**MASTER'S PROGRAMME IN URBAN MANAGEMENT AND DEVELOPMENT**

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# Property tax reforms: A tool for improvements in urban services delivery. The case of Kampala City Council (Uganda)

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*Ankunda Kamba* *September 2007*

## Summary

This study report is addressed to the academia, researchers and local governments interested in understanding how property tax systems can be rejuvenated in order to make it a sustainable source of revenue to finance delivery of urban services. The study is motivated by my own desire to understand local government's revenue generation in Kampala City Council. It is my first attempt to investigate local government's revenue.

The ultimate goal of the study is to analyze how property tax system works and describe how it can be improved to enable local governments meet their obligation of service provision. Understandably, Local governments all over the world are struggling to raise local revenues to enable service delivery but face enormous challenges in their effort. Cities, Local governments or urban authorities are privileged repository of most valuable real estates in many countries including Uganda. Although they are not necessarily the owners, they have a higher propensity to benefit from these properties within their jurisdiction. These properties are not only a sign of improved urban welfare and standard of living but are a reflection of urban wealth from which local governments must capitalise on. A tax on property is therefore seen as the most stable of all local government taxes and relevant to service provision. In essence it is the best option of sharing the burden of service provision between the public themselves and local authorities on the other hand. However, to reach at a level where the demand for urban services is met by delivery of those services a systematic and functional property tax system must be put in place and must be well administered.

This study analyses and describes a number of challenges that Kampala City Council face in pursuit to administering property tax. The study also proposes a number of reforms to address the impediments, which were confirmed through the fieldwork. The focus of this study is NOT how to finance urban service delivery but how property tax (as a source of income) can be rejuvenated and used as a stepping stone to widen the delivery of urban services. The study observes that most challenges are at both policy and administrative levels where failures have been identified. The study proposes a number of reforms to address the failures especially taxpayer services - requiring fiscal and physical accountability. The study proposes the creation of a CISS as a model on how property tax information inadequacies can be addressed. The study observes that these reforms may not be easily implemented because of existing realties such as a huge backlog of undelivered urban services.

The study concludes that, if Kampala had an operational and adequately managed property tax system; it would generate enough revenues to cater for the required urban services. Additionally, the thesis supports the argument that the major bottlenecks such as collection lags, poor enforcement mechanisms, political interferences, corruption and failures in taxpayer service delivery undermine property tax returns. The study recommends that property tax system must operate as a complete system, which does not only capture resources but also serves individual and society's interest. That is why reforms must address accountability and service provision as a key priority.

## Abbreviations / acronyms

| | | |
|---|---|---|
| AIDS | - | Acquired Immunity Deficiency Syndrome |
| BLB | - | Buganda Land Board |
| CBD | - | Central Business District |
| CHOGM | - | Commonwealth Heads of Government Meeting. |
| DSC | - | District service Commission |
| GIS | - | Geographical information System |
| HIV | - | Human Immune Virus |
| KCC | - | Kampala City Council |
| LC I | - | Local Council One (Zone/ward/cell) |
| LC II | - | Local Council Two (Parish) |
| LC III | - | Local Council Three (Division) |
| LC V | - | Local Council Five (District) |
| LGs | - | Local Governments |
| LGDP | - | Local Governments Development Program |
| LGRA | - | Local Governments Rating Act |
| LGRR | - | Local Governments Rating Regulation |
| MoFPED | - | Ministry of Finance Planning and Economic Development |
| MoLG | - | Ministry of Local Governments |
| MoLHUD | - | Ministry of Lands, Housing and Urban Development |
| MWTC | - | Ministry of Works and Transport |
| NWSC | - | National Water and Sewerage Corporation. |
| PDCs | - | Parish Development Committees |
| PRORATIS | - | Property Rates Information System |
| UAAU | - | Urban Authorities Association of Uganda. |
| UEDCL | - | Uganda Electricity Distribution Company Limited. |
| UGX | - | Uganda Shillings (local currency). |
| ULC | - | Uganda Land Commission |
| ULGA | - | Uganda Local Governments Association |
| URA | - | Uganda Revenue Authority |
| WB | - | World Bank |
| WBFUP | - | World Bank First Urban Project |

# Table of contents

# List of Tables

## List of Figures



## List of Maps



## List of Pictures

# 1.0 Chapter 1 Introduction

This chapter introduces the reader to the background of the study, the problems, and motivation of undertaking this research, the objective of the study, the research question and the study hypothesis. In addition, this chapter covers the limitations of the study and ends with the thesis structure.

## 1.1 Background to the problem

The Global urbanisation trend indicates that a large number of populations are moving towards the urban areas with estimation that more than 70% of the total world population will be living in cities by the year 2025. This continued migration to the urban areas demands an increase in adequate provision of urban infrastructure and social services despite the limited sources of revenue available. Property taxation is known around the world to be the most reliable and physically available source of revenue to both national and local governments. It provides for funding public service, social development, value capture while facilitating quick and easy monitoring of land markets[1], which is understandably the basic reason why several countries have undertaken property taxation reforms.

Uganda's currently urbanisation is estimated at 12%, this proportion considers only the major urban areas in the country including Kampala city which is expanding faster than any other in the country (Lwasa, 2006). The city's average annual growth rate ranges between 3.14% and 5.16% (UBOS, 2002). This high rate of urbanisation has not only resulted in the increased geographical expansion of the city and the population but has also increased the cost and need for provision of public services and infrastructures by the local and national government. This rapid urbanisation is happening in the face of widespread poverty, shrinking peasant economies and acute scarcity of resources for local authorities. Literature indicate that the level of urbanisation in 2000 was 14.2% with an urban growth rate of 5.2% and is projected to increase to 20.7% by 2015 (Mukwaya, 2004).

Local property taxation in many countries is usually the single most important source of revenue for local authorities. Property taxation is believed to provide an element of autonomy and to some extent financial independence from central government. The potential revenue can be substantial, and if the relationship between taxpayers and exempt property is carefully managed the system can have positive and significant allocative and distributive effects. The primary objective of a local property tax is to provide at least part of the revenue required to finance local government expenditure. Real property forms an immovable taxable base, in that property is fixed and readily identifiable (McCluskey, 1991). Where property is the security for unpaid tax it makes it difficult to evade, in that a charge can be made against the property or indeed the property can be seized and sold to recover the unpaid tax as is in Philippines and Zimbabwe for example. In some situation with regard to unpaid tax it is possible to make provision for the recovery from either the occupier or the owner as in Northern Ireland and England, thus making property taxation the basic reliable source of financing local government infrastructure.

Above all, the impact of subsidiary and decentralisation will require local government having access to and control of autonomous sources of revenue. There is a need to provide local government with the necessary tax base from which it can derive revenue to meet

[1] Monitoring of land markets facilitates reduction in land market distortions and create equity

their newly devolved responsibilities. In most, if not all developed countries there is recognition of the potential revenue importance of land and property taxes (Paugam, 1999). The same applies to developing countries where property taxation remains high on the policy agenda (Bahl, 1998)(McCluskey, 2001). Mou (1996) commented that the property tax is one of the most lucrative, yet least tapped sources of revenue to support urban government. Most developed and developing countries currently recognise the importance of greater fiscal decentralisation in achieving the aims of improved government effectiveness, increased government accountability and improved economic efficiency (Kelly, 1998). Outside of the internationally accepted advantages of the property tax including transparency, easily identified tax object and taxpayer, avoidance difficulties, assessment and collection and general acceptance by taxpayers there a number of other persuasive advantages to be considered. Firstly, a tax on real property can provide the necessary potential revenue to fund a large percentage of local services. Second, property taxes typically are local in nature and as such do not create any fiscal competition with higher levels of government. Third, urban renewal and investment in new infrastructure tends to represent an important policy objective of local government. Such capital investments enhance property values and therefore logic would dictate that government should tax part of these increases in property values. Fourth, there are sound economic arguments that property tax if properly administered is the most efficient and equitable source of revenue available to local government. As Fisher (1981) has argued a strong revenue source of its own is essential to strong local government, that property taxation is better suited to local use than other major tax forms, and that many changes in property taxation can be viewed as adaptations to stress on local governments that have helped to ensure preservation of both the property tax and local autonomy.

An effective property taxation system that yields results is one that combines a holistic approach recognising the linkages between policy administration and various administrative components of property identification, valuation, assessment, collection, enforcement and taxpayer services. Focusing on solely on creating up-to-date valuation rolls is not necessarily useful when the primary problem is inadequate political will, collections and enforcement (Kelly, 2000b). This conclusion by Kelly (2000) is unfortunately what characterises the current property taxation system in Kampala. Certainly such conditions create a rationale for property tax reform and interventions designed to reduce severe distortions in the economy. Therefore, property tax reforms both administrative as well as policy, may be needed to generate public revenue in a reasonable not distorting, equitable and sustainable manner (The World Bank, 1991). The argument for local property taxation reforms is therefore to improve the capacity of local governments to meet the challenges of an ever increasing demand for urban services, aware that property taxation reforms alone may not be enough since there is a considerably high backlog already existing.

## 1.2 Problem Statement

Uganda like most sub-Saharan countries continue to generate significantly less property tax revenue, with property taxes typically generating a less than 40% of the local government revenue, 2 percent of total government revenue and about 0.5 percent of GDP (Kelly, 2000a) this is ridiculously low compared to the developing countries and the OECD that generate more than 3 percent of the GDP. This extreme low performance of is due to both taxes administration inefficiencies and poor political perceptions of the public, which is also linked to issues of governance.

The main shortcomings of the current property tax administration are primarily because of inefficiencies in maintaining tax base coverage amidst a poor fiscal cadastre and a geographical information system, which undermines accurate valuations coupled with over reliance on individual parcel valuation with no use of mass evaluation techniques. This is worsened by inadequate collection capacity amidst an unpopular enforcement mechanism. This relates to what Kelly (2000a) put forward, that, although certain policy decisions on tax base definitions, valuation standards, exemptions and collection and enforcement provisions, influence revenue yield. The key to revenue buoyancy largely depend on improved administration. Property taxation also relies extensively on active participation of government that ensures that tax base information and property values are kept up-to-date and taxes are properly assessed, billed, collected and enforced. However, there is lack of political will for property tax payment and enforcement resulting in low revenue yields, economic inequalities and inefficiencies. In essence a local taxation should be practical, fair, cheap to collect, promote accountability, easy to understand by the public and does not cause complications for the rest of the national tax system though this seem to be the case in Kampala - Uganda.

Section 37(2) of the LGRA 2005, requires that "all moneys collected from property tax shall be deposited on the account of the Fund and, subject to subsection (3), shall not be expended except for providing services such as roads construction and maintenance, street lighting, anti-malarial drainages, garbage collection, physical planning and such other services required by the tax payers within their areas" and section 3 requires that a minimum off 75% is used for the above services. However, what is not clear to the researcher is why there is persistent failures in planning; heaps of uncollected garbage; ever increasing drainage problems causing breeding places for mosquitoes and a number of potholes on main and sub-main city roads.

The failures to address reforms in property taxation has practically made it impossible for cities and divisions to work combining a number of consequences and problems highlighted in the ***problem tree analysis*** *(Annex 1 Figure 11).* This has culminated into distortions in the land and housing markets leading to proliferation of informal settlements as well as creating social exclusion. Has had an effect on value capture due to failures in public infrastructure investments putting the cities sustainability in doubt. The poor are currently unable to access housing on the open market, which has led to the “birth” of a land less society and worsened urban poverty situation. Consequently, these circumstances have increased the unpopularity of local authority as pressure for delivery of urban services mounts, leading to distorted land and housing markets, informal land delivery markets; loss of investment leading and revenue, loss of productivity and consequently urban decay.

The current lack of an in-depth understanding of how property taxation system can be improved to make it a meaningful and a reliable source of revenue for Kampala city council that can enable her, build capacity for delivery of services is a reality. The local government seem to be engulfed by increased backlog of demand for services but have no idea on how to turn the events around them into possible revenue sources for the benefit of meeting their obligation; they seem to be unaware of property taxation potentials which is what necessitates this study to bring them back from economic and political oblivion.

## 1.3 Motivation or justification for conducting the research

The main motivation of the study is to analyse the property taxation system and describe options to local authorities on how property taxation can be rejuvenated to offer an alternative source of revenue that would be used as a springboard to make cities, local or urban authority work. The researcher believes that a working city depends on both good urban governance and sustainable source of income. The researcher is therefore addressing himself to incomes in particular property tax. The researcher is also motivated by a number of countries that have entirely depended on property taxation for years as their source of revenue and doesn't understand why Kampala City Council has prioritised property tax reforms despite the abolition of Graduated tax or poll tax by the central government in 2006, the need for an answer to this is question is what is driving the researcher on.

Moreover, the decision to undertake this study is rooted in the number of reforms that have been undertaken in Kampala without yielding any major positive results in service delivery; for example in the early 1990's, Uganda adopted a valuation-pushed strategy updating and expanding the valuation roll in Kampala but due to the lack of in-house valuation expertise, local private sector valuers were hired through the WBFUP and in 1994 the new valuation rolls were brought into use, creating a more complete, up-to-date property tax base, most of the new valuation rolls were compiled for the unplanned peri-urban areas of Kampala.

This process of "reform" also trained valuers within Kampala to maintain the valuation rolls. Although the total technical assistance package was several millions of dollars over the 3-5 year period, the valuation rolls increased the revenue potential but property rates collection actually declined from UGX. 2.9 billion In 1994 to UGX. 1.9 billion In 1997/98, a decline of over 30 % despite an investment of millions of dollars of new property valuations, property revenues fell substantially, forcing a revaluation of the reform strategy (Kelly, 2000b). While the issue of reforms in valuation rolls has attracted a lot of attention and research (Kelly 2000, Okellokello and Nsamba-Gayiya 1998) the question on how these reform have boosted the cities capacity in meeting an ever-increasing demand of service provision has been under-researched and not answers. No reason has been given as to why these reforms failed to have an impact on service delivery. Thus the motivation is to find answers; suggestions as to why alternative measures have not been made even after the above failures.

## 1.4 Research Objectives

To make an in-depth analysis of how property taxation system in Uganda works and how it can be improved to enable local governments meet their obligation of public service provision. This study is not meant to address how urban services can be financed by LGs but how to improve one of the basic revenue sources in order to build the capacity to deliver urban services. Needless to mention that, this study is done as partial requirements for the award of master's degree in urban management and development at IHS.

## 1.5 Research Questions

The research set out to find answers to the following questions as a basis for realizing the above objectives and the motivation of the study;

*1*: What is property taxation and how is it understood or perceived in terms of both the statutory incidence (collectors) and economic incidence (payers) in the Ugandan context?

*2:* How does property taxation system function in Kampala - Uganda?

*3*: What obstacles are impeding the functionality of property taxation system?

*4*: How can the current property taxation system be improved to meet the local government obligation of service delivery?

*5:* What obstacles are we likely to face while undertaking these property tax reforms?

*6:* How does a reform in property tax system enhance delivery of urban services?

## 1.6 Research Hypothesis

The study based itself on the hypothesis that, if a property tax system was operational and properly managed, it is likely that local governments/authorities in Uganda and Kampala in particular would generate revenues that would greatly support delivery of urban services.

Note that the LGRA 2005, stipulates that, all moneys collected from Property tax shall be deposited on the account of the Fund and, subject to subsection (3), shall not be expended except for providing services such as road construction and maintenance, street lighting, anti-malarial drains, garbage collection, physical planning and such other services required by the tax payers within their areas".

The study however, acknowledges that the operationalization of any property tax system is highly dependant on the local administration capacity, political will and administration, ability to deliver taxpayer services and willingness by taxpayers. The researcher is aware that property tax alone does not guarantee full delivery of urban services required since a backlog is so large to the extent that it has surpassed the capacity of the city to deliver services. The urgency to improve property taxation system is to expand the financial resource that urban authorities can use enhance their capacity to provide the public good.

## 1.7 Limitations of the Study

The study had the following limitations;

(a) Time: The study was conducted in less than one month, which was to short to undertake a representative sample that would facilitate generalisation, never the less the samples used in the study were representative enough. At the time of the study (July 2007) KCC was the subject of investigations[2] as per *Annex 7*; the researcher was thus misinterpreted as an investigator.

(b) The reading of the Budget estimates for fiscal year 2007/08, led to the introduction of new fees - hotel fee and taxes - 5% VAT on each property transaction made by estate developers which respondents interpreted to mean property tax,

(c) Topic, information gap and bureaucracy- the topic was new to several stakeholders' information gaps and bureaucracy withstanding. Uganda is also the host of CHOGM in November 2007, all attention and interviews in government institutions were being directed towards this activity, other issues of research were not being given priority. These encumbrances were the reason why FDGs were not used as planned and why more that 60% of the respondents interviewed were sampled through a snowball sampling.

[2] A Commission of Inquiry had been set up by the Minister in Charge of Local Governments to investigate and punish those responsible for the mismanagement of funds in the council.

## 1.8 Thesis structure

The thesis is divided into 6 main chapters

The first chapter introduces the study with problem statement, motivation and justification of the study, the research objectives and the research hypothesis as well as limitations of the study.

The second chapter presents the research methodology and the data collection and analysis procedure. This chapter commences with a justification of the type of research strategy and the instruments used. The scope and the population sample are explained as well as data quality while justifying its validity; objectivity and reliability. Additionally the chapter elaborates the data collection procedures both primary and secondary. In later part the chapter elucidates how the data collected was analysed with a qualitative data analysis framework. The unit of analysis, variables and indicators are elaborated as well as their operationalization. The chapter ends with a research design.

The third chapter covers the literature reviewed; the study delineates some of the available literature regarding the topic beginning with a conceptual framework of the study. The chapter divulge in literature related to the questions of the study and in this regard it reflects on what authors have written about property tax; its definition; what is considered as the tax base; what exemptions are and the consequences they have on property tax administration. The literature also covers what authors have written on the functionality of a property tax system and covers critical ratios of tax ratio, collection ratio, valuation ratio and coverage ratio. The importance of property taxation is also given as from different authors before the researcher's *perceived concept of property tax importance.* Additionally, the uniqueness of property tax compared to other taxes is given as well as the bottlenecks to its functionality as viewed different authors. Towards the end, the chapter deals with literature on different experiences of property tax reforms. The chapter ends with the conclusion.

Chapter Four provides the basic information on the case studied; paying particular attention to the social economic factors; the legal provision for service delivery, current status on the infrastructural developments especially those to be funded by the property Tax Fund[3]. Further information is given on the different sources of income to the council; an overview of property taxation and reforms undertaken. The chapter analyses property tax potential yields as per the data collected from council records. Chapter five presents' data analysed or findings with themes that relate to the research questions (indicated above). Finally Chapter six deals with conclusions and recommendation of the study.

[3] A fund of all deposits accrued from property tax rates, 75% of which is expected to be used directly in delivery of specified services, more explanation in chapter four.

# Chapter 2 Research Methodology

## 2.0 Introduction

This chapter presents the research methods used in the study indicating a justification for each. The Chapter highlights the research type and strategy before elucidating the research instruments. This section also explains the scope and population samples, the procedure or research techniques used in data collection and analysis; and ends with a conclusion. The basic intent of this chapter is to demonstrate how qualitative data was collected, analysed and findings presented.

## 2.1 Type of Research and strategy

Based on the problem definition, questions (how, what) and the objectives, a case study is considered the most appropriate and rightful approach since the research is exploratory, analytical and descriptive not explanatory. The study is focused on contemporary events (property taxation reforms) there is no any other research strategy to suit this study apart from a case study. As a reminder, the study investigates how property taxation system works in Kampala and how it can be reformed to enable improvements in delivery of the specified urban services. The researcher used the findings to relate reforms in property taxation with improvements in delivery of urban services.

### 2.1.2 Research instruments

Considering that this study is exploratory and descriptive, qualitative methods or techniques of research were used. For proper in-depth data collection, open-ended interview guides were also used. The researcher had planned to use focus group discussions but due to the limitations of the study indicated above, FDGs could be used. The researcher used other multiple research strategies[4] such as observations and use of daily newspaper articles to exploring the general public perception on property tax[5].

### 2.1.3 Research scope, population and sample

The study focuses on one local government - Kampala City Council (KCC). This study analyses and describes the current property tax system paying interest of the inherent failures/weaknesses with an intention of identifying possible reform areas within the system. Kampala city council is defined in the context of this study as city local authority or local government. The research population comprises of Kampala city council; public institutions related to property tax and taxation in general; professional bodies; opinion leaders; officials in the MoLHUD, MoLG; property owners; and Estate agents. These respondents were purposively sampled for two reasons, *(i)* most of them are government or established public or private institutions with premises easily accessed by the researcher, *(ii)* the case being handled was a contemporary one that needs those who have interacted with issues regarding property tax.

The researcher opted for Kampala because it is Uganda's largest city with the highest population growth and has the highest demand for urban services particularly those

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[4] The use of multiple research techniques/strategies was to be able to get as more data as necessary in a country with a large information gap and institutionalized bureaucracy.

[5] At the time the study was carried out, the budget estimates for the fiscal year had been read and there were several public reactions and opinions published in the daily press and some of them reflected a lot on property tax administration.

labelled to benefit from property taxation, above all its one of the four major urban areas with the highest property values. Samples were purposively made (as justified above) and clusters included real estate development companies; tenants and landlords of commercial premises in the area on which a snowball sampling technique was used; Clusters were developed on professional bodies and Non Governmental Organisations.

Purposive sampling was used for government institutions in order to have both local and central government, considering that the study area has a decentralized system of governance and the fact that the local authority administers property taxation directly. Considering uniqueness of the topic; considerable lack of information among the public and high bureaucracy, a snowball sampling was employed to enable the researcher collect information from informed respondent, this was handy in validating the findings.

### 2.1.4 Data quality

#### 2.1.4.1 Reliability

Reliability was enhanced by designing relevant interview schedules, keeping a close contact with the research supervisors for respective comments as well as continued revision of the interview schedules. The researcher always began interviews by interacting with the respondents such as asking them their education background and work experience as a way of building rapport but also to be able to know if the respondents were informed about the topic.

#### 2.1.4.2 Validity

Exploring various literatures, use different theories and referring to the empirical cases in the literature enhanced validity. This provided the basis for references during data collection and analysis. Through this the researcher maintained coherence and conformity with the research design. The use of different techniques in research i.e. Scheduled interviews and Focus group discussion or a multiple technique usage (triangulation) was helpful in maintaining validity of the findings.

#### 2.1.4.3 Research objectivity

The researcher achieved objectivity by maintaining a minimal influence of data collection methodology and data quality and asked open-ended questions through out the study as well as avoiding possible leading questions.

## 2.2 Data collection

Two methods of data collection were used for this study: Primary data collection through the field work and secondary through desk study and documents review. This is further elaborated below;

### 2.2.1 Secondary data collection

A desk study of books, journals, periodicals, reports, unpublished papers and web research was conducted to build the research concept, identifying relevant theories, placing the study objectives within the existing acceptable body of knowledge on the subject of property tax reforms while identifying the gaps between other studies undertaken in comparison to this study. This undertaking helped creation of the theoretical body before the commencement of the field study; the information collected was addressed to the experiences of undertaking reforms in local governments, the impediments or obstacles and the benefits of having a functioning property tax system. The details of which are indicated in *Chapter three*.

