affected infrastructure development, which has been further affected by the fact that the state is normally required to compensate the private land owners for any acquisition and use of private land. The process of acquiring private land is both cumbersome and costly, as compensation has to be preceded by assessment and determination of market capital value done by registered valuers.

There are 6 landlords in Kampala City Council:

- Kampala City Council – This covers public land with Deed Document/Title of 49 years lease for residential properties and 99 years lease granted for industrial purposes.
- Uganda Land Commission
- Buganda Land Board
- Catholic Church
- Muslim Body
- Church of Uganda

The land act allows for the conversion of leaseholds to freeholds so long as the affected acreage is less than 100 acres. This is done subject to the payment of a handling fee of UGS 100,000. Specifically, public land in Uganda belongs to the citizens.

Overview of the Property Market in Uganda

The operations of the land property markets are relatively well organized in Kampala and other big municipalities and urban councils. There is considerable amount of regulation for purposes of legalizing the transactions.

There is however, increasing demand for land acquisition for urban development, resulting into high land prices particularly in Kampala City Council.

Overview of the Tax System in Uganda

National Tax Structure

Tax administration in Uganda is highly centralized. The collection of the revenue into the Consolidated Account is done by the Uganda Revenue Authority in the Ministry of Finance. There are a variety of taxes in Uganda. The national taxes include income tax, licenses and fees, customs duty, excise duty, VAT, rental income tax, stamp duty, capital gains tax, and VAT on renting of buildings for commercial purposes amongst others.

Local Authority Taxes

Local authority taxes in Uganda include graduated tax, taxi-park charges, market fees and trading license charges, local services tax (LST), and property rates.

Property-Related Taxes in Uganda

Besides the property rate, owners of property in Uganda may be subjected to other property-related taxes from the central government. These include property transfer tax (stamp duty), rental income tax on immovable property, VAT at 18 percent on rental income from commercial building, and capital gains tax.

Rental Income Tax

The operation of rental income tax in Uganda is governed by the Income Tax Act. The tax base is generally on immovable properties, specifically on the commercial and residential properties that are rented out by the property owners. The Office of the Chief Government Valuer in the Ministry of Lands, Housing and Urban Development is responsible for the valuations, which are based on market rental value of the subject property.

The tax rates vary depending on the category of the income earner. In the case of renting by individuals, the chargeable threshold income is taxed at 20 percent; renting by corporate bodies/organizations is taxed at 30 percent of the chargeable income. From the gross rental income, 20 percent in lieu of expenses and UGS 1,560,000 are deducted in tax relief measures before the tax is levied on the threshold balance. Power generating units are exempted from rental income tax.

Billing is done by the Ministry of Finance, and taxes are collected annually. Collection is undertaken by the Uganda Revenue Authority. The contribution of rental income tax to the consolidated account is relatively insignificant.

The challenges facing rental income tax are varied and include false declarations by the tax payers, difficulty in voluntary declarations, poor records, and improperly marked plots and roads.

Stamp Duty

Stamp Duty or Property Transfer Tax in Uganda is governed by the Income Tax Act. It is payable upon transfers and acquisition of immovable property. The person who acquires the property is the tax payer. The tax is based on the purchase price as a reflection of the market value, and it is determined by the Office of the Chief Government Valuer in the Ministry of Lands, which has the responsibility for valuations.

Currently, the tax rate is one percent of the market value of the property. The responsibility for setting rates lies with the national government, specifically the Ministry of Finance.

Billing and collection are done by the Uganda Revenue Authority. In terms of enforcement, the Income Tax Act provides the procedures and practice. This has resulted in a high compliance level, however, the contribution of Stamp Duty to total national revenue is insignificant and difficult to determine, since all the payments are lumped together in the consolidated account.

In comparison to other countries, the rate levied for Stamp Duty is very low in Uganda.

Ground Rent

Uganda Land Commission charges ground rent on all leaseholds and on all land being converted from customary tenure to freehold tenure, as well as on land without titles that are directly transferred into freehold. However, there are a few cases of people applying for change or conversion.

Ground rent on leaseholds is charged at one percent of the market value of land and based on USV. The nominal rent payable as determined by the District Land Board has to be approved by the Minister.

Property Tax (Rates)

Property rates in Uganda are levied by local government councils. Property tax is an old tax but almost died a natural death until the enactment of Local Government (Rating) Act in 2005, when it was revived and became active.

The current rating is governed by the Local Government (Rating) Act of 2005, which came into effect on 1st November 2005 and replaced the Local Governments Rates Decree of 1979. This Act provides the mechanism for carrying out the valuation, assessment, billing and collection of rates; and applies to Kampala City Council, municipal councils, town councils and districts. This Act eliminates the monopoly of the Chief Government Valuer and allows local governments to appoint their own choice of qualified registered valuer. The Act is supplemented by the Local Governments (Rating) Regulations, 2005.

