Property Tax Reform in Kampala
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A. Definition of Property Tax

There are two definitions of property tax:

- Broad definition refers to property tax as variety of levies on use, ownership and transfer of property (Norregard, 2013)

- Property tax is a specific tax on use or occupation of immovable property (adopted in this presentation relative to property rates)

B. Rationale for Enhancing Property Rates

- decentralization, since 1995
- constitutional provision for locally generated revenue, including property rates
- abolition of Graduated Tax (GT) in 2008 and replacement by Local Service and Local Hotel Taxes (Bakibinga, *et al* 2018)
- new taxes inadequate to fill gap left by GT and this limits ability of local authorities to provide goods and services locally
- Property Rates – viable source of local revenue to minimize dependency on Central Government

C. Opportunities presented by Property “rates (PR)

- Urban population growth accompanied by investment in property, which is source of property rates
- Property Rates imposed on immovable property and, therefore, difficult to evade
- Property Rates - more sustainable source of local revenue (Slack & Bird, 2014)
- Property Rates – efficient, fair and progressive and conform to tenets of a good tax system (Ali, Fjeldstad & Katera, 2017)

D. Legal and Institutional Framework

- Property rates – imposed under Local Government (Rating) Act, 2005 (as amended) (LGA(R)A)
- Law provides, inter alia the power of Local Governments to levy rates on property within their areas of jurisdiction, valuation for the purpose of rating and collection of rates
- Law clarifies the kind of properties subject to rates
- In Kampala Capital City Authority (KCCA)) rates are payable by owners of urban properties

D. Legal and Institutional Framework (*Continued*)

- Rates payable are calculated using the annual rental value of the property subject to rates (Kelly, 1999)
- KCCA has discretion to levy rates ranging from UGX2,000 to 12% of the ratable value (LGA(R) Act, S.3(2)
- Owner-occupied residential properties are exempted from payment of property rates
- Vacant land is not subject to property rates

D. Legal and Institutional Framework (CONTINUED)

Properties exempted from levy of rates include

- Official residence of the President
- Official residence of cultural/traditional leaders
- Public worship places
- Cemeteries and crematoriums
- Charitable and educational institutions
- Outdoor sports and recreational facilities
- Local council owned property
- Property owned by privileged organisations under the Diplomatic Privileges Act; and
- International Treaty Tax-exempt organisation (LGA) Act, S.5)

E. Challenges with broad exemptions of Properties from Rates

The main challenges are

- Numerous exempt properties (above) which reduce the tax base
- Exemption of owner-occupied premises resulting in loss of 45% of the Revenue (SEATINI, 2013)
- Since most of the owner-occupied premises enjoy public goods and services provided by local authorities the exemption is inequitable when compared to commercial properties

E. Challenges with broad exemptions of Properties from Rates (*Continued*)

- Exemption of owner-occupied premises may lead to commercial activities being relocated and the shifting of investment to residential properties
- The exemption of owner-occupied properties leads to increase price of goods when the tax is passed on to consumers
- KCCA has difficulty in distinguishing residential properties occupied by owners from those occupied by non-owners (Karugaba, 2017)
- KCCA has advocated amendment of law to impose tax rates on all premises located in the city

F. Valuation

- A valuation list is required to be compiled under LGA(R) Act by a qualified valuation survey or appointed by a local authority
- List captures description of property, name and address of owners, village and parish local council, property use gross property value and ratable value (LGA(R) Act, section 10)
- Main challenge is lack of qualified valuation surveyors
- KCCA has Chief Valuer assisted by 36 other qualified valuers (2018)
- Last valuation exercise done between 2003 and 2005 (UN Habitat 2013), yet property values have risen by over 300% (Kopanyi, *et al* 2015)

F. Valuation (*Continued*)

- In 2016/17 KCCA carried out revaluation of city properties and completed this for the Central and Nakawa Divisions
- Property yield from the 2 Divisions were UGX22bn (US$6m) and UGX21bn (US$5.8m) for Nakawa and Central respectively (Bakibinga & Ngabirano, 2019)
- Of two predominant methods of valuation: market value based (*ad valorem*) and area based KCCA uses annual rental value (Kelly, 1999)
- Main challenge with method is that local authorities lack capacity to generate up-to-date valuation lists
- Recommended adoption of area-based approach on account of practicality, simplicity and affordability (Zebong, *et al* 2017; LGA(R) Act Section 12)

G. Billing & Collection

Process of billing and collection involves the following:

- Publication of rates in Uganda Gazette & locally circulating paper (LGA(R) Act, 2005)
- Notice includes relevant property and rate on ratable value of property and amount charged
- Ratepayer is expected to effect payment in 2 equal instalments within the financial year to which rates levied
- Failure to effect payment within 30 days attracts interest monthly
- Enforcement teams may be employed (Gulu and Tororo districts)

H. Enforcement

- Enforcement of compliance in event of failure to pay rates involves the following:
- Warrant, action for recovery, prohibition on transfer of property and registration of charges on property (LGA(R) Act, 2005, Part V)
- Where rate remains unpaid on due date a demand notice is issued by the local authority requiring payment with interest of 2 percent
- Agency notice may also be issued to tenants on the property to pay rent due to local authority

I. Evaluation of KCCA Performance and Reforms

1. Evaluation of Performance

- KCCA, which was created in 2011 was projected to realize UGX30.4b during 2017/18 fiscal year, amounting to 20 percent of locally generated revenue
- Revenue projection in 2016/17- not realized due to write off of arrears due from Government ministries and Schools (Bakibinga, *et al*, 2019)
- Establishment of Directorate of Revenue Collection (DRC) has led to improvement of revenue collection (Franzsen, *et al,* 2017)
- Recruitment of experienced staff from URA who introduced new collection strategies leading to increased revenue collection

2. Reforms

The reforms with envisaged impact include the following:

- Boosting DRC by hiring experienced staff (200 in 2018)
- Creation of audit and inspection team within DRC
- Introduction of separate office to handle large taxpayers to boost collections
- DRC invested in innovative technological reforms including *Revenue Management System* (RMS) and *e citie* platform
- RMS is used to prepare and print statement of accounts
- Taxpayer is required to obtain payment registration slips using the *e citie* platform

2. Reforms (*Continued*)

- DRC also uses the Computer Assisted Mass Appraisal (CAMA) to develop detailed property registry (Franzsen, *et al*, 2017)
- KCCA has taken steps to improve its valuation process
- In process of re-evaluation of properties in Nakawa and Central Divisions a Chief District Valuer together with valuation staff and clerks were appointed
- Data collection has also been undertaken within the city
- A Valuation Court has also been constituted to adjudicate disputes arising from property valuations
- KCCA has constantly engaged stakeholders, including taxpayers association

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