### 2.2.2 Primary data collection

A total of 30 interviews were planned from which 20 were purposively selected. However, due to the field difficulties in getting hold of the interviewees because of the limitations indicated above *(refer to 1.7)* only 12 respondents out of the 20 purposively selected were interviewed while 15 respondents were sampled through snowball. The study was therefore short by 3 respondents since a total of 27 interviews were conducted. The details of planned respondents before the fieldwork are attached as *Annex 2, Table 14.*

Primary data collection was done through scheduled interviews with officials of KCC in charge of Revenue development programs; Council tax agents; Officer in charge of Finance and Economic planning of KCC; The Deputy Town Clerk in charge of finance; Officers from the MoLG responsible for Local governments Revenue enhancement program, that supports local governments in raising local revenues. Planned interviews were also held with officers from the MoLHUD. While non-formal interviews were held with MoFPED, URA and UBOS staff. Further interviews were held with Estate Development companies; Estate Management companies and several property agents; tax payers; commercial building owners; who shared their experience on the property tax system.

In-depth and informative interviews were held with a representative of the Institute of Professional Valuers of Uganda whom the researcher used as an opinion leader regarding a number of publications he has made on property taxation in addition to being the valuation field for over 30 years. Further in-depth interviews were held with KCC valuation office, which gave the researcher information on how the system works the impediments, and advised the researcher on the proposals for reform.

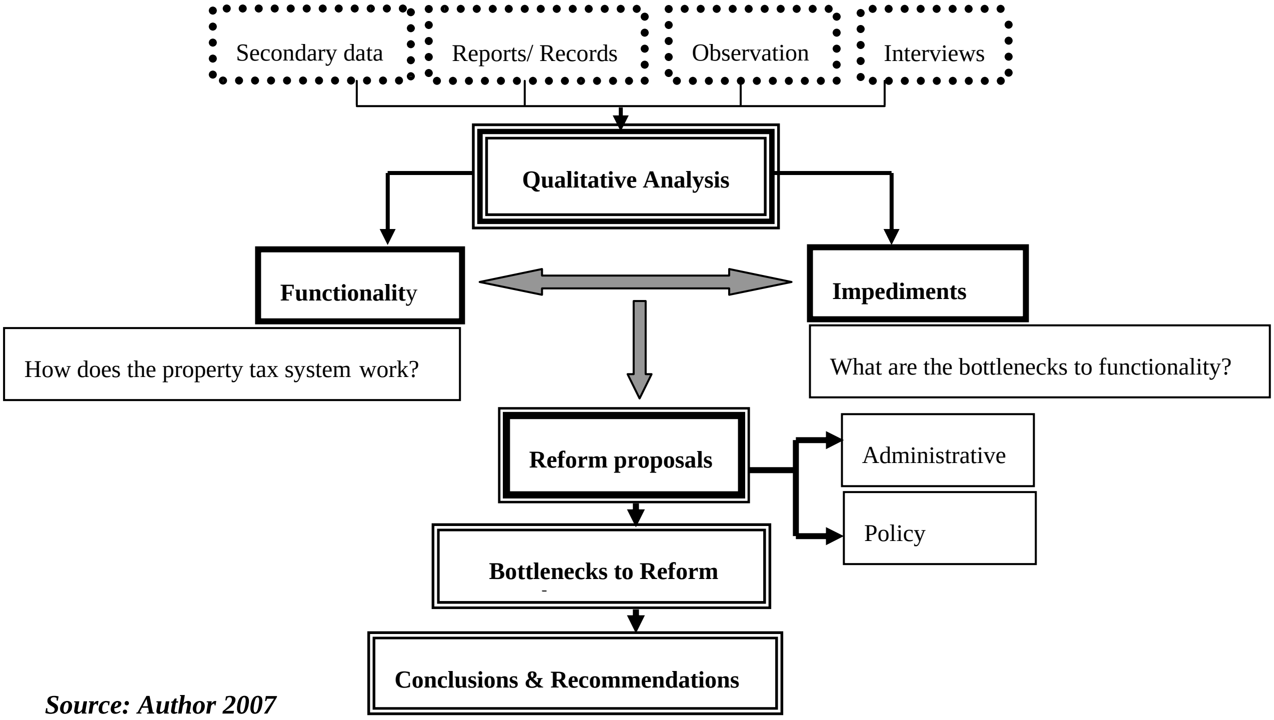
## 2.3 Data Analysis

The analysis of the how property tax is perceived and how it functions was done using a qualitative analytical framework. This involved relating responses from different stakeholders and identifying the similarity in these responses. A simple analysis was also made to separate tax administration related reforms from policy; fundamentals were then identified and classified. A descriptive framework was used to relate the opinions and suggestions generated from the several stakeholders into reform proposals. The information or data from key stakeholders involved in the day-to-day property taxation administration were qualitatively analysed using a simple stakeholder analysis scheme, suggestions were then grouped and both weaknesses and strength of the system identified.

A possible relationship between improved property taxation system and delivery of urban services was analysed by identifying the critical limitations to the delivery of particular services, analysing how funding for such services has been made over the years, analysing the taxpayer services; analysing the relevant statistical data from the council such as property tax potentials, percentage of the estimate collected; amount uncollected in relation to the specified services.

In summary the following analytical framework as shown in *Figure 2 below* was used.

**Figure 1: Data Analysis Framework**

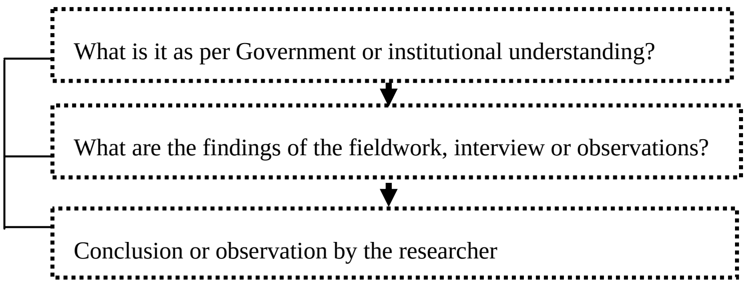



***Source: Author 2007***

### 2.3.2 Data presentation:

From the above analysis, researched data was presented using a three-ladder data presentation framework indicated in *figure 3 below.* Starting with what it is according to the legal or institutional understanding (government position or documents reviewed)? The second step was the findings from the interviews, observations (how is it perceived or how it works in reality). And the last step was an observation or conclusion by the researcher.

**Figure 2: A three-ladder data presentation framework:**




***Source: Author 2007***

## 2.4 Unit of analysis, variables and Indicators

The study's unit of analysis was Property taxation reforms in Kampala City Council, the other units analysed were the citizens of Kampala; key institutions including - URA; MoLHUD; MoLG, MoFPED one part while Estate developers; Agents, Professional bodies; Opinion leaders, NGOs and Commercial building owners and tenants on the other hand. These sources of data respond to the variables developed for the study as indicated in *Table 1* bellow;

### 2.4.1 Variables and indicators

*Table 1* below summarises variables and indicators used in the study and the respective variable operationalization. These variables were developed further in both the literature review and theoretical framework.

**Table 1: Indicating the different variables and sources of data:**

| **Independent variable** | **Concept** | **Dependent variables** | **Indicators** | **Source of data** |
|---|---|---|---|---|
| **Property taxation Reforms** | **Administrative /technical concept** | Taxation ratio and coverage<br>Fiscal cadastre completeness | Taxation base; cadastre information available, property inventory | a) KCC<br>b) MoLG<br>c) URA |
| | | Valuation and assessment techniques | Type of assessment used:<br>Capital market approach, annual rental value; individual assessment, mass appraisal, income approach, valuation rolls, indexing | KCC, MoLHUD; URA<br>Professional bodies (valuers Institute) |
| | | Billing and Collection ratio | Amount collected in reference to that billed and in what time and cost. | |
| | | Enforcement | Enforcement mechanism | a) KCC<br>b) MoLG<br>c) MoFPED |
| | | Appeal mechanism | Revaluations made | |
| | | Tax payer services and Accountability | State of Urban services described in LGRA | |
| | **Policy Concept** | Base definition and liability | tax base and exemptions; liability of rates | MoLG; KCC; the public |
| | | Statutory incidence | Powers to impose (local and central) | MoLG |
| | | Political support and public acceptability | Relationship between the economic and statutory incidences | Citizens, Opinion leaders; CBOs |
| | | Institutional framework | Relationship between tax agencies and local governments. | KCC. |

*Source: Author 2007*

### 2.4.2 Operationalization of variables

The researcher acknowledges the different definitions and meanings attached to different variables, but for the purpose of fulfilling the objectives and the research questions indicated above the definitions of variables was strictly limited to;

**Tax base** is defined according to the government policy in terms of what is and what is not taxed, typically the value of that base under an ad valorem tax system(Kelly, 2000b).

**Coverage ratio** is an amount of taxable property captured in the fiscal cadastre, divided by the total table property in a jurisdiction, measuring the accuracy and completeness of the valuation roll (Kelly, 2000b).

**Valuation ratio** is the value on the valuation rolls divided by the real market value of properties on the valuation roll. This measures the accuracy of the property valuation level(Kelly, 2000b). While valuation roll shall mean the comprehensive property tax valuation register for tax purposes.

**Property Tax** means compulsory charges or levies that relate specifically to the ownership, occupation, or improvement of land or of land and buildings (McCluskey, 1991)

**Tax rate** is defined as the "rate struck" for taxing jurisdiction, measuring the tax amount per value of the property that is to be paid as tax. The tax ratio (or tax rate) is normally determined through the annual budget process (Kelly, 2000b)

**Collection ratio** is defined as the tax revenue collected over the total liability billed for that year, measuring the collection efficiency. The collection ratio is affected by the collection of both current liability and tax areas (Kelly, 2000b).

**Urban Services** in this study are those emphasized by the LGRA 2005. Section 37(2) of the LGRA 2005, requires that "all moneys collected from property tax shall be deposited on the account of the Fund and, subject to subsection (3), shall not be expended except for providing services such as **Roads construction and maintenance, street lighting, anti-malarial drainages, garbage collection, physical planning** and such other services required by the tax payers within their areas" and Section 37(3) requires that a minimum off 75% is used for the above services.

## 2.5 Research design

The research was undertaken following the steps indicated in *Annex 3, Figure 12*. The intention of developing the kind of research design was to guide the researcher in the process of collecting, analysing and interpreting different observation as suggested by Nechmias & Nechmias (1992).

### Conclusion

This study is being undertaken with an interest to analyzing how the property tax system is perceived in the local context and how it functions. Key interest is paid on the current bottlenecks to its functionality with an aim of developing proposals that can make the property tax system function better. A case study was conceived as the best research strategy for this kind of investigation, which seeks, to answer *what* and *how* questions.

The research instruments are qualitative methods, emphasizing data collection through open-ended interview guides. Considering the uniqueness of the topic, the researcher shouldered the interviews alone. The scope of the study is Kampala city council with the focus on property taxation as a topic. The data analysis framework was used in understanding critically the failures in property tax system as well as making proposals for reform.

# Chapter 3 Literature review

## Theoretical Background to Property Taxation Reforms

### 3.0 Introduction

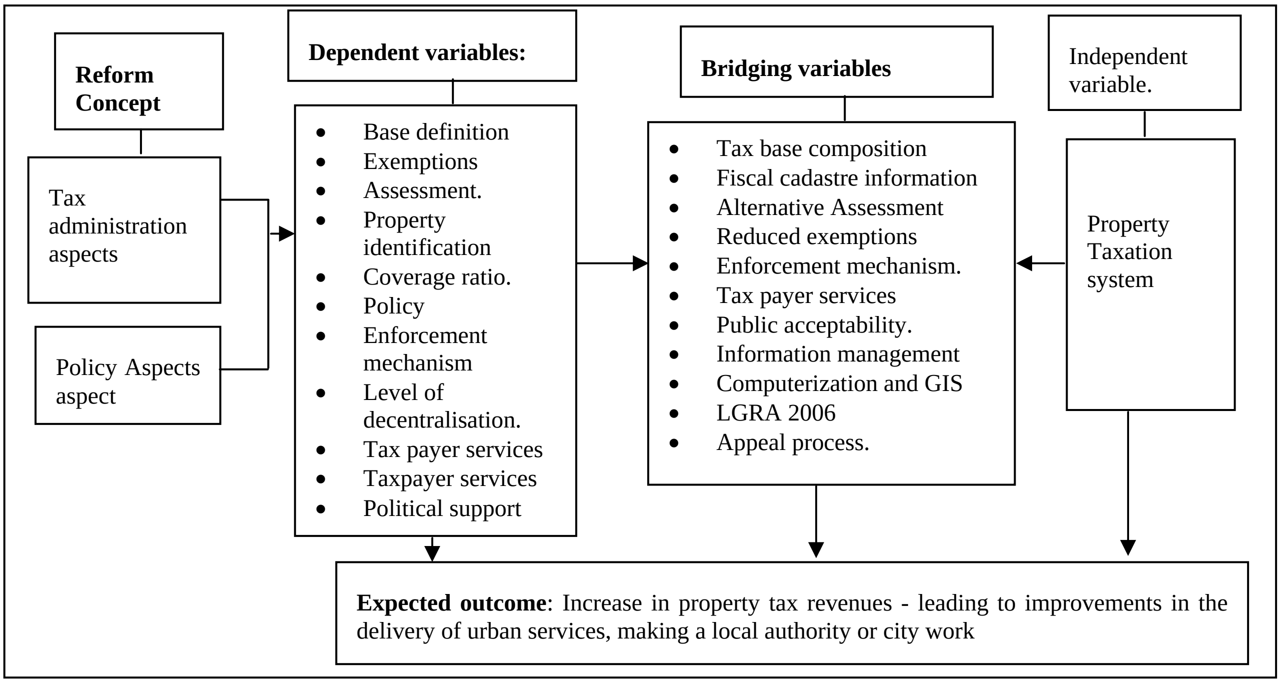
This chapter provides theories and concepts through which the study hinges and systematically addresses concepts related to the research questions and objectives. This section begins with an elaboration of the conceptual framework (*figure 3*) which is the backbone of this literature review - elaborating the impression therein and how they relate to the theme (objectives) of the study. Further explanation of the variables (*bridging variables*) used is reflected in part *3.3(functionality of property tax*). The second part (3.2) deals with the definition of property tax in terms of both the framework of this research as well as the attending to definitions from the literature reviewed. In subsection 3.4 the chapter dwells a lot on why property taxation is important in the local authorities, local governments and how it's a unique source of revenue that should be attended to. This section also puts forward some of the characteristic or uniqueness of property taxation in comparison to other forms of taxation as put forward by a number of authors, scholars and property tax experts. The obstacles or bottlenecks are dealt with and the chapter winds up with the reform proposals as experienced by different writers in different countries that have had diverse systems of property taxation; a general conclusion is also drawn as well.

### 3.1 The conceptual framework

The theoretical point of departure for this literature review is based on the conceptual framework of this study in *Figure 3 below* developed by the author in which the concepts for reform, *the dependent variables* and *bridging variables* are highlighted as mechanisms through which property tax system can be reformed to achieve improvements in the delivery of urban services. The author believes that the operation, existence or functionality of any property tax system hinges on both political and administrative concepts; these concepts are indicated as dependable variables. It is imperative to note that from the entire literature reviewed, property tax is a functionality of the tax base determined by the central or local authority owning the property tax system excluding or clearly indicating the exemptions. This is seconded by the tax ratio which is determined by a the type of value assessment that may either be market value or capital value; rental value or annual value; areas based assessment; site value or land value or even self assessment. These variables provide the valuer with the rate at which a property can be charged, which may be referred as valuation.

A combination of billing, enforcement and the number of properties on the valuation roll coupled with taxpayer services; public and political will are the key elements to the functioning of the tax and any reforms must specifically address these elements. The reform procedure would be addressing the bridging variables and the result as expected, would be an increase in revenues for local or city authorities. The author is aware that property tax alone cannot create a sufficient resource for the delivery of all public services but can facilitate improved garbage collection; fund road maintenance and other public facilities street lighting. The urgency for reform is therefore to improve or enhance the capacity of urban authorities to be able to reduce the backlog already created by the ever increasing demand for urban services due to population growth which is not pinned to any particular cause but has devastating effect on service delivery.

**Figure 3: Conceptual Framework**




*Source: Author 2007*

## 3.2 Definition Property tax

Property taxation is defined in the framework of this research as an annual local government tax on real property or personal property based on a given tax rate. The tax may either be on land or development on land or both. An assessor, a valuer or a municipal/city official usually establishes the value. Property tax may be in form of an Ad valorem that is a tax based on value, this is implies that the property value is based on a percentage of the country's assessment of the property's value. The assessed value may be the standard basis for local real property tax.

Property tax is also defined as a recurrent tax on real property (land and/or improvements) in urban areas; as such property tax is only one of several forms of real-property-related taxation (Dillinger, 1988). Property taxes are compulsory charges/levies, which relate specifically to ownership, occupation or development of land and buildings. They are mostly levied on capital value or annual rental value (real or imputed) and are collected for use by the local authorities (Nsamba-Gayiiya, 2002). Property rates, which in Uganda are alternatively called "assessment rates" or "municipal rates," are a local tax levied by Urban Authorities (Okellokello and Nsamba-Gayiya, 1998).

### 3.2.1 Principles

A number of principles underlay the design of property taxation and can also be used to evaluate existing systems, they fall in administrative, social justice, economic and political categories while others are contemporary or mutually contradictory, in the final analysis most of them are based on common sense notions of fairness, equity and uniformity predominate (Almy, 2001).

To Almy (2001), *uniformity* implies proportion taxation, often in relation to *ability to pay*. A policy of uniformity may have a fiscal benefit in market value-based system. In them, over valued taxpayers complain most quickly about high taxes, which may cause governments to limit the rates, resulting in under-valued taxpayers paying less in tax than they might otherwise be willing to accept. *Neutrality*, a uniform, broad-based tax is likely to be neutral, that is, not to distort economic decisions. An efficient tax encourages an optimal mix of the factors of production (labour, capital, management and land), which according to economic theory increases the general welfare because high taxes on one factor of production tends to shift investment towards others with lower taxes. For example a levy on the owners of buildings might be passed along to the tenants in the form of higher rents. This shift might be part of the rational for some forms of discretionary taxation; businesses, in effect, are viewed as tax collectors (Almy, 2001).

*Stimulation of business environment* - the rational for equitable taxation of business property is the need to provide a level playing field; overtaxed properties are at a competitive disadvantage. However, the tax preferences and incentives-deliberate departures from the uniformity principle- are sometimes used to subsidize particular industries or to attract business and investment. *Openness* is a characteristic of democratic government, open immovable property markets function better. *Public acceptance* is the cumulative effect of many things, including level of tax, ease of payment, benefits received, openness and perceived fairness. A genuine commitment to public service and a successful public information and assistance program can build public acceptance. *Buoyancy* refers to the ability of a tax yield to rise or fall with the economy, since property taxes are not transaction - or flow based, buoyancy requires administrative actions, such as frequent revaluations, adjustments to property tax rates or both (Almy, 2001).

Another principle of property tax according to Almy (2001) is *cost efficiency*; he noted that conceptually, a cost-effective property tax system is one where virtually all taxable property is discovered, valuation and other assessments errors are minimised, tax collections approach 100% of the total amount due, and the costs of administration are minimised. In practice he says, it is difficult to express all efficiency measures in monetary terms and each criterion must be evaluated separately. The notion of cost-effectiveness embodies the economic concepts of marginal utility and diminishing returns that is a certain level of expenditure is needed before any measure of efficiency can be achieved, but the optimal level of expenditure may be significantly below the level of expenditure that maximises effectiveness. However, one can sometimes change a property tax system (for example, by installing a newer computer system) to achieve an increase in effectiveness without additional cost.

***What is taxed?***

According to Bird and Slack (2004), property taxes are generally levied on all types of properties - residential, commercial, and industrial, as well as on farm properties. Sometimes different categories of property are treated differently, sometimes certain classes of property, or property owner, or uses of property, are exempt while at times land only is taxed. Property tax differ in different countries, some countries tax land only, a few tax buildings while most tax both land and buildings (or improvements), usually together but in some countries (such as Hungary) separately. Some also tax machinery (or tangible business assets).

According to Kelly (2000), the East African countries for example only the land portion of the property is taxed in Kenya which is apparently the same in parts of Australia and South Africa, in Tanzania only buildings are taxed while in Uganda both land and buildings are taxed as *Table 2 below* indicates, Bird and Slack (2004) emphasise that in countries where both land and improvertities are taxed, the land portion is sometimes taxed more heavily than improvements.

**Table 2: Comparative property tax bases in east African countries:**

| | **Tanzania** | **Uganda** | **Kenya** |
|---|---|---|---|
| **Tax base** | Buildings | Land and buildings | Land |
| **Is government property taxed?** | No, though the urban authorities (rating) act provides for the Minister to authorise the government to pay.<br>1997, government issued an order exempting government buildings among others. | No, though government is not exempted from paying rates.<br>Central government does not pay their rates. | Yes, contributions in lieu of rates (CILOR) are mandatory in the rating act.<br>Though government has not paid in full, they make deposits every year. |
| **Assessment basis** | Flat rating and or capital value (cost approach) | Annual rental value | Area rating and or unimproved site value |
| **Tax Rates** | Flat rate (no limit but with Ministerial approval)<br>ad valorem (no limit but with Ministerial approval) | Ad valorem (up to 20%) | Area rating (no limit, but with Ministerial approval).<br>Ad valorem (up to uniform 4% with override provision subject to Ministerial approval. |

*Source: Kelly (2000) page.2)*

***What is not taxed and why, how does it affect property tax collection?***

In every country some properties are exempt from property tax base. Exemptions may be based on factors such as ownership (such as government-owned property), the use of the property (such as properties used for charitable purposes), or the characteristics of the owner or occupier (such as age or desirability) in some countries, exemptions are granted by the central or state; in other countries exemptions are granted locally in some, both levels can grant exemptions (Bird and Slack, 2004).

According to Okellokello and Nsamba-Gayiiya (1998), all properties in gazetted urban areas in Uganda are rateable and exemptions include; properties in the personal occupation of the president, properties used exclusively for public service, properties used exclusively for burial or burning grounds, properties used exclusively for the purpose of any charitable or educational institution supported only by endowments or voluntary contribution; and qualified outdoor sports/recreation properties as specified by the Local Government (rating) Act 1979. In practice, there is a lot of pressure from educational institutions and hospitals to be exempted from rates. It’s worth noting that the central government pays rates on all its properties. It would be self-defeating to rate UA properties (Okellokello and Nsamba-Gayiya, 1998). *But the question is how then do these exemptions affect the tax base?*

According to Bird and Slack (2004), exemptions reduce the tax base considering that some potential properties are left out of the base above all exemptions have been criticised on a number of grounds;

i. The extent that people working in government buildings or institutions use municipal services just as workers do in other buildings, they should be taxed (Bahl and Linn, 1992 p.100)

ii. The differential treatment means owners/managers in payment in lieu or taxed properties face higher costs than owners/managers of exempt properties. This differential will have implications for economic competition among business and between and government (Kitchen and Vaillancourt, 1990).

iii. Differential tax treatment affects location decision, choice about what activities to undertake, and other economic decisions. Exemptions narrow the tax base and there by increase the taxes on remaining taxpayers or reduce the level of local services that can be offered and, the proportion of tax-exempt properties varies by municipality, there by creating disproportionate tax burdens across communities.

The result is especially troubled when higher-level government determine what is exempt from local taxation. Slack (2002) argued that exemptions violate the principles of neutrality because they favour property or land users and distorts the distribution of the tax burden. *What then is the case for the taxpayers in Kampala, how does this reflect on the fact that vacant land is not part of the base?* This study will explore answers to the above concerns.