Historical Background

Uganda property rating dates back to 1948, when the first valuation list was prepared for Kampala. The first property rating was conducted by KCC and later followed by a few other major towns such as Entebbe, Jinja, Masaka and Mbale. The practice was at varying degrees of success and progress over the years. Prior to 1972 property rates were mainly paid by the Asian Indian community who were the major owners of properties in Kampala and other municipalities. In this regard, the city and municipalities raised property tax revenue and provided the services.

On the expulsions of Indians and the declaration of the Economic War in 1972, many of the properties in the big urban councils were allocated to indigenous Ugandans who did not observe payment of rates. However, with the demands for improved service delivery, the government deemed it fit to introduce the property tax in local governments.

Tax Base

The rate is based on the annual rental value, with the owner of the property liable for payment. The rate is levied on properties in urban areas and all commercial and industrial buildings outside urban areas. According to the amended Act, the tax is also levied only on rented residential premises. The local government council sets the minimum amount of rate at 2,000/= per annum and a maximum of twelve percent of the ratable value. In the case of void or vacancy, the tax is based on rental market potential of the property.

All property within the jurisdiction of the local government is ratable except that which is exempt by law. Ratable properties include:

- All properties in urban areas, unless exempt
- Commercial buildings outside urban areas.

Exemptions

Rural areas are exempted. Exemptions are generally offered based on four conditions: the basis of ownership, the way in which the property is used, the incidence of tax burden on the taxpayer, and the necessity of the property. The general principle of exemption is that property should be exclusively used for the purposes for which the exemption is given.

A list of exempt buildings is given in the Second Schedule to the LGRA 2005. Other exemptions are contained in Section 5 of the LGRA 2005 and include:

- All residential houses in urban areas which are used by the owners as their family homes
- Cemeteries/burial grounds and crematoriums
- Places of worship and residences of religious leaders like churches
- Any official residences of the president and traditional leaders
- All public outdoor sports/recreation facilities or properties designated as public open schemes under the Town and County Planning Act and controlled under the rules approved by the local government.
- Charitable and educational institutions of a public nature supported by endowments or voluntary contributions e.g. Kampala School for the deaf
- Properties of institutions with which government has contractual obligations not to levy taxes
- Properties of organizations with which Uganda is obliged to exempt taxes under international treaties
- Properties owned by organizations entitled to diplomatic privileges

- Properties owned by local councils.

Exemptions from rates are applied on a properly-by-property basis and not across a broad spectrum of properties. For example not all property situated on the same plot of land that has a church is exempted.

It should be noted that a property may change from being an exempt property to a ratable one or vice versa at any time, depending on how the property is used. Therefore, local government staff and the valuer review all previous exemptions to determine whether such properties still qualify for exemption. Every owner of an exempt ratable property is required to notify the local government concerned in writing the exempt status of the ratable property every year (Regulations 5.1 LGRRs 2005).

Apart from exemptions, there are other relief measures. These include rebates for expenditure on renovations and repairs on property; there is also relief on the basis of old age, sickness or loss of employment on the part of the rate payer. These reliefs are granted by the executive of the local councils.

Tax Rates

The law gives discretion to the Local Government to set a rate not exceeding 12% of the ratable value and a minimum of 2,000/= per ratable property. The regulations are silent on how the rates are set. Currently, the local governments do not have a systematic way of setting the rate. Each local government sets its own rate after considering:

- Rating area
- Class of property (Residential or Commercial)
- Ability of ratepayers to pay
- Political and social considerations

The LGRA 2005 demands property rates be used to provide specific services, such as road construction and maintenance, street lighting, anti-malaria drains, garbage collection, physical planning and such other services required by the tax payers within their areas. Secondly, the LGRA requires that a minimum of 75% is used for the above services. Given this requirement, a systematic way of setting rates would be as follows:

- Project the total budget for the services and administrative matters for the financial year
- Based on the required revenue for the purpose to be covered by rates, establish the rateable properties and their rateable value
- The total rates to be collected should be equal to the expenditure plans of the year i.e the budget

An example:

If the expenditure budget is 100 million
If total ratable value is 1 billion
The rate would be $\frac{100m \times 100}{1b} = 10\%$

It should be noted that the set rate must not be more than 12% of the ratable value of the property and not less than one tenth of a currency point (S 3.2 LGRA 2005). A currency point is currently UGShs. 20,000. The local government may also take into consideration other factors in setting the rate, such as:

- the desire to have a uniform rate for all sub counties or divisions in the local government
- the ratepayer’s ability to pay
- the likely reaction from the public to an increase in rates
- trends in the general economic performance within the area

Some local governments, such as the Entebbe Municipal Council, have been setting different rates for commercial and industrial properties as opposed to residential properties. The Kampala City Council, for example, was placing a 10% rate on commercial and industrial properties in the central division and a 6 percent on residential properties in all divisions and on commercial property in other divisions. Most tax policy analysts argue for a uniform rate across different types of property and locations, and those different property tax liabilities should reflect only different property annual values.