It can thus be concluded from the above definitions that, property tax can be understood as a tax on land or developments on land though in certain countries depending on the national goals; this tax can be expanded to include industrial equipments and other properties. It also goes without saying that not all land and developments on land form the base of property taxation as all countries have exemptions. However, the definition of property tax alone may not help us understand the dynamics therein; we thus need to understand how it's administered in order to be able to assess its performance, which fits well in the context of this study.

## 3.3 Functionality of property tax

According to Bird and Slack (2004), the first step in levying property tax is to identify the property and to determine the owner (or the person responsible for tax liability). A fiscal cadastre requires the following minimal information for each property: a description, a definition of its boundaries (using cadastre maps), ownership, and the value of land and improvements. The preparation of the cadastre maps is an essential element of property identification. It is necessary to establish a complete inventory of all properties and to assign a unique property identification number to each parcel to allow for the tracking of all parcels. Property identifiers also allow for the linking of assessment, billing, and property transfer records.

Property identification requires that existing information on properties within the jurisdiction is updated and made consistent. As shown in many of the case studies, at present some of the needed information is held by different agencies, for example, in Latvia by the state land services, the title book service, and the state tax service. Information that needs to be collected for each property includes for example an assessment roll number of the property, the address, the owner(s) of the property, and the area in square meters, the age of the unit and whether it has been renovated. The information collected has to be reported in a consistent way and a process needs to be established to update it on an annual basis (Bird and Slack, 2004).

Almy (2001) argued that property tax system does three things; it identifies and links taxable subjects (tax payers) and objects (taxable property). It produces tax assessment; it collects tax; if any of these is done poorly, tax equity will suffer, and public acceptance will erode. The achievement of the ultimate objective of a property tax system - an equitable, legal apportionment of property tax requires carefully planning and wise use of resource, sufficient data, and in a market value based system, a mass appraisal program capable of producing accurate, supportive valuations. But the process does not stop with valuation. Exemptions and other relief measures must be applied; Valuation or tax notices must be issued and delivered to taxpayers. Taxpayers must be allowed to review their assessments and appeal them if they desire. Appeals must be processed. Tax payments must be received, properly accounted for and deposited in the appropriate treasury. Taxpayers must be provided with sufficient information to fulfil their obligations. Taxpayer questions must be answered and their acceptance of new property tax systems obtained.

To Kelly (2000), Property taxation relies extensively on active government participation to ensure that tax base information and property values are kept up-to-date and that taxes are properly assessed, billed, collected and enforced. Thus, any property tax reform strategy must recognise this administrative- intensive nature and importance of direct and active government administration for its revenue buoyancy. According to Kelly (2000) a property system involves six major functions: *i) tax base identification, ii) tax base valuation, iii) tax assessment, iv) tax collection, v) tax enforcement, and vi) dispute resolution and taxpayer service.* Each of these functions is linked to four critical ratios of *coverage, valuation; tax* and *collection*; this conceptual model of property tax revenue developed by Kelly (2000) illustrates the relationship between total revenue collection and these various ratios. As the formula indicates, tax revenue is a function of two variables related to policy choices, namely tax base definition and tax ratio (TR) and the three variables related to administrative action, namely increasing the coverage ratio (CVR), valuation ratio (VR and collection ratio (CLR):

***Property Tax Revenue = Tax Base * TR * CVR * VR * CLR***

These ratios will be discussed in this literature review indicating how they impact on the functioning of any property taxation system as put forward by Kelly 2000a and Kelly 2000b.

Okellokello and Nsamba-Gayiiya (1998) argues that the responsibility of levying in Uganda lies within the Local Authorities. They can legally charge a maximum rate of 20 percent of the rateable value and can set this rate without the input or approval of the central government. Before the promulgation of the new constitution in October 1995, Urban Authorities (UA) had to have their budgets approved by the Minister of local Government but with the new constitution UA have gained financial autonomy (Okellokello and Nsamba-Gayiya, 1998).

### 3.3.1 Tax base

Tax base is defined according to the government policy in terms of what is and what is not taxed, typically the value of that base under an ad valorem tax system (Kelly, 2000b). The base of the recurrent urban property can be distinct in one of two basic ways, (i) unimproved site value where only land is taxed and (ii) improved site value where both land and improvements are taxed. The base of the unimproved site value definition generally includes both vacant and land that is built upon. The difference between the two systems is therefore only whether improvements are included in the base (Dillinger, 1988). The case for taxing land rests largely on allocative considerations. Because land is inelastic in supply (under orthodox assumptions), imposing a tax on land does not interfere with the allocation of resources. A tax on improvements, in contrast, would lead in the long run to a reallocation of capital to untaxed sectors and location. Allocative neutrality can thus only be achieved by confining the property tax base to land (Dillinger, 1988) *despite such an argument its surprising that vacant land in Uganda does not form part of the property tax base.*

The property tax base under an ad valorem system is also the total value of the properties that are defined as liable for taxation. The property tax base for an area-based tax would be the total area of property that is defined as being taxable. Therefore, property tax base is typically defined broadly to include all land, all buildings or both, with exemptions listed separately in the legislation. Uganda unlike her neighbouring countries of Kenya and Tanzania, exercises property tax on both developments on land and commercial buildings.

### 3.3.2 Tax rate or tax ratio (TR)

Tax ratio or tax rate is defined as the rate struck for the taxing jurisdiction, measuring the tax amount per value of the property that is to be paid as tax under an ad valorem system or as the amount per unit under an area rating system. The tax ratio or the unit tax amount is normally determined through an annual budget process. In simplest form, the tax rate structure would be an average uniform rate applied to the potential tax base(Kelly, 2000a). The tax rate and structure vary throughout the world; property taxation in some countries is a central government shared tax: the central government sets the tax rate, with no discretion given to the local governments (e.g., Indonesia and Chile). In most countries, however, allow local governments to set tax rates, often-requiring central government approval (e.g. Tanzania, Malawi, Namibia and Zambia). Other countries allow local governments to set rates within general limits set by the central government (e.g. Philippines) and some allow local governments to set tax rates up to a maximum, above which central governments approval is needed (e.g. Kenya) (Kelly, 2000a).

*How is the tax rate determined? Or what is the basis for the value?*

Once the taxable base has been determined, the next step is to determine the value to which the tax rate is to be applied. According to Bird and Slack (2004) quoting from Youngman and Malme, 1994; and McCluskey, 1991; two distinct assessment methodologies are used for property taxation; areas based assessment and value based assessment, with the latter being divided into capital and rental value approaches. In addition some countries use a number pf other systems such as self-assessment, annual value, and site value, to mention a few.

**Area based assessment system**

Under area based assessment system, a charge is levied per square meter of land area, per square meter of building (or sometimes "usable" space), or some combination of the two. Where measures per unit area are used for land and buildings, the assessment of the property is the sum of an assessment rate per square metre multiplied by the size of the land parcel and an assessment rate per square meter multiplied by the size of the building. The assessment rates may be the same for land and buildings, or they may be different. for example, a lower unit value per square meter might be applied to buildings to encourage development (Bird and Slack, 2004).

A strict per unit assessment results in a tax liability that is directly related to the size of land and buildings. With unit value assessment, the assessment rate per square foot is adjusted to reflect location, quality of the structure, or other factors. Market value has indirect influence on the assessment base through the application of adjustment factors. For example the assessment rate per square metre might be adjusted to reflect location of the property within a particular zone or city. Although the specific location of the property within the zone is not taken into account, properties in different zones will have different values (Bird and Slack, 2004). These authors add that the adjustment factors are derived from average values for groups of properties within each zone and do not reflect the characteristics of each individual property.

**Market value assessment**

A market value or capital value assessment estimates the value that the market places on individual properties. According to Bird and Slack (2004), market value is defined as the price that would be struck between a willing buyer and a willing seller in an arm's length transaction. The method uses a number of methods to estimate market value including; the comparable sales approach which looks at valid sales of properties that are similar to the property being assessed. Its is used when the market is active and when similar properties are being sold; the second method is the depreciated cost approach which values the property by estimating the land value as if it were vacant and adding the cost of replacing the building and other improvements to that value, the cost approach is used when the property is relatively new, or there are no other comparable sales or when the improvements are unique while under income approach an assessor estimates the potential gross rental income the property could produce and deducts operating expenditures. The resulting annual net operating income is converted to a capital value using a capitalization rate (Bird and Slack, 2004).

Similarly, McCluskey (1991) argues that the system of capital value ideally lends itself to the assessment of domestic property where there is an active capital market (England) and that in regard to commercial property in order to obtain the capital value the rental income would have to be capitalized leading to more subjective valuer input and increased scope for appeals against the assessed values. He further notes that as capital values are more volatile than annual values, it would be necessary to continually update the tax to current levels. This will obviously have an impact on administrative, professional and technical support in terms of resources. Modern advances using computer assisted programs and mass appraisal techniques all lend themselves to property tax assessment and in long term could be cost effective.

Bird and Slack (2004) argue that market value assessment is used in all the OECD countries as well as of others including Indonesia, Philippines, South Africa, Latvia, Argentina, and Mexico. A variation of the market value approach is used in the United Kingdom under the British council tax; the value of each residential property is assessed and placed on a valuation list in one of the eight valuation bands. The value assigned to reach property only indicates the valuation band and not the actual value of the property. Any change in value because of change in house price generally does not affect the banding. Individual properties could be re-banded only under two circumstances; if the local area changes for the worse, all homes in the area may be placed into lower band. If a house is expanded it will be re-banded only after it is sold; if a home decreases in value because part of it is demolished, it may be re-banded immediately (Bird and Slack, 2004).

**Annual value or rental value assessment**

According to McCluskey (1991), the annual value is derived from the British property tax known as rates and still forms a basis of many ex-colonial countries property tax systems. The tax base is the annual letting value of the property, expressed either as a gross annual value or a net annual value. The difference between the two relates primarily to the incidence of the outgoings. Under the net annual value the tenant is responsible for all the outgoings, a typical definition would be, *"the net annual value of a property shall be the rent for which, one year with another, the property might, in its actual state, be reasonably expected to let from year to year, the probable average cost of repairs, insurance and other expenses (if any) necessary to maintain the property in its actual state, and all rates, taxes or other charges being paid by the tenant"*. For a system based on annual value to work effectively it is essential that there are substantial market transactions.

Like McCluskey (1991), Bird and Slack (2004) also indicate that under the rental value or annual value approach property is assessed according to estimated (not actual) rental value or net rent. One rationale for using rental value is that taxes are paid from income (a flow) rather than from wealth (a stock) and thus it is appropriate to tax the net rental value of real property. In theory, however, there should be no difference between a tax on market value and a tax on rental value; they note that when a property is put to its highest and best use and is expected to continue to do so, rental value will bear a predictable relationship to market value - the discounted net stream of net rental payment will be approximately equal to market value. It would be of interest to know how the Ugandan process relates to the above arguments.

Okellokello and Nsamba-Gayiiya (1998) indicate that rateable value are defined in the decree as the net annual value of the hereditament, Gross value means the rent at which the hereditament might reasonably be expected to let from year to year, if the tenant paid the conservancy fees, water rates, and all other usual tenant rates and taxes and the landlord bore the cost of repairs and any other expenses necessary to maintain the premises in a state to command that rent. To determine the rateable value, the valuer first determines gross value and reduces it by approximately 18 percent for all properties except industrial buildings. The deduction is statutory and is set by the responsible minister (OkelloOkello and Nsamba-Gayiya, 1998).

**Self-assessment:**

According to Bird and Slack (2004) self-assessment requires property owners to place an assessed value on their own property. They noted that in Hungary for example, the current local tax system is based on the principle of self-identification. Taxpayers are obliged to register and report their tax obligation to the local tax administration. The verification of tax on building and tax on idle land in Hungary requires verification only of the property size and not its market value.

### 3.3.3 Valuation ratio (VR)

Valuation is defined as the value on the valuation rolls divided by the real market value of properties on the valuation roll. This measures the accuracy of the property valuation level that is, what percentage of the market value is being captured through the valuation process(Kelly, 2000b). Valuation for tax purpose is to provide the basis for distributing the burden of property taxes, in valuation for property tax purpose, only a measure of relative value at a common point in needed. Tax valuation can therefore use highly simplified valuation methods. What is essential in a tax valuation system is that it be objective, so as to produce legally defensible valuations, and that the methodology be appropriate to the skill levels of the local authority, and market information available in the local jurisdiction (Dillinger, 1988). Value for tax purpose is generally denominated in one of two ways; as annual rental value or as capital (or sales), value. As indicated above, the definition used in a country generally reflects its colonial history, much of Africa and south Asia define value on the basis of rent; Latin America and East Asian define value of the tax basis of sales or market value.

*The question is how does valuation and valuation ratio facilitate the functionality of property tax?* One of the ways of answering this question is by understanding how valuation and valuation ratio is used to determine the appropriate tax to be charged.

Dillinger, (1991) like McCluskey (1991) and Bird and Slack (2004) argues that property tax can be denominated in two ways; either on the basis of the rent a property would be expected to yield (its annual rental value) or according to its expected sales process (termed capital or market value). Although both capital value and rental value reflects the income to be derived from a property in the future, including income generated by more intensive use of the property, as a result, the capital value definition will tend to place higher proportion of the property tax burden on underused property - vacant land or built-upon properties that the market perceives as ripe for conversion to more intensive use.

The choice of a system is largely a reflection of historical association. The United Kingdom and France have traditionally valued property on the basis of rental value; in general, their one-time colonies in Africa and Asia do so. Countries influenced by the United States (the Philippines, Liberia and most Latin America) follow the US practise and define value on the basis of capital value. The capital value definition is also used in most northern Europe - Germany, Netherlands and Japan, Turkey and Indonesia as indicated in the *Table 5* below (Dillinger, 1991).

**Table 3: Definition of value and liability: selected countries**

| **Annual rental value** | | **Capital value** | |
|---|---|---|---|
| Owner | Occupant | Owner | Occupant |
| Nigeria | United Kingdom | Brazil* | (no cases) |
| Jordan | | Mexico | |
| Pakistan* | | Philippines | |
| India** | | Peru | |
| France | France*** | Japan | |
| Spain | | Germany | |
| Cote d'Ivoire | | United States**** | |
| | | Indonesia | |
| | | Liberia**** | |

* Primary liability rests with owner, second liability with occupants. ** Calcutta, under new law, tenant is liable for the difference between tax owned on rent-controlled base and tax owed on market base.

*** French "land and building tax" (tax fonciere sur les properties baties) is imposed on owner; "property tax" (tax d'habitation) is imposed on the occupant. Both taxes are imposed on the basis of estimated annual rental value (ARV).

**** Legal liability rests with the property itself (ad rem); enforcement directed at owner.

*Source: Dillinger (1991), page 15*

### 3.3.4 Collection ratio (CLR)

Collection ratio is defined as the tax revenue collected over the total tax liability, which has been billed for the year. This measures the collection efficiency and is affected by collection of both current liability and tax arrears - enforcement efficiency (Kelly, 2000b). The issue here is how then does this affect the functionality of property tax system? The production of revenue ultimately depends on effective system of billing and collection. This aspect of property tax administration is often overlooked in favour of reforms in the discovery and valuation system (Dillinger, 1988). Such upstream improvements do not necessarily produce increase revenues unless complementary improvements in the billing and collection system are made. The objective of billing system is to fulfil the taxing authority's legal obligation to notify the taxpayer of his liability. Dillinger (1988) argues that success of this depends as much on the legal definition of liability as it does on the mechanics of producing and delivering the bill.

### 3.3.5 Coverage ratio (CVR)

Coverage ratio is an amount of taxable property captured in the fiscal cadastre, divided by the total table property in a jurisdiction. This coverage ratio, which measures the completeness of the tax roll information, is determined by the administrative efficiency of identifying and capturing data on all properties by using either field surveys, secondary property information or tax payer provided information (Kelly, 2000b, Kelly, 2000a). *How does coverage ratio relate to buoyancy in the property tax system in terms of property information from which the valuation rolls are made?* The first step in property tax administration is the assembly and maintenance of tax base information. This is compilation of property related information, called the fiscal cadastre, and would include essential information on land and improvements depending on the policy choice regarding base definition.

It can be thus concluded that property tax is functionality of tax base, tax ratio, collection ratio, valuation, and coverage ratio though these ratios depend highly on the political aspects such as governance and public acceptability including the appeal and penalty system as summarised in the *Table 4 below* adopted from Kelly (2000) pp 40. The second general conclusion is that the system of determining rates used in most countries was inherited from their past colonial masters with the exception of a few that were not colonised at all such as United Kingdom, therefore the property tax system in Uganda may be understood by understanding its colonial past and how it has determined it's operation before suggesting areas of amends.

**Table 4: Property tax administration function and the four critical ratios**

| | Property tax function | Objective | Action | Critical ratio |
|---|---|---|---|---|
| 1 | Base identification | To determine what will be taxed | Identify the tax base (land, building and/or machinery and equipment); Identify the exemptions from the tax base. | coverage ratio |
| 2 | Tax base | To determine how the tax burden will be distributed among the tax payers | Weight the tax base (either by area, by other characteristics or by value): Influence the distribution of tax burden among the taxpayers. | Valuation ratio |
| 3 | Tax assessment | To determine how much tax will be levied: To determine how the tax burden will be distributed among tax payers | Determine the overall tax level; Influence tax burden distribution among tax payers through varying effective tax rates. | Tax ratio |
| 4 | Tax collection | Tax collection | Issue and deliver tax bills; collect the tax | Collection/enforcement ratio |
| 5 | Tax enforcement | To determine how much revenue will be collected through enforcement. | Enforce against non-compliance (sanctions and penalties) | Collection/enforcement ratio |
| 6 | Tax (and valuation) Appeals Resolution. | To ensure that the tax is equitably administered | Resolve disputes concerning property information, valuation or tax assessment | Linked to coverage, valuation, and tax ratio. |
| 7 | Taxpayer service | To provide services to the taxpayer. | Tax education; Tax payer services | Linked to collection ratio (i.e. good taxpayer service will encourage higher collection ratio |

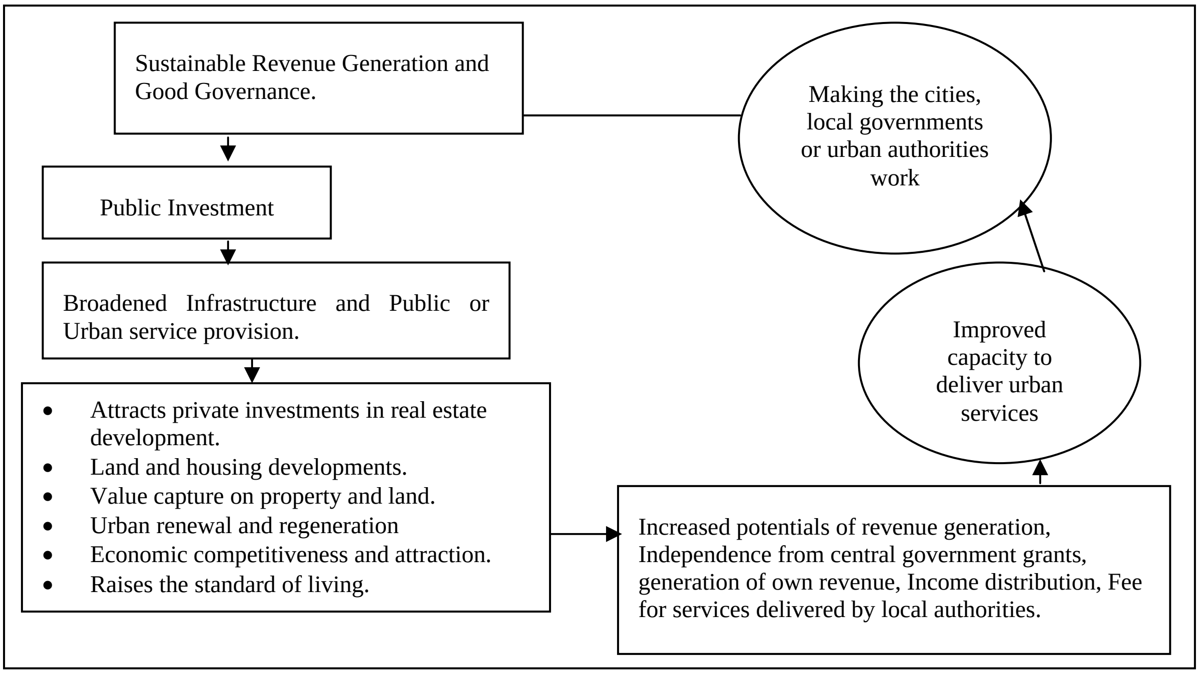
*Source: Kelly (2000)*

## 3.4 Importance of Property Tax:

The importance of property tax in the context of this study is to make cities, local governments or local authorities work. My perceived idea is that cities or urban authorities are able to deliver urban services if they have a combination of a sustainable source of revenue and good urban governance. A number of urban services such as water, roads construction, hospitals or schools are in most cases financed jointly either through Private Public Partnerships; Donor or international funding; or through central government grants, but services like road maintenance, street cleaning and garbage collection are financed mainly from revenues generated from property taxation which is what makes property tax an important element in city administration.

In the *Figure 4 below*, The concept is that an urban authority is able to work with sustainable revenue generation and good urban governance which tantamount to public investment, this kind of investment broadens infrastructure and provision of public services which consequently attracts investments in the city inform of land and housing markets development, value capture is achieved as opposed to decay and as a result the city achieves urban regeneration, economic competitiveness national and international and raises the standard of living. This improvements lead to an increase in the property tax base as the city charges tax (property) and user fees, which in turn enlarge their financial resource that consequently enhance service delivery, a local authority every where in the world has only one duty - *delivering public services*.

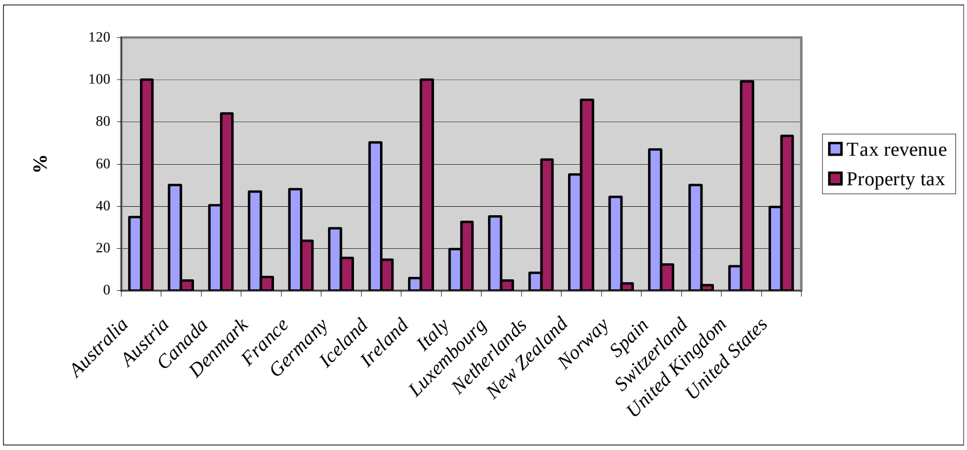
**Figure 4: Perceived Concept of Property Tax Importance**




***Source: Author 2007***

Property taxation plays a major role in financing local governments through out the world. Although comparative data are scarce, property taxes account for 40 - 80 percent of the local governments finance, 2-4 percent of the total government taxes, and about 0.5-3.0 percent of the GDP (Kelly, 2000a). In contrast to developing countries tend to generate significantly less property tax revenue, with property taxes typically generating a maximum of 40 percent of local government revenue, 2 percent of total government revenue, and about 0.5 percent of GDP. The author noted although Kenya was underutilizing its property tax capacity, property tax provided an average 22% of total recurrent revenues for local authorities and represented 1.3% of total government tax revenue and 0.3 percent of GDP and that property tax rates in 1994-95 provided K£60.2 million and K£ 5.1 million to the municipal councils and to town, urban and country councils, respectively. This is similar to an analysis made by McCluskey (2001) comparing the percentage of total revenue tax that is represented by property tax at the local government level using the statistics from OECD 1965-1998 as indicated in *Figure 5* below in which case, seven countries out of 17 have property tax revenues in excess of 50% of their total tax income. Australia, Canada, Ireland, New Zealand and the United Kingdom demonstrate their property tax revenues to be in excess of 80% of local government total tax revenue.