Valuation (Tax Assessment Basis)

All local authorities in Uganda follow the law governing valuation of property for purposes of levying rates. Before the amendment of Local Government (Rating) Act of 2005, all properties were covered for rating.

The valuation and assessment is based on annual rental income of the property as determined by registered valuers appointed by their local government. The preparation of valuation rolls is done by both the government and private valuers. Currently, the country has only 32 registered valuers, making it extremely difficult for local authorities to prepare and update valuation rolls. The valuation cycle is 5 years.

Kampala City Council has 3 in house valuers, whereas the Ministry of Lands, Housing and Urban Development has 4 valuers. The remaining 25 valuers are in private practice. Kampala City Council undertook a revaluation of all their properties in all the 15 zones during the 2003/4/5 period. The total number of properties revalued stood at 110,470 parcels.

Tax Billing and Collection

Tax billing is done annually by local authorities. Local authorities are required under section 26 of the act to publish the chargeable rates in the Gazette and local newspapers. Under section 29, local governments are only required to prepare and send demand notes indicating the amounts due for payment to all property rate payers who have failed to pay by the due date. In the case of the Kampala City Council, demand notes and notices are currently being generated using computer programs.

Actual revenue collection activities are administered by the local authority’s own staff. However, Kampala City Council has contracted private collectors to undertake revenue collection. The private debt collectors are paid a commission of 10 percent of the amount collected. Despite the engagement of private debt collectors, the collection rate is still low – about 50 percent of the projected figures.

Enforcement Mechanisms

Local authorities enforce the payment of property rates among tax payers through the following:

- administering demand notices
- recovery by action
- charge of penalties/interest
- recovery from tenants and occupiers
- prohibition of transfer of property
- imposition of a rate first charge on property

However, there is still low compliance rate as tax payers do not want to pay.

Capacity to Administer Property Tax in Uganda.

Local authorities do not have the required capacity to effectively administer property tax. They lack a property tax administrative system, trained personnel, and synchronization of improved local service delivery with enhanced revenue mobilization. With the exception of Kampala City Council, all other local authorities depend on the Ministry of Lands, Housing and Urban Development to create, prepare and update the valuation rolls. The low capacity to systematically maintain and coordinate the fiscal cadastre information has seriously inhibited the possibility of adhering to the valuation cycle.

In terms of human resource, until recently, the training of valuers has been undertaken outside the country. Makarere University started training valuers in the year 2004 with the first class (5 out of 7) graduating in 2008. There are currently 27 students, 43 students and 55 students in the 4^{th}, 3^{rd} and 2^{nd} years, respectively.

The issue of trained personnel is not limited to valuation alone. There are serious problems with collection, enforcement and monitoring of change of user particularly from owner-occupier properties to rental market.

Overview and Analysis of Local Authorities Revenue Sources

Local governments are allowed, under the 1995 Constitution of the Republic of Uganda and the Local Government Act Cap 243 Laws of Uganda, to collect local revenue within their jurisdictions. Article 191 of the Constitution of Uganda allows local governments to levy, charge, collect and appropriate fees and taxes in accordance with any laws enacted by parliament by virtue of Article 152 of the constitution. Article 152 itself forbids the imposition of taxes in Uganda by anybody or entity without authorization by parliament. The major sources of revenue from which local governments are allowed to collect revenue are specified in the LGA, Cap 243; property rates are among these sources.

Revenue collected by local governments includes licenses and fees, user fees, property rates, urban authority permits, revenues from departments. Property rates are a major source of local government revenue in Uganda accounting for about 14% of total local revenue. The remaining

86 percent of the local government revenue is obtained from the central government. Typically, property rates generate about 2 percent of total government revenue and about 0.5 percent of Gross Domestic Product (GDP). The LGA provides for revenue raised from property rates to be used on delivering services to residents of the areas. The requirement is that at least 75% of rates collected should be used on road construction, garbage collection, and anti-malaria drains (S2 and 3GRA 2008).

Table 1 provides the details of revenue sources for Kampala City Council for the periods 2004-2005 to 2007-2008.