**Figure 5: Percentage of total tax revenue represented by property tax at the local government level,**




**1997**

*Source: OECD Revenue Statistics 1965-1998*

Property tax has, historically, been associated with local governments in most countries. One reason that taxes on land and property have been considered to be especially appropriate as a local revenue source is that real property is immovable - it is unable to shift location in response to tax. Although a change in property tax may be capitalized into property values in a particular community, and in the long run tax differentials may affect where people locate, these effects are of smaller magnitude than those that would occur with income and sales taxes at the local level (Bird and Slack, 2004).

According to Dillinger (1988) property tax constituted 40-50% of the aggregate municipal tax in four of the most populous LDC's - India, Brazil, Indonesia and Mexico although greater variations existed at the level of individual cities. In Kampala the performance of rates continue to decline from 23.5% of the total city council collections in Financial Year 1992/93 to 8% in the financial Year 1994/95.

Dillinger (1991) presents an economic argument for property taxation by acknowledging that a large share of the population and economic activity of developing countries now occurs in cities, nearly 40% of the population in developing world live in urban areas. Urban economies now account for the majority of GDP in most developing countries. He argues that this continued productivity of urban economies depends upon the adequate provision of urban infrastructure and social services and that while there are many constraints on the delivery of these services, one of the most universal is finance and property tax offers the required source of finance. He argues that, if a tax is to function as a price, it must have particular characteristics. It must be a benefit tax; a tax whose incidence corresponds to the distribution of the benefits of the services it finances, this is the primary argument for the property tax. These services must be financed and property tax is more effective at conflating taxpayers with the cost of local services than any other revenue source that might be assigned to local government.

According to Dillinger (1991) the second economic case for property tax is based on its relatively benign impact on the efficiency of resource allocation in the private economy. The argument reflects the efficiency criteria used to evaluate national tax instruments. At the national level, any correspondence between the incidence and benefits of a particular tax is considered irrelevant. Efficiency is therefore defined as noninterference with what is assumed to be a perfectly efficient allocation of resources in the private economy. This is achieved by imposing burden on a base that is inelastic in supply, property tax performs well on these grounds, relative to the alternatives, and land is considered perfectly inelastic in supply. In short run, buildings are also supply inelastic. In the long run, owners of buildings can respond to a tax increase by curtailing investment in new structure shifting resources from real property to other forms of investment. Inefficient supply responses are also reduced to the extent the property tax functions as a benefit tax.

Bird & Slack Eds. (2004), argue that property tax is an appropriate source of local revenue for local governments that it's the connection between many of the services typically funded at the local level and the benefit to property values, referring to Fischel (2001) view, the authors argue that property tax in the United States is like a benefit tax because taxes approximate the finances received from local services. To the extent that this is the case, local property tax finance of local services will promote efficient public decision since taxpayers will support those measures for which the benefits exceed the taxes. Both the benefits derived from such local services as good schools and better access to roads and transit etc and the taxes used to finance such services are capitalized into property values. Since taxpayers are willing to pay more for better services and lower rates, either will translate into higher property values. The arguments presented by the authors indicated above are sufficient to indicate that property taxation reform can yield an additional income to local authorities which would consequently raise their capacities in service delivery which is what this study intends to highlight.

*How different is property tax from other taxes?*

In addition to obscurity of its incidence, Bird and Slack (2004) present four unique characteristics of property tax that differentiate it to some extent from other taxes: it is visibility, its inelasticity, its inherent arbitrariness, and, in some countries, the extent to which it reflects local autonomy. According to them (Bird and Slack 2004) property tax is a very visible tax, unlike the income tax, for example, property tax is not withheld at source, rather it generally has to be paid directly by tax payers in periodic lump sum payments. This means that taxpayers tend often to be aware of the property tax they pay than they are of other taxes yet the urban services that property tax finances are very visible, such as roads, garbage collection and neighborhood. Tax visibility is clearly desirable from decision-making perspectives because it makes taxpayers aware of the costs of the local public services.

The base of property tax is invariably inelastic, meaning that it does not increase automatically overtime. Bird and Slack (2004) argue that property values generally respond more slowly to annual changes in economic activity than do incomes. They also indicate that most taxes are based on flows-income or sales and sometimes the tax base may be a source of argument between the payer and the authority, in contrast, taxes on land and property are generally based on stock-asset values. Unless the asset subject to tax is sold (by willing buyers to willing sellers) in the tax period, someone has to determine the value that serves as a basis on which to assess the tax. Above all, property taxes are levied only by local governments they obviously act as a main support to local autonomy though according to Bird and Slack (2004), the extent to which such autonomy is either desired or attained is very country specific.

The views shared by Bird and Slack (2004) are once again presented by McCluskey (2001) arguing that property tax is like no other tax particularly when one considers the level, magnitude and frequency of political debate on its efficacy. The majority of countries in the world utilise a property tax as part of their fiscal system (Dillinger, 1991; McCluskey, 1999), in fact it is seen as an essential component ensuring that the wealth tied up in real estate forms part of the tax revenue. Whilst the revenue raised from the property tax is not considered as excessive when viewed against other taxes such as income and sales taxes, it has generated more discussion and reviews than all other taxes put together. He argues that this is the case, firstly, the tax tends to be predominantly a local tax and as such it often becomes a target for political exploitation. The basic tenet of democratic government is that it should be fully accountable to the electorate for its actions. At the local level this means that communities should be able to vote for increased or decreased public spending and to have a say in the way revenue is both raised and allocated. Secondly, the basis upon which the tax is levied i.e. capital improved value, unimproved value, annual rental value or indeed a combination of these can lead to vociferous debate on the most fair and equitable approach. Thirdly, the incidence and impact of the tax particularly on the poor is continually a matter of major concern. To address these real issues the property tax is repackaged to include various measures of relief, rebates, circuit breakers and exemptions, and that property tax is a tax on unrealised capital gains or potential income and not directly related to a taxpayers actual earned income(McCluskey, 2001)

Opportunity to value capture, DeCesare (2004) argues that when the property tax is established at local government level, its application in the improvement of urban equipments and public service is common, resulting usually in value increments for the properties benefited. Thus, the tax represents an opportunity to recover these increments generated by public investments (Reece 1992). In comparison with other instruments of value capture, the property tax is recognized as more transparent, less complicated to administer, less subject to be influenced by special interests, and less prone to produce a distorting impact on the market (Andelson 2000). Smolka and Amborski (2000) though argue that taxes on property in general and land values in particular, one may note from the outset that any tax on land value is a form of value capture insofar as, by definition, land values are made up of accumulated land value increments. On the other hand, to the extent to which a tax on land values reduces the stream of revenues expected to be generated by a certain land use, the resulting capitalization effect on present land value may be likewise seen as a form of value capture (Smolka and Amborski, 2000).

All forms of taxation are often subject to intense criticism however, the property tax is probably the one that suffers the most. It has been singled out as being the most iniquitous tax of the $19^{th}$ and $20^{th}$ centuries. Jensen (1931) said, ‘If any tax could have been eliminated by adverse criticism, the property tax should have been eliminated long ago.’ However, this criticism whilst valid in some cases is not well founded in others, it largely depends on the administrative operation of the property tax and how the various goals of fairness, equity, uniformity and transparency have been achieved. Some property tax systems score well when viewed against this criteria while others fail unceremoniously. Internationally, there have been a plethora of inquiries, commissions, reports and investigations into the property tax, but by in large they all tend to agree on one point, that, there is no real acceptable alternative to the property tax, as a local tax (e.g. HMSO, 1976; HMSO, 1981; HMSO, 1983; HMSO, 1986; HMSO, 1991; Chalk, 1989; Bridge, 1960 and Ontario, 1993).

It can be observed from the above authors and literature reviewed that generally property tax plays an important role in local governments as it acts as source for the much needed revenues that are required to run the authority through service provision, apart from that it provides autonomy from central governments as its generally administered by the local authority in most countries and above all the characteristics and uniqueness in comparison to other forms of tax makes it the most reliable resource which is why the researcher believes the interest should be taken in reforming it to enable further delivery of urban services in the local context of Uganda.

## 3.5 Obstacles or bottlenecks to property tax functionality.

Despite all the importance and uniqueness of property taxation, it still continues to be plagued by a number of problems as the literature reveals, Kelly (2000) reveals that in several African countries, the central government is hesitant to devolve property tax policy and administrative authority to local authorities, while at the same time remaining indifferent in terms of promoting property tax reform. In other cases even when authority is granted or when the central government is interested in reform, progress is slow because the pervasive incentives, inappropriate property tax policy, lack of property tax administrative systems, trained personnel and synchronization of improved local service delivery with enhanced revenue mobilisation.

Low collection efficiency is a major constraint on the yield of the property tax, and it can offset any gains made from improving discovery and valuation. The available data suggests that typically half of the current property taxes are not paid in the year in which they are due (Dillinger, 1991). In Amman, Jordan the collection ratio is 62%, in Rio, 60%, in Calcutta 55%, Ibadan Nigeria had the lowest collection efficiency among the cities surveyed at 9% (Dillinger, 1991).

*How does collection affect the performance of property tax?* Success at collection is essentially a matter of information management and leverage, knowing who owes what, and having the means and incentives to induce them to pay. Collection improvement is complicated, as it involves a mix of administrative, legal and political constraints. As a general rule, successful collection depends on making compliance convenient, and non compliance subject to swift, certain and costly penalties. Collection can be made convenient by decentralizing it at neighbourhood collection points as the case in Calcutta - India or to braches of commercial banks in Karachi - Pakistan, Collection can also be made convenient by permitting tax payment to be made in quarterly or semi-annual instalments (Dillinger, 1988). Penalties can be made certain by improving the system for record payment, penalties for delinquency need to be severe enough to induce compliance, most widely penalties are not, most taxing authorities impose a one time penalty for late payment followed by an interest charge are often as long as the bill is outstanding. These interest charges are often lower than the rate paid on savings on commercial banks. Dillinger (1988) further argues that this penalties is enforced would certainly be effective as property values usually exceed the value of outstanding tax liabilities.

**Revaluations**

Revaluations are a necessary pre-requisite to any property tax system to ensure that fairness and equity is maintained. McCluskey (1991) notes that with irregular revaluations the burden of the tax remains unfairly distributed across property sectors. Revaluations are both a mechanism by which regional variations and fluctuations can be taken into account. It is evident that property tax can operate without revaluations (England, Malaysia), however, given the above the system can become dated and the tax payers can lose confidence in its ability to maintain fairness across all property sectors. Revaluations in general tend to be allowed for on a 5 yearly basis, or at least legislation makes this recommendation, however, few countries are able to keep this program. Systems based on annual values or capital tends to be more resource intensive and require extensive records of building dimensions etc and therefore revaluations become extremely expensive.

In general a conclusion from the literature reviewed regarding the obstacles or challenges to the functionality of property tax are inherent within the variables that enable its functionality indeed the way through which policy and tax administration influence identification, valuation, assessment, billing and collection coupled with enforcement, appeals and tax payer services relate very much to the impediments. It should be noted that if a tax does not achieve practicability, fairness, collection and administration as well as accountability, it's most likely that its performance will remain in doubt.

## 3.6 Property Tax reforms

Literature reviewed indicates that the nature and extent of reform depend upon the need for reform and the context in which reform takes place. According to Bird and Slack (2004) property tax reforms in the 6 countries reviewed (Canada, United Kingdom, Hungary, Colombia, Indonesia and Kenya), property tax reforms were part of the local government structure and finance while in some it were part of reform of the overall tax system though still on other countries property tax reform has been carried out on its own without being part of the government system. They noted that the main stated reasons for reform have been (i) to simplify the tax system, (ii) raise more revenues from property taxes and (iii) remove inequalities in the tax system. In almost all case, particular attention was paid to reform of the assessment system, either because it was seriously out of date or because there was a desire to move to a value-based system.

According to Kelly (2000), an appropriate reform strategy must be designed focusing on policy, administration and implementation. He argues that tax revenue depend on both tax policy choices and administrative efficiency. Tax policy choice affects tax base definition, exemptions, valuation standards, tax rates and collection and enforcement provisions; where as, tax administration choices affect the fiscal cadastre completeness, property valuation accuracy, tax billing and collection efficiency, and the ability to enforce compliance. Although tax policy decisions can improve revenue yield, the key to increasing revenue buoyancy is improved administration, especially in developing countries. Regardless of the tax policy choices, governments must ensure that all property are captured on the tax rolls, that property is valued close to market value, that tax is assessed accurately and that revenue is collected and enforced. Thus coverage, valuation and collection ratio are critical administrative variables that ultimately determine effective tax rates, the tax burden for each property, the total revenue yield, economic efficiency and overall equity.

According to Kelly (2000) using his revenue model, it is possible to estimate the potential revenue yield from improved administration in any country and that for example, a typical developing country may have coverage ratio of about 30%, a valuation ratio of about 30% and a collection ratio of about 30%. Therefore holding tax base and rate constant, it would be possible to more than double the tax yield merely through administrative improvements to expand the coverage, valuation and collection ratios assuming that these ratios could be increased from roughly 30% to even 50% the revenue yield could increase by over 300 percent. Improving administrative efficiency alone can generate important revenues needed for local government finance while simultaneously improving equity and efficiency.

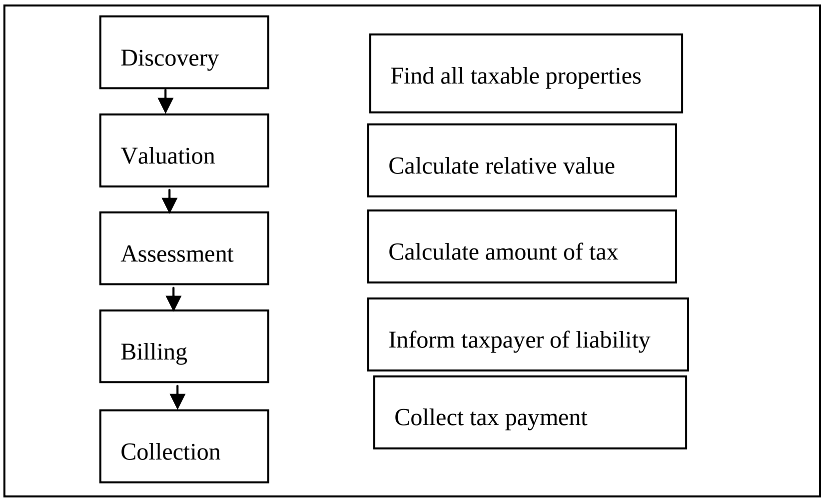
The example of reform in lesser-developed countries of Hungary and Kenya, indicate that in Hungary for example the basic reform proposal to implement an ad valorem property tax was drafted as an amendment to the law on Local Taxes by the Ministry of Finance in 1996. Although the proposal was not presented to Parliament, it was tested on a sample of municipalities. The basic reason for the proposed reform was to obtain a sustainable revenue source for local governments in the face of declining central government transfers and reduce revenues from privatisation (Bird and Slack, 2004). On the other hand in Kenya, property tax reform was part of the overall strategy to reform local governments through out Kenya Local Governments Reform Program in 1998. The reform included rationalizing the central-local relationship, enhancing local financial management and revenue mobilisation, and improving local service delivery through greater citizen participation. One of the key government objectives was to establish a sustainable local revenue mobilisation capacity to generate the needed own-resource revenue in order, to improve local service delivery, enhance economic governance and alleviate poverty (Bird and Slack, 2004). The question for Uganda should be if reforms in property tax can achieve a similar objective - which is why this study is being undertaken.

The challenges everywhere is to ensure that this basis information is up-to-date and accurate- that is to maintain the coverage ratio as close to 100 percent as possible. The administration of property taxes is based on a system of property records, termed the fiscal cadastre. Each record in the cadastre contains, for a specific property, *(i) an identifying number, permitting the record to be linked to a parcel on the ground; (ii) the data to be used in determining the property's value and (iii) the data used for billing* (generally consisting of an owner or occupant's name and address). The yield of the property tax depends to a great deal upon the completeness of the cadastre (in terms of having a record for every parcel) and the accuracy of information contained on each record (Dillinger, 1988). The orthodox method of conducting such an inventory begins with preparation of a base map of the taxing jurisdiction, followed by a field survey to determine and delineate the boundaries of each parcel. Detailed maps showing parcel boundaries are then prepared and each parcel is assigned an identification code. Data to be used in valuation is obtained during the field survey and incorporated onto the property record. Billing data is obtained from a title or deeds registry which fixes legal ownership (Dillinger, 1988). *How does discovery, valuation, assessment, billing and collection relate in a sequence of property tax administration:*

Dillinger, (1991) argue that in most countries, property tax reform cannot be limited to policy because the quality of the tax administration is poor; the burden of the tax falls haphazardly on those unable to exploit its weaknesses. Raising rates alone would exaggerate these inequities. Reform efforts must therefore address problems in administration. *Figure 6* bellow outlines the steps involved in the administration of property tax though two characteristics deserve emphasis; First the amount of revenue depends upon the cumulative performance of all five steps - the proportion of properties discovered, the accuracy of valuations on those properties, the tax rate, the proportion of bills effectively delivered and the proportion of the bills that are paid. Failure at one stage in administration of the tax can counteract success at others. This has important implications for the design of tax reform interventions. To ensure that reform ultimately results in an increase in revenues, the scope of intervention at least at the diagnostic stage must be comprehensive confronting al five steps of administration of the tax.

Secondly, the sequence is an ongoing, not a one time event. Sustained increase in property tax revenues depend upon the processes being repeated annually: new properties have to be discovered and valued, tax rates have to be adjusted, and the billing and collection cycle has to be followed through. Interventions therefore have to be directed at permanent change in the way taxes are administered, if it is to have sustained impact on revenues (Dillinger, 1991).

**Figure 6: Sequence of property tax administration**




***Source: Dillinger (1991) page 10***

Dillinger (1991) indicates that a number of reforms can be undertaken to address different variables, he argues that the basic data on which the property tax is based is inaccessible or unreliable. Base maps on which property discovery and identification would be based are non existent and that the market data on which valuations are based is unreliable, as property markets are driven underground by high transaction taxes and rent controls. Data on property ownership is inaccessible, either because ownership is disrupted, or because deeds registries are unwilling or unable to cooperate with taxing authorities. The rapid growth of cities in developing countries exacerbates the difficulty of administering the property tax, as subdivisions and new constructions must be constantly discovered and incorporated if the tax base is to reflect the physical growth of the city. He argues that efforts to address property tax administration must be adapted to this environment, this argues for the sacrificing precision for ease of administration and while exploiting opportunities for coordination with title office and public utilities-confining the scope of and standard of information gathering to the requirements of property tax itself.

Dillinger (1991) provides options for the problems associated with the major element of property tax administration, which is reform as summarised in the *Table 5* below. He acknowledges that the objective of discovery is to find all the properties subjected to taxation and obtain the information needed to impose the tax. Two basic approaches used are self declaration-where the tax payers is induced to provide the information to the taxing authority, and Government inventory-where the taxing authority obtains the information in the field. Under a self-declaration system, all taxpayers are legally required to periodically declare the property they own to the tax authority and the virtue of this approach is that its inexpensive since the tax payer has to do all the discovery work (and part of the valuation) himself. He noted that the remnants of a self-declaration system still exist in Indonesia, the Philippines and Indian city of Calcutta while Peru and Turkey still rely on it entirely.

**Table 5: Problems and options in developing countries property tax administration**

| Problems | Options |
|---|---|
| No maps | Self declaration street lists, "tax mapping" |
| No markets | Extrapolation, construction data, "Valuation commissions" |
| No clear title | Ad rem liability, broad as personam liability. |
| Rapid urban growth | Cross referencing |
| High inflation | Indexation |

***Source: Dillinger (1991) pp.11***

It is important to note that reforms may take a different form either independent of the local or central government reforms as indicated above, but the key issues should rotate around improving the performance of property tax in terms of increasing the tax revenues, reduce inequalities, minimize inefficiency or simplify the tax system. An effective property tax reform must be strategic and mindful of the potential legal and institutional environment; issues such as culture, history of property tax in the country must be put into consideration. Bird and Slack (2004) indicate that in order to implement property tax reform successfully, some basic elements need to be in place. The preconditions for reform depend, to some extent, on the type of reform that is being implemented. If the reform focuses on the assessment of base for example, a precondition, as precondition for successful implementation of reform is the availability of technical expertise, other conditions for property tax reform may include the existence of a cadastre, a land registration system, the capacity of local government and a solid administrative structure.

## 3.7 Conclusion

The literature reviewed on cases from different countries revealed that functionality of property tax depends highly on both the policy and administrative capacity that address the entire cycle of property identification or discovery, valuation, assessment, billing, collection, enforcement and taxpayer service or accountability.

The fundamental reasons to pursue reform as depicted in the literature sustaining this research, is to be able to raise revenues to facilitate the delivery of urban services. In all cases of reforms analysed, the study undoubtedly showed that particular attention has been paid to reforming the assessment system, either because it was seriously out of date or because there was a desire to move to a value based system.

The authors referred to here such as Kelly (2000), Dillinger (1991), Bird and Slack Ed. (2004) agreed that the obstacles to functionality of the property tax system must be addressed if local government are to reap from the system. This must be both policy and administrative measures the latter seems to be where most attention was paid in most reforms. There are substantial benefits that may accrue from adequate property tax reforms that may consequently enhance delivery of urban services. The argument sustained here by the authors and thesis is that property tax alone cannot generate enough revenue for delivery of urban services, but it can potentially improve the capacity of the local authorities to address the backlog in service provision. If KCC strives to be sustainable, then it must address this backlog.

## Chapter 4 Case Study of Kampala City Council

### 4.0 Introduction

This chapter focuses on Kampala City Council. It provides the reader with the historical background of the city; its development and the current status of urban service deliveries that are funded by the Property Tax Fund. The chapter observes that the potentials for property tax exist and the LG is aware considering the number of fruitless reforms made. The chapter concludes that the city is loosing over 40% of property tax revenue.

### 4.1 Background to the development of Kampala

Kampala is the Capital City of the Republic of Uganda. Its history goes back to the 1600s when it was established as the Capital of *(Kibuga)* Buganda Kingdom. It served as a political and administrative capital until 1893, when the British declared Uganda, their protectorate and transferred the capital to Entebbe. It turned a Capital City in 1962 at Uganda's independence.

**Picture 1: Kampala City**

*Source: Author 2007*

Kampala is currently the administrative and commercial capital city of Uganda situated on about 24 low hills that have an attitude of about 3,910ft (1120m) above sea level, with flat summits, steeper upper sages, merging into undulating slopes ending into broad valleys dissected by perennial steams/channels.