Table 1.0 Revenue Sources for Kampala City Council

Collection July to June 2004-2005			
No	**Revenue Source**	**Estimates**	**Actual Collection**
1	Graduated Tax	3,983,830,961	3,519,504,330
2	Rates (current)	5,695,781,305	3,030,917,444
3	Licenses	4,525,630,433	3,862,071,507
4	Taxi-park (General)	5,636,520,000	3,548,936,887
5	Markets	2,167,990,608	1,048,741,031
6	Ground rent	1,316,926,555	2,465,522,034
7	Other revenues	6,393,410,543	4,655,879,592
8	Rates Arrears	6,201,891,700	1,753,709,838
9	Other arrears	0	264,265,000
10	Sub-Total Local Revenue	31,938,151,144	20,630,043,333
11	Capital income	1,486,461,400	3,644,647,216
12	**Total Local Revenue**	**33,424,612,544**	**24,274,690,549**
	Rates as % of Total Local Revenue		**12.5%**
13	Other funds		
14	Government Transfers	25,534,952,700	24,983,327,130
15	Development Income from: 15 Government		
16	External Funds	12,104,822,434	16,320,819,138
17	Sub Total		
18	Total Revenue	71,064,387,678	65,578,836,817

	Rates as % of Total Revenue		**3.2%**

Source: Kampala City Council Financial Report

Collection July to June 2005-2006			
No	**Revenue Source**	**Estimates**	**Actual Collection**
1	Graduated Tax		
2	Rates (current)	10,006,700,000	2,654,977,707
3	Licenses	4,619,000,000	3,572,317,000
4	Taxi-park (General)	4,463,000,000	3,833,555,567
5	Markets	3,229,000,000	1,064,748,497
6	Ground rent	1,465,000,000	2,465,522,034
7	Other revenues	2,089,000,000	2,049,140,837
8	Rates Arrears	4,696,000,000	2,442,336,383
9	Other arrears	1,670,000,000	386,843,367
10	Sub-Total Local Revenue	32,237,700,000	18,469,441,392
11	Capital income	1,107,000,000	3,781,654,720
12	**Total Local Revenue**	**33,344,700,000**	**22,251,096,112**
	Rates as % of Total Local Revenue		**11.9%**
13	Other funds		
14	Government Transfers	25,158,784,501	26,451,700,013
15	Development Income from: 15 Government		
16	External funds	10,242,447,002	972,670,850
17	Sub Total		
18	Total Revenue	68,745,931,503	49,675,466,975
	Rates as % of Total Revenue		**5.3%**

Source: Kampala City Council Financial Report.

The collection in the year 2005-2006 decreased due to the presidential campaign, whereby all politicians promised abolition of some taxes like the graduated tax.

Collection July to June 2006-2007			
No	**Revenue Source**	**Estimates**	**Actual Collection**
1	Graduated Tax		
2	Rates (current)	5,110,727,000	6,350,764,251
3	Licenses	4,794,830,000	3,797,540,987
4	Taxi-park (General)	4,332,000,000	3,050,274,361
5	Markets	1,563,700,000	1,849,495,716
6	Ground rent	1,502,830,000	2,555,077,112
7	Other revenues	2,824,152,000	2,229,528,332
8	Rates Arrears	4,349,226,000	1,094,459,085
9	Other arrears	3,036,800,000	298,047,880
10	Sub-Total Local Revenue	27,514,265,000	21,225,187,724
11	Capital income	969,200,000	3,076,697,617
12	**Total Local Revenue**	**28,483,465,000**	**24,301,885,341**
	Rates as % of Total Local Revenue		**26.1%**
13	Other funds		
14	Government Transfers	25,013,296,182	22,822,840,089
15	Development Income from: 15 Government		
16	External Funds	1,745,000,002	87,685,700
17	Sub Total		
18	Total Revenue	55,241,761,184	47,212,411,130
	Rates as of Total Revenue		**13.5%**

Source: Kampala City Council Financial Report.

Regarding rates, there was marked improvement in collection of the property rates tax, which increased to 3bn from 2.6bn. This was due to a collection effort by the Central Division. There was a slight increase of UGX 286 million in licenses and improvement in markets collection due to clearance of arrears by contractor of Nakesero Market.