Wetland valleys, characterized by an imprint of scattered unplanned settlements, also surround these hills. This urban form is attributed to the dualism, which arose between the local *Kibuga* and Kampala Township or Municipality. The former was largely unplanned and unsanitary while the latter was fully planned and highly controlled.

The first modern urban planning scheme for Kampala was in 1912, covering Nakasero and Old Kampala hills, i.e. 567 Ha with a population of about 2850 people. This was followed by other planning schemes in 1919, 1930, 1951, 1968, 1972 and the latest in 1994.

### 4.2 Location and Administrative set up of Kampala

Kampala City is located in Central Uganda, on the northern shores of Lake Victoria, bordered by Wakiso District to the North, East, West and South- West, while Lake Victoria is in the South East. The City is divided into 5 Divisions, namely Central, Kawempe, Makindye, Nakawa and Lubaga. There are 100 parishes and 802 zones and their distribution is indicated in the *annex 5 Table16* and *Map 2.*

#### 4.2.1 Political administrative structure

An elected mayor is the head of the city, while the Divisions are headed by elected Chairmen (LC III Chairmen); Chairmen LC II leads the parishes and the Zones or cells led by Chairmen LCI (*refer to annex 5, Table 17*). At the level of the municipality and city, the technical staffs recruited by the DSC directly assist the politically elected heads. The lower levels (LCI and II) are assisted by Parish development committees (PDC) selected by the residents who help council in making community development proposals as per the needs of the community and forwarding them to division headquarters.

## 4.3 Social and Demographic characteristics

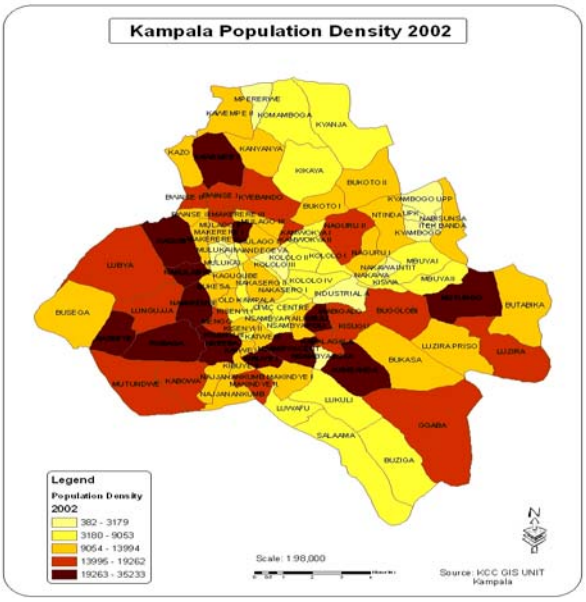
Kampala is the most populated District in Uganda with a total population of 1,208,544 people according to the 2002 Population and Housing Census. Kampala is growing quite faster in all cases than other urban areas in Uganda. Between 1980 and 2002 (about 20 years) the population almost tripled, while between 1991 and 2000, (a period of 10 years) the population of almost doubled as indicated in *Annex 5, table 18.*

Kampala houses the largest share of the urban population in the country. However, this share has fallen from 47.9% to 41.0% in the years 1980, 1991 and 2002 respectively. Never the less, it is still a big urban centre. The population density has grown from 2,799 (1980) through 4,727 (1991) to 7,378 (2002) persons per square km. This increase in population has a direct impact on the increase of demand for infrastructure and an additional cost in the delivery of urban services, which leads to the urgency to address sources of revenues.

### 4.3.2 Population Size, density and Growth

Kampala has a population of 1.2 million people (620,067 females and 569,075 males) as per 2002 census and a density of 7,376 persons per sq.km. These densities are highest in and around the central division[6] and analysis done indicate that all parts of Kampala are continuing to densify as time goes by.

**Map 1: Kampala Population Density.**




The fieldwork interviews observed that this figure is far lower than the daytime population estimated at 2.4 millions people. People who commute to Kampala for the different services such as education and employment and other roles that the city plays explain the higher figure for the daytime; this has an implication on demand for services amidst very meagre revenue sources.

The average annual growth rate is 3.8% with female population dominating with over 51%, the population of Kampala is projected to continue increasing. The physical growth trends indicate that the city is expanding towards the East and the Northeast direction, but services are not proportionately expanding. More so areas, which are un-planned, have high concentration of densities. However, the physical growth trend of the city contradicts the current population densities/concentrations, where the

[6] The Central Division is also the CBD and is located in the City Centre

population is concentrating around the CBD as indicated in *Map 1 above*. Although this portrays that most people prefer to stay near the CBD, which could have positive impacts on urban renewal, the city lacks capacity to capture the wealth that this population brings in the city centre. On the other had the concentration in the city centre escalates the demand of services and worsens service delivery in the city periphery.

There is high rural-urban migration of people moving from the neighbouring districts to Kampala city in search of better living conditions. However, such big numbers over stretch the existing facilities whose impact is the ever-increasing informal settlements in various parts of Kampala especially in the gazetted areas such as wetlands and open green areas within the City. In 2002 alone, the population of Kampala increased from about 330,000 in 1969 to 1.2 million in September 2002 as shown in *Annex 5, Figure 13.*

## 4.4 Land Tenure System in Kampala

Out of the total of 201sq.kms land area covered by the, 20% is categorized as planned land with leasehold land titles while 80% of unplanned land, 75% of the area both categories considered is under mailo land tenure system while 3% of the land is under freehold land titles as summarised in *Annex 5 Table 20.* The slum area occupies a balance of 21%, the biggest portion of which evidently lies on mailo land. A total of 46.1% of the city land coverage is indicated as being under agriculture or simply undeveloped.

Of the four legally accepted land tenure systems in Uganda, three exist in the city, namely public land that falls under the jurisdiction of ULC, mailo (private) land where KCC has no powers to grant leases and Freehold 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 occupancies on land with prime values in economically strategic areas some of which are in the CBD. The study observes that these pieces of land are unattractive to investors; depress land values/prices that neither benefits the landowners nor the occupants.

*Secondly*, absentee landlords (under mailo system) have created a state of total neglect, abandonment and wastage leading to fraud, forgeries of ownership and conflicts. This land is estimated to be at 46.1% of the city land coverage. This has consequently resulted in miserable development of plots that are congested with poor sanitary conditions with properties of far less values in the city. This undermines property tax potentials.

The study observes that following the scrapping of former public land and statutory leases and the vesting of land in the people as private land (Land Act, 1997). KCC as an urban authority can no longer effectively manage and control land, which it does not own. This has consequently affected infrastructure development because of the requirement for compensation thus worsening city development plans.

## 4.5 Economic Activity Status and poverty

52% of the total population in the city are paid employees, 32 percent are self-employed, 13 percent are looking for work and three percent are unpaid family employees. Of the paid employees 64% are males. As for the proportion for the self-employed, the females constitute 42 percent and males 58 percent as per *Annex 5, table 21.*

The economically active population is 39 percent, which is less than half of the total population in Kampala. This means that the dependency ratio is high because very few people contribute to the income generation while many are consumers of the services. This partly explains the increasing inadequacy of infrastructure and service delivery in the city, the ultimate result of which is poverty.

### 4.5.2 Poverty Analysis

Local people in Kampala describe poverty as: "the lack of means to satisfy basic materials and social needs, as well as a feeling of powerlessness" (KCC, 2007). However, "Money is the underlying factor in what constitutes urban poverty. Everything in the urban centre, including every call one makes to the toilet, is monetised hence survival revolves around accessibility to money. It is the most important resources for a person living in the city. In Uganda, it is presumed that poverty is prominent in rural areas. However, deeper analysis reveals that poverty is more widespread and intense in Kampala City. The poor live in very poor conditions and lacks supportive social network and infrastructure.

The study observes that a combination of high poverty levels amidst low levels of economic activities is an indicator that majority of the population cannot access some urban services that involve a cost by their own. This means that there is a high dependency on the council to provide the required services, which is why efforts should be made to reform the available and know source of incomes to meet this high demand for services.

## 4.6 Legal provision for service delivery

Section 37(2) of the LGRA 2005, requires that *"all moneys collected from property tax shall be deposited on the account of the Fund and, subject to subsection (3), shall not be expended except for providing services such as roads construction and maintenance, street lighting, anti-malarial drainages, garbage collection, physical planning and such other services required by the tax payers within their areas"* and section 3 requires that a minimum off 75% is used for the above services. The level of infrastructure services as analysed bellow is very low compared to the current demands from the ever-increasing population densities amidst low revenue sources.

### 4.6.1 Road network

In accordance with both the LGRA (2005) and Local Government Act (1997), the city is statutorily obliged to develop and maintain the road network within the city. The road network is characterized of paved but highly potholed and unpaved roads. The paved roads are concentrated in the CBD and along the major roads radiating from Kampala to upcountry destinations. Most of these roads planned in the 1950's lack connectivity and many places are not accessible. They are narrow and have dead ends especially in the suburbs. The City has a road network totalling about 900km. Of these, about 33**%** (300km) are tarmac and the rest are gravel/earth roads. There are two broad categories of roads within the City namely, National Road Network (45.5km) and Urban Road Network (854.6km).

Construction and maintenance of all paved roads is the responsibility of KCC. Each Division is primarily responsible for maintenance, rehabilitation, and upgrading of roads falling within their boundaries, which are predominantly gravelled in nature.

The study observes that the road infrastructure in the periphery of the city is in a solid state that not only makes service delivery impossible but also undermines value capture on properties and therefore limits the revenue potentials. The same situation is being experienced in the CBD though central government funding in preparation of CHOGM is making some repairs.

### 4.6.2 Sanitation, Solid Waste Generation and Collection

The existing solid waste disposal services only cover 20% of the city. This study observed that the amount generated exceeds what is collected in all divisions. It is estimated that over 25,000 tons of waste are generated every month and only 40% is effectively collected by KCC and the private sector. KCC is managing one landfill located outside the area of its jurisdiction. The remaining 80% of the households, which do not receive regular services either burn and/or bury their waste on site, or dump it in their gardens for those who have them and/or along the roads and open drains for those who don't have the gardens.

The private sector collects 160.000 tons (75%) of garbage compared to Councils 52,100 tons. Much the garbage generated in the city comes from other districts and comes to Kampala in form of food, to feed people the majority of who are from other Districts (refer to section 4.4 and figure 4.3). Therefore the issue of solid waste management in Kampala should be tackled from a national level, but not left to KCC alone. However, the fact is that it further exacerbates the need for delivery of urban services while undermining property values, the reason why KCC must pay urgent attention to reforms in property tax.

### 4.6.3 Anti malarial drainages

It is imperative to note that Kampala is built on several hills (24) of varying slopes separated by valleys and wetlands systems. Upland springs follow natural drainage courses which discharge into natural or man made channels that traverse the valleys. These channels discharge, in turn, into rivers, which flow into either Lake Victoria in the south, or Lake Kyoga basin in the northeast. Most of these channels are narrow and are carriers of high concentration of silt, solids that clogs the channels causing seasonal flooding and providing breeding places for mosquitoes. Malaria in addition to HIV/AIDS and flooding; worsens productivity of the city and the population and undermines tax potentials on properties in areas affected. This wouldn't be a problem if council had a larger tax base and revenue resource to undertake construct proper drainage channels.

### 4.6.3 Water Accessibility

About 78% of the entire city is covered with piped water with only 52% of the city population having access to clean piped water. 42% depend on standpipes. The highest level of services is mainly found in and around the CBD and along the major water lines. The distribution is a responsibility of a national water body National Water and Sewerage Corporation (NWSC). The remaining 47% is served with water from both protected and unprotected spring wells. About 9% of Kampala households with in the CBD are served by the exiting waterborne sewer system. About 5% are served by septic tanks, and the rest are using pit latrines of which 72% are shared. With this kind of lack of accessibility to services, it is very difficult for council to capture value on the properties outside the CBD.

### 4.6.4 Urban planning in Kampala

The development of Kampala City has been guided by the 1951, 1972 and 1994 structure plans. Most of these plans have not been fully implemented due to inadequate resources.

The result has been unplanned developments, which have made the construction of infrastructure and provision of utilities very difficult. This has also given rise to slums and other uncontrolled developments in many parts of the City worsening the land and property values as well as tax potentials. This is a worrying trend that needs to be urgently reversed. The situation calls for the immediate review of the 1994 Structure Plan, which expires in 2007 and development of a new one.

## 4.7 Description of Council sources of income

Kampala City council depends on two major sources of income; ***(i)*** internally generated revenues, which are summarized in figures in *Table 6*, below (note that, the figures for FY 2006/07 is short of 3 months (April - June). And ***(ii)*** Government grants locally referred to as LGDP. Council also receives donations and funds for projects and initiatives. Council records of over 8 financial years indicate fluctuation in property rates especially the FY 2001/02 and 2002/03, while in FY 2005/06, KCC lost its major source of revenue - graduated tax following its removal by the central government in the same year.

**Table 6: Revenue performance of KCC over 8 Years**

| | (in millions) | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** |
|---|---|---|---|---|---|---|---|---|---|
| Particulars | Estimates | **99/00** | **00/01** | **01/02** | **02/03** | **03/04** | **04/05** | **05/06** | **06/07** |
| GRADUATED TAX | ESTIMATES | 4,706 | 5,070 | 3,610 | 4,240 | 3,541 | 3,983 | - | - |
| | ACTUAL | 3,636 | 3,200 | 3,293 | 4,000 | 4,091 | 3,520 | - | - |
| **PROPERTY RATES** | **ESTIMATES** | **3,372** | **3,821** | **2,067** | **3,724** | **4,577** | **3,772** | **10,000** | **5,110** |
| | **ACTUAL** | **2,105** | **2,557** | **1,323** | **1,441** | **3,030** | **3,064** | **2,655** | **5,907** |
| GROUND RENT | ESTIMATES | 350 | 536 | 727 | 1,211 | 1,180 | 1,158 | 1,466 | 1,502 |
| | ACTUAL | 442 | 598 | 814 | 864 | 932 | 1,683 | 2,466 | 2,329 |
| LICENCES | ESTIMATES | 1,667 | 2,600 | 2,684 | 4,201 | 4,559 | 4,526 | 4,619 | 4,795 |
| | ACTUAL | 1,821 | 1,782 | 2,840 | 3,189 | 4,066 | 3,862 | 3,572 | 3,212 |
| VEHICLE PARKS | ESTIMATES | 2,190 | 3,549 | 3,718 | 3,356 | 4,484 | 4,264 | 4,463 | 4,332 |
| | ACTUAL | 1,955 | 1,749 | 2,210 | 3,474 | 3,948 | 3,549 | 3,834 | 2,838 |
| MARKETS | ESTIMATES | 839 | 1,455 | 1,517 | 1,715 | 2,472 | 2,463 | 3,229 | 1,564 |
| | ACTUAL | 829 | 1,149 | 1,456 | 2,379 | 1,163 | 1,048 | 1,065 | 1,910 |
| OTHER INCOME | ESTIMATES | 2,096 | 2,356 | 2,399 | 4,558 | 1,987 | 2,693 | 3,202 | 3,794 |
| | ACTUAL | 2,498 | 2,342 | 2,337 | 4,670 | 1,893 | 5,930 | 5,830 | 4,823 |
| DEBT REALISATION | ESTIMATES | 3,095 | 6,027 | 9,437 | 15,357 | 7,828 | 2,687 | 6,366 | 7,386 |
| | ACTUAL | 1,147 | 4,899 | 1,543 | 1,325 | 1,286 | 1,618 | 2,829 | 1,326 |
| **TOTAL LOCAL FUNDING** | **ESTIMATES** | **18,315** | **25,414** | **26,159** | **38,362** | **30,628** | **25,546** | **33,345** | **28,483** |
| | **ACTUAL** | **14,433** | **18,276** | **15,816** | **21,342** | **20,409** | **24,274** | **22,251** | **22,345** |

*Source: Finance and Planning Department, KCC 2007*

It can be observed from the above table that, despite the fluctuations, property tax has been relatively performing well especially in the financial year 2006/07. This means that full potentials can be achieved in property tax if adequate reforms are undertaken.

### 4.7.1 Performance of revenues FY 2006/07

During 2006/07, KCC's local revenue collection was UGX 22.54 billion against a projection of UGX 24.01 billion over the same period, which presents a performance of 93.7%, the details of the District's local revenue performance are summarised in the *table 7* below. However, this collection is ridiculous compared to council's budget requirement of UGX 45 billion, leaving the gap so wide that there is little possibility that the council will be able to balance its budget in the near future, let alone meet the basic needs of its citizens. This affects the quality and range of services the council is able to provide contrary to the wishes and the expectations of the city residents.

**Table 7: Local Revenue performance for 2006/07 (figures in million UGX.)**

| Source | Budget for 2006/07 ('000) | Output for 2006/07 ('000) | % Perf. |
|---|---|---|---|
| Property Rates (C + A) | 6,800,406 | 6,552,240 | |
| Licenses | 4,467,049 | 3,916,331 | |
| Vehicle Parks / Street | 3,298,463 | 2,847,712 | |
| Markets | 1,710,090 | 1,389,351 | |
| Boda Boda | 48,278 | 40,544 | |
| Letting at City Hall | 55,733 | 67,893 | |
| Housing | 12,118 | 13,988 | |
| Ground Rent | 1,730277 | 2,160,025 | |
| Building Plans | 1,372,945 | 1,288,836 | |
| NGO Registration | 5,557 | 5,159 | |
| Medical Certificates | 5,025 | 6,667 | |
| Advertising | 291,486 | 275,489 | |
| Land fees / Mailo land | 178,911 | 146,381 | |
| Public Convenience | 25,333 | 28,495 | |
| Refuse Charges | 44,420 | 44,420 | |
| Debtors payments | 689,099 | 518,836 | |
| Miscellaneous income | 274,149 | 396,585 | |
| **Sub-Total** | **21,006,339** | **19,698,953** | **93.7%** |
| Capital Income | 3,005,979 | 2,843,942 | |
| **Total Revenue (UGX)** | **24,012,318** | **22,542,896** | |
| **Euro (€)** | | **10,246** | |

*Source: Finance and Planning Department, KCC 2007*

In order to increase revenue, in financial year 1998/1999, KCC set itself a target to raise a projected UGX 18.9 billion from local sources (graduated tax, property tax, licenses and fees and other revenue sources) and another UGX 8.1billion from government transfers (teachers salaries, grants subsidies) against the total sum of these projections (UGX 26.7 billion), KCC managed to collect UGX.13.1b locally (a short fall of UGX.5.5 billion or 30% less) and UGX 8.9 b in respect of government transfers (a surplus of UGX 800 million). Although the total shortfall was as much as UGX 4.7b, the total sum raised (UGX 23 billion) was higher than the amount raised the previous financial year (UGX19 billion)http://www.kcc.go.ug.

## 4.8 An overview of Property tax (Rating) in Kampala - Uganda

Uganda has had a long history of property rating relative to other African countries: This research noted that the first known valuation list for Kampala was prepared in 1948. The rating law and practice in Uganda were modelled on the English system with a few modifications to suit local conditions. The colonial legacy was so strong that its influence is still evident in the present rating system.

Upon independence in 1962, Uganda inherited two distinct Rating systems—the capital value system and the annual rental value system. The capital value system was under the provisions of the Local Government (Rating) Ordinance of 1948; the annual rental value system was under the Urban Authorities Ordinance (Fifth and Sixth Schedules) of 1958. Uganda's four major towns—Kampala, Jinja, Masaka, and Mbale - were valued on the capital value system. The remaining small towns, townships, and trading centers were valued on the annual rental value system.

After independence, the two codes were revised as the Local Government (Rating) Act, 1964, and the Urban Authorities Act, 1964. The former act provided for the assessment of both sites and improvements on a capital value basis. The later act, 5th schedule, provided for the assessment of premises on an annual value basis of sites and premises separately (the 6th schedule was never applied). But because of the federal nature of Buganda Kingdom, a new rating legislation was put in place to cover towns in Buganda; this was the Buganda Local Authorities Rating Act, 1963. This code provided for the assessment of premises and vacant land on an annual rental value basis. The code applied only to the Mengo Municipality (i.e., the capital of the kingdom).

### 4.8.1 Legislative reviews on rating from 1968 - 1979

In the late 1960s, the government became concerned over the multiplicity of rating systems then existing in Uganda. For example, in 1968, Greater Kampala City was created. It amalgamated the municipal area of Kampala Central (which was assessed on a capital value basis), Port Bell Township (which was assessed on an annual value basis), and Mengo Municipality (whose premises and vacant land were assessed on an annual value basis under the Buganda Law). This made it increasingly clear that there was an urgent need to examine the inadequacies and multiplicities of the various rating systems. The country began debates on rating laws and practices, with an eye to bringing legislation up to date in order to simplify and standardize the system employed throughout the country.

Apart from the issues of uniformity and inconvenience caused by valuers having to use different methods for different towns or even, as in Kampala, in different parts of the same municipality - the question of fairness arose. The two rate systems yielded different figures, even in assessing the same property. Consequently, discontent resulted; Complaints were raised in Kampala that those assessed on an annual value basis were in fact paying higher rates than those assessed on the capital value system.

After wide consultations, the government was satisfied that there was no longer any justification (if indeed there ever had been) for retaining two wholly opposed systems. To ensure a rating system that is fair to everyone, efficient, and economical, the government adopted the criteria determined by the Royal Institution of Chartered Surveyors' Working

Party on Rating; these criteria were based on the principles of equity, accuracy and effective valuation.

The government decided that the annual value system of rating was the most satisfactory method for Uganda, as it was an equitable system and the only one to meet the above-described criteria. It was also decided that valuation and rating of property as well as collection of rates should be covered by one piece of legislation throughout the country. These consultations and decisions thus gave birth to a new, consolidated, and unified legislation—the Local Government (Rating) Decree, 1979, which was amended in 2005 and again in 2006 following a presidential pronouncement causing amendments in section 3 of the LGRA 2005 (the principle act).

The current rating is governed by the LGRA 2005 came into effect on 1st November 2005 replacing the Local Governments Rates Decree 1979, which was repealed and a presidential pronouncement (Local Governments (Rating) (amendment) 2006. The LGRA 2005 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. Unlike the LGRD 0f 1979, the LGRA 2005 eliminates the monopoly of the Chief Government Valuer and allows Local Governments to appoint their own choice of qualified registered valuer. The valuation cycle is 5 years. The Act is supplemented by the Local Governments (Rating) Regulations, 2006.

### 4.8.2 Rating Legislation and the powers of LGs to impose property rates

LGs 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 LGs 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 authorisation by parliament. The major sources of revenue which LGs are allowed to collect revenue from are specified in the LGA, Cap 243 and property rates is among these sources. The legal basis for LGs to value, assess and collect rates on properties however is the Local Governments (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 Cap.243. It became effective on 1st November 2005. The Act empowers local governments[7] to levy rates on property within their areas of jurisdiction. The Act is operationalized by the Local Governments (Rating) Regulations, of 2006.