Collection July to June 2007-2008			
No	**Revenue Source**	**Estimates**	**Actual Collection**
1	Graduated Tax		
2	Rates (current)	4,904,580,000	7,177,677,217
3	Licenses	4,846,000,000	4,980,444,860
4	Taxi-park (General)	5,115,697,345	3,988,757,042
5	Markets	1,812,000,000	1,551,812,529
6	Ground rent	1,476,104,000	2,307,694,120
7	Other revenues	2,981,783,000	2,277,228,676
8	Rates Arrears	4,054,347,000	334,028,205
9	Other arrears	2,316,800,000	850,590,000
10	Sub-Total Local Revenue	27,507,311,345	23,468,232,649
11	Capital income	1,312,900,000	4,335,932,502
12	**Total Local Revenue**	**28,820,211,345**	**27,804,165,151**
	Rates as % of Local Revenue		**25.8%**
13	Other funds		
14	Government Transfers	40,362,026,337	38,996,781,192
15	External Funds	1,042,000,000	35,433,125
16	Sub Total		
17	Total Revenue	70,224,237,682	66,836,379,468
	Rates % of Total Revenue		**10.7%**

Source: Kampala City Council Financial Report

Rates collected increased due to effective billing, periodic advertisement and the weekly program conducted by the council. The projected revenue for KCC was UG 20 billion, but with the amendment to the act, the expected revenue for 2009 was UG 9 billion; the prime central properties were expected to generate approximately UG 7.7 billion.

An analysis of the revenue sources for Kampala City Council reveals that property rates are a major component of local revenue. In terms of actual collection, rates contributed 12.5%, 11.9%, 26.1% and 25.8% of the total local revenue in 2004-05, 2005-06, 2006-07 and 2007-08, respectively. Of the total revenue, the rates contribution were 3.2%, 5.3%, 13.5% and 10.7% in 2004-05, 2005-06, 2006-07 and 2007-08, respectively.

Identified Problems

Much as property rates are considered to be an ideal source of local revenue for local government, the potential has hardly been exploited. Of all the national and local taxes, the tax on the urban property has been the least effectively exploited and the potential revenue lost has been very large. There are many factors contributing to this poor performance; these include:

- Inability to administer property rolls adequately. Many properties are not on the valuation list.
- Outdated valuations lists. For example, the properties in the central business district of Kampala City were revaluated in 2005 after 15 years, in spite of the law mandating that revaluation be carried out every 5 years to update the valuation list.
- Lack of an efficient property information base
- Property valuation has been extremely expensive and slow because prior to the amendment in 2005, the law designated the Chief Government Valuer as the valuer for all urban authorities. Now the valuations are done on a contract basis at a high cost, and are unaffordable for most urban authorities.
- During collection, many bills served to ratepayers remain unpaid over long periods of time resulting in many arrears. Further, many districts fail to enforce the legal penalties for non-payment. Because of the number of arrears, many municipalities have transferred the collection of rates to private firms who work on commission.
- The general public is ignorant about rating law and their civic duty to pay rates.
- Shortage of technical officers and valuers, which slows the pace of valuation work.
- Many urban authorities lack the political will to enforce the payment of rates even though the law gives them the power.
- In cases where buildings are used both as a residential or commercial property, it may be difficult to apportion the levy for the qualifying property rates.

The legal basis for local governments to value, assess and collect rates on properties, however, is the Local Government (Rating) Act, 2005. Parliament enacted the LGRA 2005 to replace the LGRD of 1979 and repeal Part III in the fifth schedule of the Local Government Act 243. It became effective on 1st November 2005. The Act empowers local governments to levy rates on property within their areas of jurisdiction. The Act is operationalised by the Local Government (Rating) Regulations of 2006.

According to the LGRA 2005, all Local Governments in Uganda are allowed to impose such rates as they may determine on the basis of the ratable value of any property within their areas of jurisdiction (S3.1 LRGA 2005). Therefore districts, cities, municipalities and town councils in Uganda are allowed to (and should) levy rates on properties in their jurisdictions.

Recommendations

There is low performance of property tax due to both taxes administration inefficiencies and poor political perceptions from the public. Currently, taxpayers are demanding local councils inform them of the uses of the collected tax rates. The failure to address reforms in property taxation has made it practically impossible for cities and local councils to effectively deliver the required services. Rates currently suffer from political interference, particularly when it comes to the implementation of structure plans.

The main shortcomings of the current property tax administration have to be addressed, including inefficiencies in maintaining tax base coverage amidst a poor fiscal cadastre, and over reliance on individual parcel valuation.

As the key to revenue buoyancy largely depends on improved administration, the focus ought to be on the following:

- Tax compliance education
- Imposition of stringent punitive measures to deter non-compliance
- Networking with other stakeholders such as National Water and Sewerage Corporation and Uganda Electricity Board to improve on the information data base.

If effectively undertaken, the above recommendations will go a long way in addressing the shortcomings that have continued to affect the realization of the full potential of property taxation.

References

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