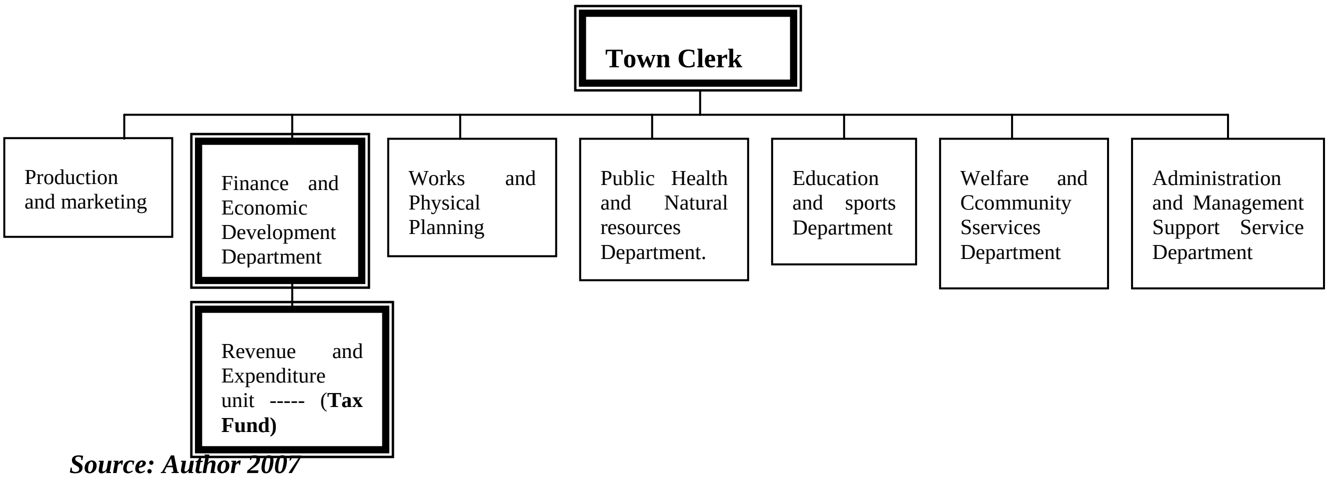
According to the LGRA 2005, all Local Governments in Uganda are allowed to impose, levy such rates as they may determine on the basis of the rateable value of any property within their areas of jurisdiction (Section 3(1) LGRA 2005). The properties subject to rating include all property within the jurisdiction of the local government is rateable except that which is exempt by law. Rateable properties include *all properties in urban areas, unless exempt and commercial buildings outside urban areas.* The rating system is based on the annual rental value, with the *owner* of the property liable for payment. The legislation borrows much from the English system, including the definitions of gross value and net annual value (i.e., rateable value).

[7] "Local government" is defined in the act as meaning a district council, a city council, a municipal council or, a town council within the meaning of the Local Government Act.

## 4.8.3 Rate administration by KCC

Rate administration is purely a Local Government tax with no interference from Central Government. It is a responsibility of the Finance and Economic Development Department, which is under the Town Clerks office as indicated in *figure 7* below. Four units i.e. Finance, Budgeting, Revenue/Expenditure and Valuation support this department. The Tax Fund is kept and controlled by the City Treasurer (Town Clerk).

**Figure 7: Administration of the tax fund**




***Source: Author 2007***

The City is divided into 15 rating zones *(Annex 5, Map 14)*, while some zones especially in rating zone K2 are further divided further into smaller zones (2A, 2B, 2C) to ease the administration process. The subdivisions in zone 2 are due to its location (in the CBD). Each division keeps records of the valuation list of the zones within its boundary. In each division office, there is at least one valuation technician and at this level each ratepayer can easily assess his/her tax records. Mungati (1997) observed that previously divisions used to retain 10% of the total collections and remitted 90% to KCC head office which would in turn send back 25% to the divisions as a grant. The LGRA (2005) demands that not less than 75% of the total collections should be retained at the division level.

## 4.8.4 Early reforms in Property tax

KCC begun reforming its rates administration in the early 1990's, prior, rates were collected from only two valuation lists of central and railways, other periphery zones were not officially prepared, but local councilors collected provisional rates on behalf of KCC: it rarely reached the headquarters (Mungati 1997). Councilors made use of collected revenues in activities such as road maintenance; local security etc and assessment of rates had no clear basis with each parish, division having its own basis. This meant that KCC was under exploiting rates potential by collecting from two out of 15 rating zones and by collecting minimal charges in the periphery.

Faced with an over increasing demand for urban services, KCC found it difficult to raise finance and following a consultation with WB in 1991, a WBFUP was initiated aiming at expanding the base including other revenue sources. This valuation pushed strategy led to the updating of valuation roll in Kampala by hiring private valuers due to lack of in-house valuation expertise. By 1994, new valuation rolls were brought to use creating a more complete up-to-date property tax base. Most of the new valuation rolls were compiled for the urban and peri-urban areas of Kampala, the reform also trained valuers within

Kampala to maintain the valuation rolls, the total technical package was several million US dollars over 3-5 years (Kelly 2000).

Although these initiatives increased the revenue potentials property rates actually declined from UGX 2.9 billion in 1994/95 to 1.9 billion in 1997 which was a decline of over 30%, thus despite the huge investment, property tax revenues actually fell substantially, forcing reevaluation of the reform strategy. The major reason for the reduction in the revenues was due to the pull out of the UFUP amidst KCC's inability to carry on, in fact KCC failed to develop two lists that were to be added to the eight valuation lists developed by WBFUP with Rateable value of UGX 22.7 billion (approximately € 10 million), causing a financial loss of UGX 13 billion as shown in *Annex 5 Table 23.*

The reason behind the loss of this revenue as KCC puts it was due to general poor financial position, insufficient to administer the valuation rolls but it can be observed that the failures were purely administrative reluctance to act quickly.

It is observed that when untapped revenues are compared to the cost of administration, there is no justification for Council's failure to act. For example, preparation cost of one rating list such as Mengo Central (one of the largest rating areas then) was approximated at UGS 20 million therefore even if KCC had set aside UGX 125 million to administer 5 rating areas (at UGX 25 million each) in the FY 1995/96, it would have been left with a balance of over 10 billion, therefore the problem was basically poor management.

In 1991, Kampala adopted a collection-led implementation strategy, expanding its focus to overall administrative improvements on revenue collection, enforcement, taxpayer services, and fiscal cadastre construction, however, this process was unsustainable. Since August 1991, a pilot project has been testing simplified field data collection procedures for updating the existing property tax information and this has led to the coining of mass evaluation as one of the valuation techniques emphasized by the LGRA 2005.

### 4.8.5 Property tax potential yield over the years

The property tax portfolio indicates that, it is the largest single source of local revenue to the City Council. *Table 8* below highlights the collection for the last 10 years (FY 1996/1997 to 2005/2006).

**Table 8: Property Rates collection for the last 10 years (figures in millions UGX)**

| Financial Years. | Property Rates Current | | Property Rates Arrears | | Performance. | |
|---|---|---|---|---|---|---|
| | Estimates | Actual | Estimates | Actual | Current | Arrears |
| 96/97 | 2,689 | 588 | 4,920 | 3,410 | 21.87% | 69.31% |
| 97/98 | 3,500 | 936 | 3,181 | 3,622 | 26.74% | 113.86% |
| 98/99 | 3,485 | 1,568 | 2,561 | 1,315 | 44.99% | 51.35% |
| 99/00 | 3,372 | 2,105 | 3,095 | 1,147 | 62.43% | 37.06% |
| 00/01 | 3,821 | 2,557 | 6,027 | 4,899 | 66.92% | 81.28% |
| 01/02 | 2,067 | 1,323 | 9,437 | 1,543 | 64.01% | 16.35% |
| 02/03 | 3,724 | 1,441 | 15,357 | 1,325 | 38.69% | 8.63% |
| 03/04 | 4,577 | 3,030 | 7,828 | 1,286 | 66.20% | 16.43% |
| 04/05 | 3,772 | 3,064 | 2,687 | 1,618 | 81.23% | 60.22% |
| 05/06 | 10,000 | 2,655 | 6,366 | 2,829 | 26.55% | 44.44% |

*Source: Finance and Planning Department, KCC 2007*

The above table clearly sights that due to the inefficiencies in property tax collection only 26%, which is UGX 2 billion of compared to estimated UGX 6.3 Billion. This is an indicator of poor property tax administration and a call for reforms.

The study established that KCC carried out revaluation in the financial year 2005 and saw the revenue from this source triple from base line of UGX 6.4 to 19.7 billion. *Table 9 below*, shows the full potential of UGX 19 billion before the Presidential Pronouncement 2006 that exempted owner occupied properties causing a financial loss of UGS 9 billion. In addition to this collection is very poor to an extent that in the FY 2006/2007, Kampala Central Division (one of the 5 divisions under KCC) had property tax debtors totaling to UGS 4.6 billion (Daily Monitor, Thursday March 15th 2007 page 28-29) [*refer to annex 6, figure 14*]

**Table 9: The potential of property rates portfolio from all the zones**

| Rate Zone ID | Name | Total Properties | Total Expected | No. of residential | Residential rate Total | No. of Commercial properties | Commercial and industrial Rate Total |
|---|---|---|---|---|---|---|---|
| K1 | Railways | 386 | 1,163,506,139 | 5 | 5,129,760 | 381 | 1,158,376,379 |
| K2B | Central - | 2,437 | 1,780,665,310 | 2,022 | 1,367,114,772 | 415 | 413,550,538 |
| K2C | Central - | 5,437 | 1,366,437,426 | 2,137 | 310,544,022 | 3,300 | 1,055,893,404 |
| K2A | Central - | 2,929 | 4,987,987,868 | 2,406 | 323,856,204 | 523 | 4,664,131,664 |
| K11 | Mengo N. | 5,317 | 587,595,386 | 4,241 | 337,427,302 | 1,076 | 250,168,084 |
| K3 | Kawempe | 18,310 | 1,276,685,196 | 16,559 | 1,011,073,769 | 1,751 | 265,611,427 |
| K10 | Ggaba | 7,890 | 930,319,422 | 7,547 | 849,110,286 | 343 | 81,209,136 |
| K8 | Muyenga | 7,445 | 1,131,778,519 | 6,924 | 961,979,002 | 521 | 169,799,516 |
| K9 | Makindye | 5,229 | 471,398,009 | 4,730 | 410,947,349 | 499 | 60,450,660 |
| K6 | Mbuya | 5,968 | 1,120,644,335 | 5,745 | 914,275,186 | 223 | 206,369,149 |
| K7 | Port Bell | 1,556 | 224,114,525 | 1,297 | 121,258,260 | 259 | 102,856,265 |
| K4 | Kyanja | 7,476 | 593,682,796 | 4,279 | 367,578,717 | 3,197 | 226,104,079 |
| K5 | Nakawa | 4,430 | 1,331,094,502 | 3,795 | 774,069,562 | 635 | 557,024,940 |
| K15 | Mengo S. | 9,145 | 586,997,826 | 8,811 | 517,685,017 | 334 | 69,312,810 |
| K14 | Mengo W. | 18,223 | 1,079,694,355 | 16,528 | 878,788,252 | 1,695 | 200,906,103 |
| K13 | Mengo E. | 6,947 | 541,815,177 | 6,657 | 471,191,102 | 290 | 70,624,075 |
| K12 | Mengo Ctr | 862 | 541,310,062 | 166 | 239,281,248 | 696 | 302,028,814 |
| | | **109,987** | **19,715,726,853** | **93,849** | **9,861,309,810** | **16,138** | **9,854,417,043** |

*Source: Finance and Planning Department, KCC 2007*

The above table highlights what negative impact a poor tax policy can have on revenue potentials. The exemptions of owner occupied properties reduced KCC revenue estimates by 60% (compare the column four and six from left to right).

## 4.9 Conclusion:

From the data reviewed, it is easy to conclude that property tax is a better tax with high potentials. Although there is a relative growth in revenue, it is still much lower than Kampala's budgetary needs, which are a result of rapid expansion in size and population. However, this revenue growth is an indicator that if adequate reforms are undertaken the potentials for property tax yield are high. For example improved tax enforcement would help council recover over UGX 15 billion owed in property rates

Additionally, the expansion of the city is not being matched by both service delivery and increase in revenue sources. Instead it is the proliferation of informal settlements castigated by the council's inability to manage land. This is also due of lack of financial capacity by council to guide planning[8].

The last city structure plans were made 13 years ago (1994), this therefore means that they are outdated and can't match to-day's population growth and high rate of urbanisation plus the infrastructural requirement that come along. There are a lot of discrepancies between the population growths in the city, which is not being matched by growth in revenues. An annual growth rate of 3.8% has not been matched by growth in revenue collection instead the reverse is true. This is another indicator of loss of revenue potential sources. Although the legal provisions are clear on the expenditure of the *Tax fund*: potholes, hips of uncollected garbage and clogged drainage systems remain a characteristic of modern Kampala (*refer to Annex 5 picture 2*).

On the basis of this data, there is enough evidence for a need for reforms in property tax as basic revenue source, and paying close attention on how the entire property tax system functions; which is the focus of the next chapter.

[8] Physical Planning is one of the urban services expected to be financed by the property tax fund.

# Chapter 5 Research Findings

## 5.0 Introduction

This chapter focuses of research findings. In the first section it indicates the perception of property taxation in the local context and how it works. The author believes that, it is practically impossible to develop schemes for reform of any system without first analyzing what it is and how it functions. In the latter section, the chapter suggests some reforms and how they can facilitate the improvements in delivery of urban services with improved revenue collection.

## 5.2 Perception of property tax in a local context

The study established that, property tax also referred to as "assessment rates" or "municipal rates," are a local tax levied by LGs on real property in accordance with the LGRA 2005. In the same manner properties are defined as *immovable property and include a building (industrial or non-industrial) or structure of any kind, but does not include a vacant site.* People interviewed in the fieldwork generally perceived to be Local Government taxes that do not include among others *rental income tax*, *capital gains tax, betterment tax*[9]; *Probate tax*[10]; *Stamp duty on transfer of property* and *value added tax on sale of properties*. The study observes that their perception differed from a smaller percentage of taxpayers'[11] who perceives property tax as two folds; (i) *a council tax on commercial buildings* and (ii) as both *ground rent and a percentage of annual rent payable to the council*. It is worth mentioning that the perception of property tax from the field differed, although the majority is in agreement with the understanding established in the literature review of this study and therefore aware of what property tax is. This difference in perception is an early warning indicator for the need of reform.

### 5.2.1 What is taxed?

The study observes that that all properties are rateable except that which is exempt by law. Rateable properties include, all properties in urban areas unless exempt and commercial buildings outside the urban areas. Field interviews made it clear that the property tax base in Uganda is actually *buildings* and not *land* considering the definition provided above by the LGRA 2005 (pg.5)[12]. The conclusions of this study differ with what Kelly (2000) put as to what composes property tax base in Uganda. He included land as part of the base but this study established that it's the misinterpretation of the some taxpayers who don't differentiate ground rent (tax on the plot of land) from property tax since KCC charges both taxes jointly as a way of reducing costs of tax administration, In reality and as observed by this study, the two are separate, this is interesting for the study because it presents another fault for reform.

From the field interviews, I came to a conclusion that, the choice to levy rates on developments on land (buildings) alone limits the tax base and affects the land markets. It limits accessibility to land by both KCC and the poor, as there is no urgency to make the vacant land productive in order to pay taxes. This has led to the proliferation of informal

[9] Betterment tax is emphasized as tax on new improvements by the town and country planning act 1964
[10] Charged on the dead and administered by the administrator general's office
[11] Majority of these were property owners who were directly managing properties without the use of Real estate mangers.
[12] A commercial building according to the act means a building, the whole or any part of which is used for the purpose of any business

settlements and made it difficult to enforce development control and due to the nature of the different land tenure systems (highlighted in *Chapter Four*) land has effectively turned into a "commodity" and led to the development of landless class. The poor cannot access land on the open market. This has hampered infrastructural developments making the city economically attractive as stressed earlier.

### 5.2.2 Property tax exemptions

The study established that the provisions of the LGRA 2005, Second Schedule Exempted properties include;

***(i)*** All residential houses in urban areas, which are owner occupied; ***(ii)*** Any official resident of the president;

***(iii)*** Property exclusively used for public worship, ***(iv)*** as a resident of a religious leader and traditional or cultural leader *within meaning of article 246 of the constitution.*

***(v)*** Any property exclusively used in the following categories - as a cemeteries/ burial grounds and crematoriums;

***(vi)*** Charitable or educational institution of a public character supported only by endowments or voluntary contributions;

***(vii)*** Outdoor sport or recreation or designated as a public open scheme made under the Town and Country Planning Act and controlled in accordance with the rules and regulations approved by the local government.

***(viii)*** And any property belonging to a local council within the meaning of the Local Governments Act.

The field interviews made it clear that exemptions are generally offered on the basis of ownership, the use to which the property is put; the incidence or tax burden on the taxpayer and the necessity of the property. The general principle of exemption is that the property should be exclusively used for the purpose for which the exemption is given. The fieldwork confirmed that exemptions from rates are applied on a property-by-property basis and not to a broad spectrum of properties for example not all properties situated on the same plot of land that has a church are exempted. Property may change from being an exempt property to a rateable one or vice versa any time depending on the use that property is put. This is the reason every owner of an exempt rateable property is required by law to notify the local government concerned in writing the exempt status of the rateable property every year as per regulation 5(1) of the LGRR 2006.

***How do exemptions affect service delivery?***

The study observes that exemptions affect the tax principles of equity vertical, horizontal and fairness. Equity demands that the cost of local services should be equitable shared between all classes of ratepayers. Above all the essence of property tax is to share the burden of the provision of urban services, however in Uganda the owner occupied are exempted from paying but not excluded from the use of services. This kind of exemptions has two effects, increasing the burden of taxation on one group of taxpayers while limiting the tax base. This affects the collection ratio and increases the burden of service provision as it reduces revenue amidst increasing demand for services.

An analysis of the council records summarized in *Table 9 above* indicated that property tax rates had a potential of raising over UGS 19 billion in the FY 2006/2007, had it not been the Presidential pronouncement of 2006[13]. KCC had planned to use the rate returns to finance the council budget deficit for service delivery, but these exemptions reduced the estimates by 60%, which affected council plans. The field interviews confirmed that KCC spends over UGS 5 billion[14] to run a number of urban services. This is not limited to garbage collection, street lighting and maintenance of roads but other services such as health. The study concludes that had it not been these interferences, council would even run its costs without central government dependency.

In addition the exemption of owner occupied properties affected the ratepayers associations. For example;

*"a community in Kasasiro Zone, Luzira Parish, Nakawa Division, with over 100 residents had organized themselves to carry out major repairs on a community road. They procured the services of a construction firm (Roko Construction) to execute the service. But as soon as the project was about to take off, a presidential Pronouncement 2006[15] left the burden to only 20 residents.[16]*

The study observed that some services funded by rates benefit tenants only in a short term such as garbage collection while other services such as road maintenance benefit owners by capturing value on the property, *why then would tenants be willing to undertake this burden which benefits the owners without their involvement*?

The study acknowledges the argument by Bird and Slack (2004), that exemptions reduce the tax base considering that some potential properties are left out of the base, it suffices to add that exemptions also weaken the capacity of LG in the delivery of urban services as revenue potentials are lost. The local situation also highlights that most tax rebates given are politically influenced and a combination of exemptions and unrealistic rebates undermine the performance of rates and limits the capacity of the council in delivery of services.

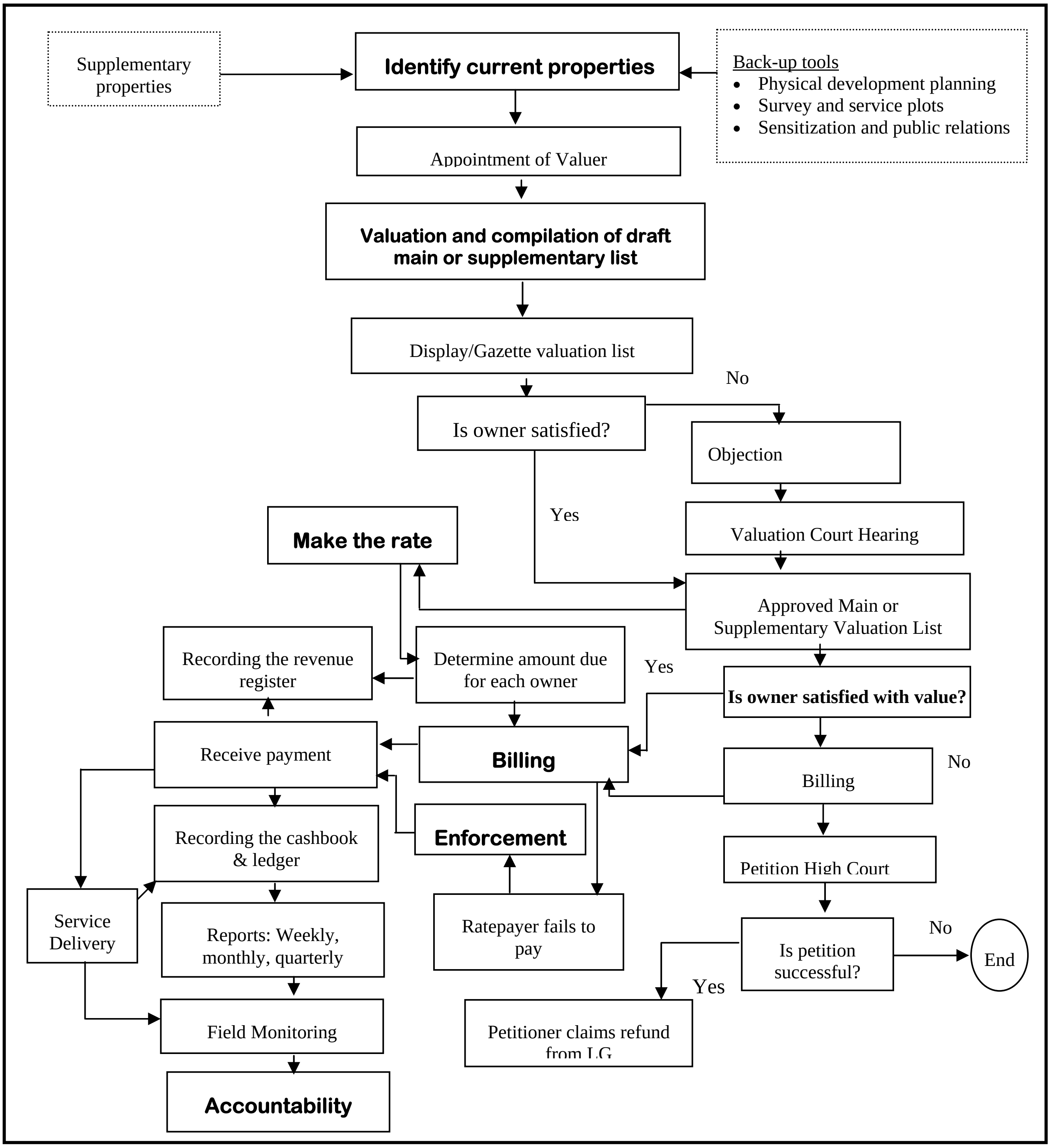
## 5.3 Analysis of the functionality of property tax in Kampala

This section answers two fundamental questions of the study, Question one[17] and Question two [18]*(refer to chapter one)*. The researcher believes that in order to advocate for reforms, it's vital to appreciate the current practices. This section (5.3) describes and analyses the process through which property tax functions and highlights the weaknesses therein.

The fieldwork observed that the functioning of the rates system in Uganda begins with property identification, Valuation, compilation of the draft. This is followed by assessment and establishing of the rates, which results into billing and collection as summarised in *figure 8*. The fieldwork also confirmed that collection is effected through tax enforcement and the end result is accountability. Accountability is explained by the taxpayer services provided by KCC. In the interviews the study analysed the process indicating what it is, how it works and how it affects service delivery. This is typical of any case study and the details of this analysis follow in the section below;

[13] This reduced the rates revenue potential to only UGS 9 billion, which was more than 60% of the total estimation.
[14] An LGDP or grant from central government
[15] Exempting all owner occupied properties
[16] Interviews made by the researcher in the fieldwork.
[17] How does the property tax system function in Uganda?
[18] What obstacles are impeding the functionality of the property taxation system?

**Figure 8: The property rating process**




*Source: MoLG 2007*

### 5.3.1 Setting the property tax rate or tax ratio (TR)

Having taken note of the procedure, this section specifically describes what the rate is, how it is set and analyses how this affects the functioning of the system. The field interviews confirmed that, *"rate*" means a rate on property levied by a local government, the law gives discretion to the Local Government to set a rate not exceeding 12% of the rateable value and a minimum of 2000/= per rateable property which is considered to be a tenth of a currency point. The fieldwork noted that though the regulations are silent on how the rates are set, in practice, KCC have a systematic way of setting the rate. This is done by considering rating area; class of property (Residential or Commercial); ability of ratepayers to pay and political and social considerations[19].

***The basis of rate assessment***

The field interviews confirmed that properties in are valued or assessed on a Net Annual Value Basis or rental value assessment. The ascertainment of Gross Value is the first step in the assessment of all properties other than an industrial or commercial building. The field study observed that *Net Annual Value* is arrived at by deducting from the *Gross Value* such an amount[20] as the Minister may determine. The Net Annual Value is equal to the Rateable Value and in the case of commercial and industrial properties, a Gross Value is not required but "Net Annual Value" must be estimated directly. Having determined the Net Annual Value, either by deducting from Gross Value or directly, the rule is that Net Annual Value equals Rateable Value.

***Example: How to calculate Rateable Value (RV)***

*Property*: Residential premises in Kyambogo Estate, with 10 rooms rented at UGS. 30,000 per month will have a Gross Value amounting to UGS 3,600,000/= *(a product of Annual rental value of 30,000 multiplied by 12 (months) x 10 (rooms on the property).* Subtract statutory deduction 22% will mean = 3,600,000 - (22 x 3,600,000) ÷ by 100, Thus the Rateable Value will be a product of 3,600,000 - 792,000 = UGS 2,808,000/= and at a council rate of 12% (depending on the financial requirement) the taxpayer will pay UGS 336,960/= and if at 6% the taxpayer will part with UGS 168,480/=

***On what basis does council determine the rate?***

The field interviews confirmed that the rate is determined as a budget finance deficit in financial year. This involves assessing the total budget requirement and available resource. The difference/deficit is then distributed over the number of properties in the valuation roll by determining a given rate as demonstrated in *table 10* below;

**Table 10: Computing property tax rate to finance the budget deficit:**

| | **Rateable** | | | **Amount (000)** |
|---|---|---|---|---|
| Total budget requirement by Council | | X | | 62,500,000,000/= |
| re-current revenue available | | Y | | 25,000,000,000/= |
| Funding gap | | X-Y | | 37,500,000,000/= |
| Rate ceiling | | 12% | 6% | 15% |
| Total rateable | 248,558,995,240/= | 29,827,079,429/= | 14,913,539,714.40/= | 37,283,849,246/= |
| **Rates tax value** | **Funding Gap/total rateable value** | | | **15%** |
| **The council cannot charge less than 15% of the rateable value** | | | | **37,500,000,000/=** |

[19] . The LGRA 2005, demands that if the property is an industrial or commercial building, there shall be estimated rent at which the property might be reasonably expected to let from year to year if the tenant undertook to pay conservancy fees, water rates and any other expenses necessary to maintain a property in a state to command that rent; and the amount of rent as so estimated shall be taken to be the net annual value (LRGA 2005, pg 8).

[20] This is what is usually referred to as statutory deduction and it has been set at 22%. The statutory deduction is deemed to be equivalent of the average annual cost of repairs, insurance and other expenses necessary to maintain the property.

*Source: Author 2007*

This field interviews concluded that rate for a given financial year must be able to raise revenue amounting to the total of the calculated deficit. As indicated above KCC cannot charge less than 15% if they are to recover the deficit of 37 billion UGS. But KCC may consider other factors in setting the rate such as the desirability to have a uniform rate for all the divisions; ratepayers' ability to pay; the likely reaction from the public to an increase in rates and the trends in the general economic performance within the area. Most tax policy analysts interviewed argued for a uniform rate across different types of property and locations, and those different property tax liabilities should reflect only different property annual values.

***Economic incidence of rates (liability of rates)***

Interviews confirmed that, the owner of the property is responsible for payment of the tax; though rates are levied on a property, they are deemed to be the personal taxes of a property owner. Therefore, *the person liable to pay the rate is the owner of the property, which has been assessed for that rate as (Section 7(1) LGRA 2005).* However, where this owner of the property is not known by name, the rate will be assessed using the description of the occupier of the property *(Section 7(2) LGRA 2005).*

The study concludes that rates benefit the occupier though the liability is one the owner; therefore property owners may increase rent to compensate on the amount paid as rates. This rent increment affects the housing rental market. In addition the study observed that although Kampala has high potentials of developing a good housing market, at the moment it impossible to apply a market value or capital value assessment, which can work in an active market area, its therefore fair that Kampala relies on the annual value assessment.

It was not clear to the researcher on what basis ability to pay is measured. The field interviews also failed to get clarity on what is specifically included in the 22% statutory deductions particularly if mortgage interest loans are catered by the above deduction.

### 5.3.2 Description of Valuation process

The field study observed that, Valuation involves determining the value of the property before a given rate[21]. Revaluation is undertaken every 5 years while supplementary lists to capture new properties are made every 12 months. A valuation list is produced at the end of this exercise with the elements indicated in *Table 11* below:

**Table 11: Key elements of a valuation list/roll:**

| Serial No | Ward | Zone | Plot no / lock up no | Street name | Name /owner | Address of owner | Description of rateable property | Gross value | Rateable value | Remark |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |

*Source: Author 2007*

***What does valuation/assessment involve?***

[21] Rateable properties lying within the jurisdiction of a local government are valued and assessed by a qualified and registered valuation surveyor who holds a valid practicing certificate under the Surveyors' Registration Act as a valuer (S.8, LGRA 2005) A local government appoints such a valuer (Section 8 of LGRA 2005).

This fieldwork observed that valuation/assessment process is the most time-consuming and technically demanding. It is the only link in the chain indicated in *Figure 8 above* that involves the politician, the collector, and the tax-paying public. This process involves the following procedure;

- ***Identification and discovery***

Interviews in the fieldwork made it clear that, rating is not linked to the land registration process, it is not held back by the slower pace required by the land registration and all buildings are rated irrespective of the tenure status. Additionally, property identification requires a valuer to move house to house in company of the LC I Chairman who declares whether a unit is rental or owner occupied. The entire discovery relies on the LC1 chairman whose motive in declaring if property qualifies to be rateable (rental occupied) or not (owner occupied) is questionable. It wasn't clear for the researcher what happens when a property changes status immediately after identification or assessment. Does he/she take the initiative to report or waits for revaluation, which is after 5 years?

Nevertheless, the fieldwork noted that identification is still a challenge in the 'modern Kampala' where streets are not named and properties are not numbered. Unplanned areas and informal settlements cause particular difficulties to code or refer since a number of them are on one title deed and lack address. The situation is made worse by lack of coordination between KCC and service providers such as NWSC, UETCL, Construction companies or Estate agents, these administrative failures incapacitate service delivery potentials.

Identification of properties and owners in the periphery of the city centre and the CBD or the extended areas of town is a problem. These areas are invariably unplanned and unsurveyed. Identifying individual properties from among the numerous units erected on a single large plot is extremely difficult. The researcher noted that even in surveyed and planned areas, identification remains a problem. Maps are not up to date or are simply not available. Property subdivisions have rendered the title register out of date.

Additionally, the fieldwork observes that there is hardly any efficient land information system. Revaluation becomes very difficult due to failures in maintaining up-to-date information base; there are no internal instructions or manuals for valuer. Apparently there is no legal requirement that any new property must be registered. In cases where the building is used both as a residential or commercial property, it may be difficult to apportion the levy for the qualifying property for rates. The field interviews observed that the valuation office is understaffed and under funded. There is an acute shortage of professional valuers. The office lacks the required basic equipment and transportation facilities. Even basic office equipment is lacking.

- ***Inspection/Surveying and Referencing***

This study established that, inspection and referencing work is usually the single most consuming task requiring valuation technician to undertake the procedures indicated in *Table 12* below;

**Table 12: A summary of the work undertaken under referencing and action.**

| No | Referencing Work | Action |
|---|---|---|
| I | Identifying the property | When surveyed, find plot number, if not create a unique reference number of the property. |
| ii | Gain assess to the property | The law gives powers of access. Use identification letter from local authority. Move with LCI official |
| iii | Make a sketch plan of the building | An accurate plan is not required. The sketch should be sufficient to show dimensions and layout in the building. |
| iv | Take measurements required | It may not be necessary in case of shops and tenements where mass appraisal techniques are to be used |
| v | Identify and verify the owner | Assistance from LC1 official. |
| vi | Complete the inspection and survey | A record of the valuation with significant details of each property sheets |
| vii | Classify the property | Place the property in the most appropriate classification. |
| viii | Calculate the areas | The end result should be a summary of the floor areas. The property is ready for the valuation. |

*Source: Author 2007*

- ***Collection of Rental Market Information***

As earlier observed, the valuation system used is a rental value system which requires the valuer to access market information that makes a basis for calculating the Gross Value or Net Annual Value. The field interviews observed that the valuer faces problems in the course of his or her duties. Rental market evidence is scarce and difficult to obtain in an area where the housing market is inactive. Return assessment forms are to be filled out by the landlord or tenant—but they rarely are. When they are, they tend not to be accurate. For example, landlords declare low rentals for obvious reasons; the tenants cooperate because any increase on tax leads to an increase in rent. In addition, the property rental market has been unstable for a long time and difficult to track. The central governments efforts in establishing a Landlord - Tenants law that seeks to regulate the rental market and give support to the functionality of property tax; has remained only on paper year in year out as, "an upcoming project". The fieldwork observed that there are two parallel housing rental markets in Kampala—the Dollar market and the UGX market, the unanswered question is which one does the valuers follow?

During the interviews it came clear that the valuation profession is still very week with only KCC among other LGs having a registered valuer. Uganda has no indigenous training colleges for professional valuers. Valuers earn relatively low salaries and gross corruption within council affects timely data collection/property identification and revaluation mostly. The law (LGRA 2005, section 12(2) advocates for mass valuation which would save a lot of resources (technical and financial) but due to lack of valuers this simple mechanism can't be used.

These coupled with lack of reliable cadastre information weakens the entire property identification process, which is the paramount starting point of any rating system. The fieldwork concluded that these inefficiencies reduce total tax revenues, which in a short-run limit the financial capacity of the council to run urban services. These administrative failures only work towards increasing the already huge backlog of service provision his requires urgent attention.

- ***Updating Valuation Lists and Frequency of Revaluations***

The study observed that due to lack of sufficient capacity to systematically maintain and coordinate the fiscal cadastre information, revaluations were not being done. There are failures in capturing properties either omitted, newly built or as a result of subdivision and any properties whose annual rent has increased or decreased since the main valuation list was prepared which is the essence of valuation. Most cadastre information is in the MLHUD which is the custodian of all land related matters, titling is handled by the same ministry while KCC alone does not keep its own cadastre; the information available is manually maintained with no computers. This makes difficult to relate such information with the GIS or photographic maps which makes the process of referencing impossible thus affecting the valuation rolls updating.

The study observed that properties in the central business district of Kampala City were revalued in 2005 after 15 years. 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 but with the new amendments LG are empowered to acquire services of private valuers. However, they work on contact basis and at a high cost, and unaffordable by most urban authorities and trying to afford increases the cost of administration.

A combination of failures in property identification, discovery, inspection and revaluations affect the buoyancy of tax, which undermines its potentials in financing urban service delivery.

### 5.3.3 Billing of rates

The study observed that billing is a process of preparing a statement (a bill or invoice) of the amount due from each property owner within the local government and remitting such statement to the property owner. The researcher was informed during the fieldwork that billings is currently contracted out by KCC to private firms which distributes bills, issues reminders, preparation of rates collection reports and in return earns a 10% commission on the amount of rates collected in a given period. This study concludes that these commissions reduce the net amount of rates that the local government get. In addition, all ratepayers that are handled by the private firm are not only the stubborn ones. Therefore the collectors benefit at the expense of the city as they end up getting a commission even from the good ratepayers who would have paid anyway with or without the revenue collector!

***What does billing involve?***

The study observes that it involves preparing *demand notes* (by KCC and sending them to all property ratepayers (by private firm). The purpose is to inform the ratepayer the amount he/she is supposed to pay. The bill also serves to remind the property ratepayers of their tax obligation. The responsibility to pay property rates lies on the property owner and he/she ensures that the amount due is paid whether the local government sends a bill or not. Failure of the local government to bill a property ratepayer is not an acceptable reason for the ratepayer to default! Local governments are required under section 26 to publish the chargeable rate in the *Gazette* and local newspapers within seven days after making it (*as per Annex 7).* Such notice must contain information describing the property, the rateable value of the property and the amount at which the rate is charged[22].

***When is billing done*?**

The fieldwork confirmed that council bills all ratepayers at the beginning of the financial year[23] that is on or immediately after 1st July each FY. The law allows payment to be made in two instalments. In this case, the amount payable by each ratepayer is broken down into two equal parts at the beginning of the FY. The demand notes for the first payment are delivered to ratepayers early in July while those for the second instalment are done in early in January.

The fieldwork observed that there are inefficiencies in billing system such as delayed bills, mistaken identity and bills made for properties that no longer exist. There is a high rate of double billing especially on properties located at division border ends. Location of some properties is a problem as well and some companies contracted cannot explain to ratepayers these bills.

### 5.3.4 Collection of Rates

The study observes that collection of rates is an integral part of property taxation determining the tax potentials. Additionally, the field study observes that the responsibility of rates collection lies within the Local governments and can charge a maximum rate of 20% of the rateable value and have exclusive power to set the rate without consulting the central government. The researcher confirmed that the city is divided into 15 rating zones for the purpose of easy administration, (*Annex 5, Map 4).* Divisions are responsible for supervising the operations or collections activities of the rates revenue, providing customer service; and maintaining customer files and accounts. The billing of ratepayers is done by Property Rates Management System application (PRMS), which enables end users to store and manage property information.

***How does KCC monitor the collection performance?***

The study noted that estimating the collection rate involves preparation and analysis collection reports, analysis of arrears, and field inspections. Monitoring is generally undertaken to ensure that the rating process is efficient and effective and that collection targets are realized. Findings of this study indicate that the local government are expected carry out regular reconciliations of receipts and demand notes and prepare a *reconciliation report* that indicates the property ratepayers who have not paid.

The study observed that KCC serves *reminders* on all those property ratepayers who fail to pay within the time given on the demand note. The reminders notify the ratepayers that prompt Court action is going to be taken by the local government if payment is not made within the extra time given. Revenue collection reports - referred to as *returns* are produced by the local government staff on a weekly, monthly, quarterly and annual basis. These reports include information regarding collections, the problems encountered, arrears, complaints from property owners; indicate suggestions for improving the situation; a financial performance in such a way to show the budgeted collection compared

[22] Under section 29 local governments are only required to send *demand notes* to property ratepayers who have failed to pay by the due date.

[23] A Ugandan financial year commences mid June of every calendar year that is when the Ministry of Finance, planning and Economic development reads the budget estimates of the financial year.

to the actual collection during the week, month or quarter and the accumulated collection since the beginning of the year to the current month/quarter.

The study observed that despite the above mechanism, billing and collection of rates is still undermined by poor billing systems, lack of suitable and experienced firms; the lack of relief in the rating system, and reluctance on the part of LGs to enforce payment of the rates imposed in-turn haunts the collection ratios, the lower the collection ratio the lesser the revenues available in the council, *how then can this be addressed*?

The study observed that the greatest challenge towards improved rates collection is the weaknesses in the rate enforcement system, although the law is clear on a number of procedures to be undertaken to enforce payments. A combination of political interferences, bureaucracies in the system and corruption affect grossly the collection ratio.

*Reluctance of ratepayers to pay due to awareness inefficiencies.*

The study observes that, despite the implementation of revenue enhancement programs by the MoLG to improve collection, the general public is still ignorant of the rating law, their civic obligation to pay rates. This kind of reluctance can be blamed on poor citizen sensitization programs as well as the general anti-tax hazard, which has continued to undermine revenue returns. It is on record that graduated tax (poll tax) was removed by the central government in the FY 2005/06 mainly because of "public anti tax attitude" although it used to fetch more than 40% of the total council revenue.

### 5.3.5 Enforcement of rates:

As the analysis of billing and collection indicates above, inefficiencies in enforcement undermine the collection ratio. The field interviews made it clear that that enforcement is the action resulting from the failure of the taxpayer to remit the rates. The law provides for enforcement powers where rates have not been paid. The LGRA 2005 and Regulations 2006, require the council to take the following action:

- ***Administer a demand note;*** this is sent to the rate payer reminding him of the rates due together with interest, states the action to be undertaken on failure to pay within two months from the date of the delivery of the demand note**.**
- ***Penalty***. Interest should be charged on any balance that remains in arrears for more than 30 days at a rate of 2 percent per month for the period the balance remains unpaid. However, the researcher did not tress any evidence that LGs ever charge this interest.
- ***Recovery by warranty.*** This is signed by the magistrate giving local government authority to recover the outstanding rates; it's therefore served as a court order to discover the outstanding liability by attachment of property, rent and any other means.
- ***Recovery by action.*** A local authority may bring an action for recovery of the amount of rates and interest without serving a demand notice. The researcher did not find any cases in which this enforcement action has been instituted.
- ***Attachment of rent.*** A local authority may serve notice to the tenant to pay his or her rent directly to the authority. There are no known cases of this enforcement method.
- In cases of bankruptcy or liquidation, the outstanding rates shall be the first charge on the proceeds from the property.

The field study made it clear that failures in billing, collection and enforcement were responsible for the loss of more than 50% of the rates potential. At the time this study was undertaken; Central Division of Kampala had over UGX 4 billion approximately €

200,000 in debts (Daily Monitor, March 15, 2007) *(refer to annex 6 figure 14)*. With these kind of arrears and the existing backlog serves to increase the backlog of services to be delivered and more resentment by the taxpayers.

### 5.3.6 Appeal System

For any property tax system to function well, it should be simple, cheap, quick, transparent, and readily accessible to all the taxpayers in person, emphasizes Keith (1993), The fieldwork established that, when the ratepayer feels unsatisfied by the valuation court, s/he could still take further action by ***appealing*** to the High Court of Uganda (S 22 SS 1 LGRA 2005). This appeal must be lodged with the high court within 30 days of notification of the findings of the valuation court although the high court has powers to accept the appeal in special cases if made out of time. After the appeal is heard by the High Court, the valuation court must make alterations if any, in the valuation list to reflect the High court decision[24]. Should the High Court subsequently change the rateable value of the property, the local government will refund the difference in the rate or recover the balance in case the High Court increased the valuation (S 28 LGRA 2005)

However, further field interviews confirmed that the system is not readily accessible to the taxpayer in person as there is no statutory requirement to notify the ratepayer in person of the deposit of the valuation list to afford him or her with a chance to object. The only requirement is that the notice of deposit be published in the gazette and in at least one newspaper, if any, circulating in the area. This exclusive approach cannot work in Kampala, where the majority of people have no access to the official gazette or to newspapers; many ratepayers find out about the valuation list many months after the valuation court has concluded its business.

Interviews with taxpayers concluded that, objectors and council officials who do not understand the law pertaining to objections frequently slow the system down. "*Many objectors do not understand the grounds on which they can make objections; many council officials accept objections long after the deadline for their receipt has passed. Sometimes, outright corruption is the reason behind this. In some courts, the decisions made are rushed, haphazard, and frustrating. Political and financial considerations sometimes influence these decisions. In many cases, the members of the court are not knowledgeable about either the rating code or the property market"*[25]

Interviews also noted that the greatest annoyance for the ratepayers in Kampala is the absence of a defined system of relief in the rating law. The only relevant provision reads as follows: *"A local authority may, subject to the approval of the Minister, reduce or remit the payment of the rate in respect of any property within the rating area of its jurisdiction."* This guidance is vague, arbitrary, inaccessible—and practically unworkable. The researcher did not access any known records of a person who has beneficiated from this ambiguous relief system; the system therefore does not qualify to Keith's (1993) idea.

The study observed that failures in the appeal system have undermined the principles of equity and fairness of the system. This has in turn increased on the resentment of the system by the ratepayers, which has consequently affected the council's revenue potentials and hurt its financial capacity. The result has been reflected by the increased failures in

[24] Ratepayers should note however, that rates are payable in full when due, notwithstanding that an appeal has been made to the High Court

[25] Interview by the researcher during the fieldwork

meeting their obligation of service delivery as a local government. The only way out of this situation is undertaking reforms in the property tax system as the potentials exist.

### 5.3.7 Tax payer services or accountability for property rates

The choice to analyse the taxpayer services or accountability is within the objectives of the study. In this section therefore the researcher analyses the taxpayers' services both fiscal and physical. The fieldwork confirmed how property rates are supposed to be dispensed as per Section 37(2) of the LGRA 2005. And section 3, which re-affirm that a minimum of 75% is used for the above services (as observed earlier in chapter four).

***What does accountability for rates involve?***

In accordance with the LGRA 2005, section 37 (1), the local governments are expected to establish and administer a property tax fund, which is separate from the other funds of the local government, it is this fund that is expected to receive deposits from property rates. Section (2) highlights how these funds should be spent which lays the basis for accountability, in short accountability is in two fold, physical accountability - delivering the above services and written explanation with figures showing amount collected, spent and how and the debts and enforcement plan.

The fieldwork and interviews confirmed that services expected to benefit from the tax fund were generally poor. The major causes of the poor performance were arguably indicated as lack of financial resources to invest in rehabilitation and maintenance. The researcher did not get any particular report or information pinpointing to an area where money from rates have been used specifically for a given activity.

With regard to public perception of how accountable council was to the payers, the researcher had this type of response; *"… for us as a major hotel, it's our obligation to pay rates in time in order to avoid the embarrasses caused to our customers as a result of closure of the hotel as KCC may act in order to enforce payments, but surely we pay BINIT U Ltd for our garbage; maintain our own drainages within and around the hotel and repair our access roads but when one drives in the city its all portholes, so the question we ask our selves is where does this money go?"*[26]

The researcher further observes that even when the council has made repairs, its not indicated to the public under what funding a given services has been delivered. There is lack of political will to account to the public, lack of transparent administrative collection and enforcement mechanism, which affects the taxpayer's confidence. The general public is ignorant about the rating law and their civic obligation to pay rates. Divisions do not elucidate the valuation lists to ratepayers. Some tax agents at the divisions cannot understand the valuation lists. It is even worse for councillors who are none technical to clarify to taxpayers what the tax roll is all about. The field interviews conclude that if the contents of the assessment list had been adequately explained, no objection would have been lodged. To several ratepayers interviewed, property rates are a double taxation in addition to mortgage interests, ground rent, and income tax.

Additionally, the fieldwork made it clear that the failures in the proper functioning of the system was due to the gaps in accountability as Almy (2001), observed (refer to Chapter three) - revenue generation is hurt mainly due to lack of accountability. As noted by the researcher, the gap between the statutory incidence and the economic incidence in

[26] Interview by the Author during the fieldwork

Kampala was continuing to exacerbate due to failures in service delivery. Worse of all the collection reports are not disseminated to the public, politicians or ratepayers associations to enable monitoring. Indeed there is no relationship between the two (KCC and ratepayers).

- ***Taxpayer services***

In Kampala, council provides very minimal services to the residents; yet, they continue charging rates. The ratepayer is not getting services for which he is paying for. It would seem from the interviews that the ratepayers are quite prepared to make a nominal contribution toward provision of services and to pay for them fully when the works are completed—a remarkable achievement. KCC on the other hand, argue that unless rates are paid, it would be difficult to provide services required. This is the old chicken-or-the-egg story. The major question that remains is whether to charge the ratepayers before they receive services or after services have been rendered. The extended areas of town suffer greatly—they are not serviced, and it makes the ratepayers feel that they are subsidizing the people in the central area.

## 5.4 Reforms and improvements in service delivery

As a reminder the objective of this study is to analyse how the property taxation system work in Kampala and how it can be improved to enable local governments meet their obligation of service provision. This section therefore portrays how reforms can be made in relation to improvements in service delivery. The fieldwork and interviews made it clear that property tax reforms to address the failures above, both policy and administrative reforms are necessary.

### 5.4.1 Policy related reforms

These are reforms geared at improving the tax base options; addressing the exemptions and improving the valuation standards advocated by the statute. Additionally, these reforms are aimed at improving the tax rates, collection and enforcement provisions in the law. The study observes that the aim of policy reforms is to enhance the revenue collections so that sustainable source of income is generated and reinvested as public goods. The researcher believes this would in-turn improve the delivery of urban services. Note that the LGRA 2005 clearly spells out the type of urban services expected to be funded by rates. From the observations generated from the field survey, the researcher considers the following policy reforms;

#### 5.4.1.1 About Improving the Tax base

This study observed that two ways of improving the tax base of Kampala, are; ***(i)*** *Reducing the Exemptions* and, ***(ii)*** *introduce property tax on land especially vacant land*. The LGRA 2005, empowers local government to tax all properties within there jurisdiction, with exemptions clearly spelt out; KCC has a number of reasons enough to justify the cause for levying tax on vacant land. For example, though the study observed that the presidential pronouncement of 2006 was politically influenced, the idea the President had was to encourage home ownership to overturn the worsening housing conditions around the country. According to the conclusions of the study this longer makes sense for Kampala due to the role it plays in the national economy being the capital city. There a number of indicators to show that the city's housing market cannot be compared to any other urban area in Uganda. A combination of improved construction industry, number of upcoming Estate development companies on the market; The number of Banks currently undertaking a mortgage portfolio[27]; and the establishment of Uganda securities exchange are basic indicators that actually housing has fully improved.

The researcher proposes that council should use the powers entrusted by Central Government under the LGA and Decentralization Act 1997, to make an ordinance or pass a law demanding tax on all properties be it owner or rent occupied. This would increase the tax revenues and will also achieve the major property tax principals of equity both vertical and horizontal. This will also facilitate sharing of the burden of financing service by all. Reduced exemptions would also demand that facilities such as sports and recreation centres pay tax. Properties owned by traditional leaders in Kampala that are being used for commercial purposes[28] would also be added on the tax rolls. These reforms can be achieved by councils demand for better status from the central government allowing it to exploit all the revenue sources.

*Introducing tax on vacant land*, as indicated earlier KCC land ownership capacity is limited to about 15% of the total land in the city leading to proliferation of both informal settlements and development on informal land delivery mechanisms. Council cannot tax properties in an informal settlement because they are considered illegal structures. Its financial capacity is too low to legalize all these settlement (which would require purchasing the land). However, the researcher believes that, high tax on lands would serve two purposes, *one,* propelling the land owners to put into place a land use mechanism to sustain rate payment by either availing the land to developers or allowing expropriation by KCC since landowners will be willing to negotiate because of high tax. This would in turn reduce the informal settlements[29] and produce land for development. As a result the tax base would include land and properties achieving the idea suggested by Slack (2002). The study concludes that this kind of reform approach will help council achieve fundamental elements - reduce proliferation of informal settlements, avail land for implementation of development control plan, expand the tax base, increase the revenue source and achieve improvements in the delivery of services if appropriate allocation is made as per the LGRA 2005.

#### 5.4.1.2 About enforcement and accountability

The study observes that KCC must use its powers to undertake the enforcement reforms such as *increasing penalties for late payments*; *triage enforcement against long standing delinquents by seizure and sell of properties, sue the defaulters* though this may have administrative implications. Strict enforcement against non-compliance is essential and should be facilitated by allowing issuances tax clearance certificates, cancellation of leasehold titles, foreclosures on properties of defaulters, seizure and auction. Additionally, the study observes that tactical use of severe penalties should be supplemented by less costly and controversial enforcement mechanisms. The most promising of these are in effect *quid-pro-quo* arrangements by which council provides something valued (a service) by tax payers in return to payment of tax. These kinds of enforcement mechanisms are quite inexpensive to implement both politically and administratively. The fieldwork made

[27] By 2000 only HFCU ltd (which is partly government owned offered mortgages), but by 2006 DFCU, Stanbic Bank and Standard Chartered bank (privately owned banks) as well as other microfinance companies ventured into the mortgage business.
[28] Bulange in Mengo, which is the Buganda Kingdom office currently, hosts CBS radio station and several other Kingdom owned businesses.
[29] As more permanent structures are built

it clear that accountability will give confidence to ratepayers, as they would physically know how the rates have been spent and will castigate increase in payment. Priority should be put to service provision since people tend to be willing to pay taxes and in return to receiving some tangible benefits or services. Close supervision and improved management of revenue collection can improve the yield and equity of the rating system. Council must adopt mechanisms of establishing the rule of law, establish citizen charters, and build institutions of participation and accountability such as the rate payers association while conducting high profile prosecution; undertaking public shaming, prosecution or sucking of culprits. The fieldwork made it clear that corruption and bribery were undermining tax enforcement, the moral standards of the valuation courts and denying ratepayers the right to appeal.

#### 5.4.1.3 About public acceptability

The researcher observed that council should undertake to delineate what property tax entails in order to turn around poor perception and the anti-tax moral hazard. Council must mobilise community through enhanced participatory budgeting and civic participation in order to improve revenue collection. Issues such as the role of the citizens and the consequences of not paying rates must be addressed. Must mobilise political, operational and tax payer support; capitalise on a few ongoing public sector reforms, launch internal and external stakeholder campaigns and services; establish government capacity to support reform such as developing working groups while treating tax payers as clients. Reform requires leadership and the building of a consensus around local public sector finance and service objectives.

Council should educate the public emphasizing that without their civic obligation (paying tax) delivery of services is in oblivion. *Secondly*, that paying of rates guarantees them a right to demand for services in return to the rates paid; emphasis should be made on the legal implications such as imposing fines, attachment of rent or imprisonment. Council must also. The benefits of rate payment such as value capture and infrastructural developments should be accentuated. In areas where council has used the rate fund to repair roads or make drainages - billboards, radio announcements and publicity should be made to enable ratepayers realize their efforts. Council should collaborate with URA and use the Taxpayers Day to educate the public and highlight the realizations accruing from rate payment.

### 5.4.2 Administrative reforms

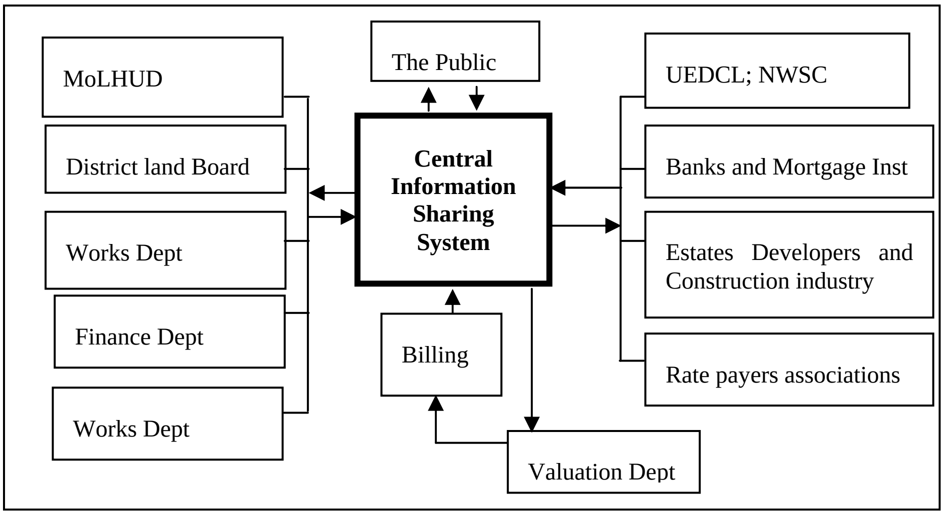
This study observes that the key to increasing revenue buoyancy is proper tax administration, which involves basically interpreting policy related issues and directly linking them to revenue collection enhancement. Kampala has large potentials for reaping more than 60% of its total revenue requirement from property taxation, which can be ploughed back through provision of urban services, but only if a numbers of administrative reforms described bellow are undertaken.

#### 5.4.2.1 About property identification

From the field study it became clear that a reform in property identification is important if council is to improve the tax potentials. Council should undertake a physical inventory and inspection though this could be costly requiring employing several people. KCC should also collaborate with the ministry responsible for lands in order to access fiscal cadastres.

Implement a self-declaration where owners describe their property and calculate their income. This may need incentives and a lot of taxpayer education. The fieldwork observed that the use of utility records such as water, licences, occupation permits, information from estate companies. In addition council should collect information from land/building owners and estate companies. Further information on property can be collected from mortgage institutions and construction industry. Photographic maps and GIS may be used to identify new developments. The study proposes that the above information can be put in a Central Information Sharing System (CISS) a model of which is shown in *Figure 9 below.* This information will help council in updating the cadastre; facilitate identification of new properties and will expand the revenue source through a reduced cost of administration.

**Figure 9: An information Sharing System Model**




*Source: Author 2007*

In the same manner, KCC should address information management within council itself in addition to the CISS. The fieldwork made it clear that an internal collaboration mechanism of information sharing between different Departments handling for example building permits; occupancy license and Finance Department can easily kick start data gathering. The study noted that these departments are all under the office of the Town Clerk. For this collaboration to takeoff however, it would require introducing a computerized system that receives entries of the above permits, licenses and titles. This information could be fed into a housing database and relating it to the GIS system that already exists. The study observes that this information may support PRORATIS to perform better.

Additionally, council should use computers-assisted techniques such as integrated financial management system (IFS) to manage the property tax and all other revenue expenditure. This will reduce on the cost of administration and facilitate monitoring and accountability. The study strongly believe that the introduction of such reforms indicated above will go a long way in facilitating KCC in its effort of property identification, the belief is that this accumulated property information will be handy in helping KCC determine the tax-burden and liability. This will boost the revenue returns from property tax and corresponding service delivery making Kampala city more attractive to investment and enabling it reduce the service delivery backlog.

#### 5.4.2.2 About valuation

From the field interviews, it became clear that valuation is the second major component of the property tax administrative system influencing the valuation ratio and the potential, thus any property tax reform must address valuation as a critical issue. For Kampala a number of reforms in valuation may include introducing alternative assessment such as; mass valuation or mass appraisal; tax banding; indexing as well as improvements in the valuation office in terms of both technical and financial need requirements

**(a) Tax bands or banding**

Banding is a valuation mechanism where a number of properties are joined or grouped together and assumed to posses the same value. In this case a property is allocated one of the values considering its state, condition and location. The advantage of using this valuation mechanism is that it does not require frequent revaluations as long as the relativities between bands remain the same across a given rating zone in the city. It is much quicker process when timing is important. And most paramount, it eases the task of the valuer since it does not require the valuation of each property but rather to assess in which band the property should be placed. However, it requires that council gets exact, discrete estimates of values given the fact that the valuation is not an exact science. It would help council achieve participation of the private sector in service delivery since banding allows for a process of competitive tendering by using the expertise of the private sector. Banding as well reduces the number of appeals, as taxpayers will tend to believe that the burden has been shared equally.

**(b) Mass valuation**

This is a valuation technique that bases its values on the general features of properties in a given area or general features of particular categories of properties in the area or part of that area. For example in a modern housing estate like Bugolobi Flats where all properties are the same, mass valuation would require establishing the value of one unit and its value would be applied on all properties in the estate.

**(c) Indexing**

Another reform approach to beat the delays in revaluation that tantamount to loss of revenue is by introducing a mechanism of indexing where by the rates increases by a certain nominal figure that may be equated to the rate of inflation; this will hold the average rental tax burden at ease.

#### 5.4.2.3 About assessment

Council must adopt alternative means of assessment such as area assessment system though this would apply well if land is rateable. Introduce market value assessment especially in the CBD because of the presence of the high active land and housing market. Market related information could be got through the use of construction cost data to value buildings, which would help estimate the cost, per square foot of constructing the buildings typical of the area to be valued. KCC may use its discretionary powers to acquire and use real estate information to value land. Council may also use points system to value low-value property or perform individual valuation on unique, high value properties. Another option may be to use hypothetical market value to value rent controlled property; these mechanisms can be helpful in both annual rental value and market values assessment techniques as well. Another alternative assessment technique that is advocated by the LGRA 2005, but has not been exploited is self-assessment technique. It's important to note that Hungary has reaped from self from this kind of assessment, which only require verifying the property size and not the market value. Independent rating appeals boards may also be established to ensure equity and accountability in the valuation process.

#### 5.4.2.4 About Collection

The study observes that collection must be addressed because it determines the potentials of property taxation and the financial implications. In cases where deficit financing has been used to determine the rate, poor collections affects the budget and have a great effect on service delivery. Reform would require that council organize a recording system that sieves good ratepayers while tracking delinquencies. After assembling such records of delinquencies, stringent penalties can be imposed before hiring debt collectors to handle specifically debt defaulters. The study concluded for example that industries and big hotels were very good ratepayers compared to owners of several office blocks in central division. This would reduce the costs of administration but would boost the net rate returns as collectors only earn from the already perceived bad debts. Another reform would be decentralizing collection facilities to zone level; this would reduce conflicts between divisions[30]. KCC should empower the existing 15 rating zones to collect rates at the zone level as opposed to the current division level.

#### 5.4.2.5 About billing

The field study confirmed that billing should be reformed by appropriate legal definition of who is liable to rating. As Dillinger (1991) noted, the purpose of defining tax liability is to make the tax collectible by identifying a person to whom the taxing authority can apply sufficient leverage to extract tax. The law is clear that rates are charged on the owners thus KCC doesn't need to decide on whether to designate the bill but simply collect and if there is no response simply enforce. Enforcement can be done by increasing penalties on late payment. To encourage payers to pay on time interest penalties should be instituted on people who pay after the due date. For this to be effective the interest should be high enough to institute a clear financial incentive. KCC should also triage enforcement on longstanding delinquents.

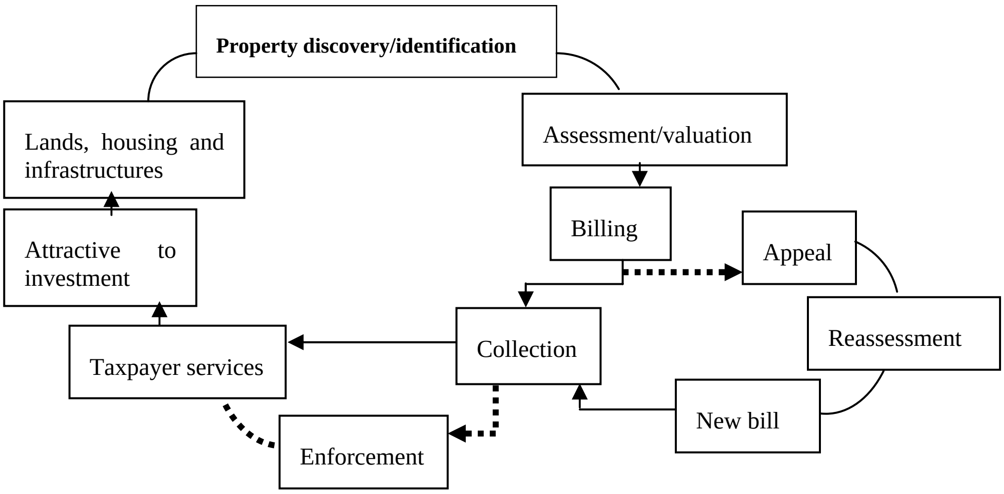
The study observed that, interest rate penalties are effective only in speeding up the receipt of tax payment, and they are not effective in extracting payment from taxpayers who never intend to pay at all. To reach these taxpayers stronger measures must be taken by the council like seizure and sell of properties. Further more, the study proposes that KCC may use cross-referencing for enforcement where tactical use of several penalties is supplemented by less costly and controversial enforcement mechanisms.

The researcher proposes a model of a functioning property tax system as shown in *Figure 10 below*, this relates to the perceived idea of reform highlighted in chapter two above, the researcher believes that a property tax system begins with a functioning property identification system followed by assessment and valuation as well as billing and collection. In case bills and values are not acceptable by ratepayers, the procedure goes through appeal; reassessment and a new bill is made which facilitates continuous

[30] Some properties that appear in the boundaries of divisions have caused conflicts with each division believing the property belongs to it; however at zone level there no conflict is because the zones are clearly marked.

collection. Enforcement follows up specific defaulters otherwise taxpayer services comes as an effect of accumulated revenues/collections. This process leads to reinvestment in infrastructure that attracts investment and provides a better livelihood of the citizens. Consequently this leads to increased infrastructural investment leading to more properties coming up - increasing the tax base and new properties into the valuation roll or database.

**Figure 10: A model of a Functioning Property Tax System**




*As proposed by the Author 2007*

***Conclusion***: As a reminder, the researcher's perceived idea of reform is based on the fact that cities are able to work only if they have good urban governance and a sustainable source of revenue (refer to Chapter three, 3.4 above). The intention for undertaking reforms in property tax is thus to be able to achieve one ultimate goal of raising sustainable source of incomes. The interviews revealed that there is will for reform among technical and political staff as well as the public as they all appreciate the benefits of reform. But as long as the gap between the statutory and economic incidences is not harmonised, the cities, local governments are at risk and the future is in oblivion. To avoid this kind of phenomenon, council must undertake reforms but should also be aware of the bottlenecks to reform. From the above analysis, the linkage between property tax reforms and service delivery is very clear as the law specifically addresses (LGRA 2005).

## 5.5 Bottlenecks to reforms:

The field study made it clear that despite the desirability and urgency for reforms in property tax system within Kampala city council, a number of bottlenecks exist. These reforms cut across administrative and policy elements such as financial requirement to undertake reforms, legislative limitations and political interference; corruption and poor administrative practices as highlighted here bellow;

### 5.5.1 Financial requirement

The field study observes that any reform has a financial implication, be it implementation of a CISS, valuation, information sharing or computerisation. The dilemma KCC faces is that it's financially constrained and it may not be easy to avail funds for reform because the existing backlog of service require more attention compared to reform. Council is unable to borrow because repayment may harm service delivery; donors are afraid of assisting council because of its poor administration practices and corruption. As the study observed donor-funded reforms in property tax earlier made in 1990, 1994 and 1997/8 were unsustainable due finance related problems. The study concludes that if KCC had enough finance to pay its own valuers the foundation that WBFUP had laid would have been sustained.

### 5.5.2 Legislation practices; Political interference and micro-management;

This study proposes policy reforms as a way of expanding the tax base by including tax on vacant land and owner occupied houses as opposed to the LGRA 2005; however, the study also observes that most of the laws amended and enacted have been made depending on the political environment. There is a lot of political influence on the city administration and micro-management from the Statehouse. During the fieldwork, the study observed that the central government was working on re-centralising the city administration.

Worse of all, laws are passed or assented during election time. For example, the study noted that in 1995 the then Minister of Local Governments reduced rates payable in all periphery rating zones in the city, apparently he was contesting in one of these areas (Mungati 1997) specularations have it that this was meant to woo voters and its no wonder, he was overwhelmingly voted. The second example is the amendments to LGRA 2005 with the Presidential Pronouncement 2006, which, coincided with presidential elections that the incumbent won. The question is how long will Council wait or make timely reforms that must coincide with the political environment. Note that a reform must also be politically supported and as Kelly (2000) contends, "strong political support is a prerequisite to strong property tax reforms".

### 5.5.3 Institutionalized corruption; Poor administration and bureaucracy:

This study observes that even if the funds and strategic reforms were to turn the system around. KCC still faces an uphill task of reforming the moral hazard of institutionalized corruption to an extent that a term "*nfunirawa*" (what's my personal benefit) has been coined. During the interviews in the fieldwork, the researcher confirmed gross corruption; poor administration and negligence were key causes of KCC failures in winning the public support and are the reasons for the undergoing Commission of inquiry into KCC administration (New Vision, July 2007 pg 5 – *Annex 7*[31]*)*. There is a big difference between the technical staff and political heads that are trying to please the electorate. Bureaucracy is affecting the rating system causing delays, as several steps have to be fulfilled. These are the issues that will hurt reform. It may be difficult if not impossible to undertake a structural reform when a simple administrative reform has failed to click.

### 5.5.4 Urban service backlog and accountability:

As earlier observed by the researcher, one other bottleneck that may impede the efforts of property tax reform is the existence of a huge backlog of undelivered urban services amidst problems of accountability. The fieldwork confirmed that if reforms are to take effect, the taxpayers must be able to see both fiscal and physical accountability. At the moment little can be done because of the backlog. Even if reforms are kick-started now, it would need a long time for the ratepayers to realize their effect. The reform may require huge initial investment and large amounts of capital, which as the study indicated may be a problem to access.

[31] The same article highlights the extent of the negative effect of political interference in city management

## 5.6 Conclusion

**Table 13: Summary of findings and conclusions from the field survey**

| no | function researched | Fieldwork Findings | Reform proposed |
|---|---|---|---|
| 1 | Tax base composition | Industrial and commercial properties | introduce tax on Land and owner occupied properties |
| 2 | Property identification | A lot of inefficiencies; No market information; Lack of fiscal cadastre; Poor property discovery | CISS, Physical identification of properties; self reporting; tax mapping. |
| 3 | Valuation and Assessment of property values | only an Annual Rental Value is used | Introduce market and Area based value assessment mechanisms. |
| 4 | Tax payer services | No clarity or evidence of specific services delivered with property tax. | Tax education; delivery of urban services, publicity of services delivered. |
| 5 | Revaluation and updating of the valuation rolls | No revaluations; Lack of personnel to undertake the exercise | Max valuation and mass appraisal; Tax banding, indexing and cross referencing. |
| 6 | Collection and enforcement | Loss of revenue in commissions; High debt of UGX 15 billion; corruption; bureaucracy; enforcement is hampered by corruption | Direct remittances; increase penalties on defaulters; sieve good ratepayers and track delinquencies: Decentralise collection to zones levels. |
| 7 | Tax Appeal resolution and fairness | Poor appeal system, Corrupt valuation courts; system not accessible by rate payers and some administrators. | Empower courts; Improve on administration mechanisms. |
| 8 | Technical administration | No information sharing; Gross bureaucracy; corruption and bribery; negligence by staff. | Improve information sharing;<br>Reduce bureaucracy: Fight corruption. |
| 9 | Public relations | Citizens are not aware of their tax obligation; high anti tax hazard | Mass sensitisation; revenue enhancement programs |

The table above sustain the conclusion of this chapter.

Property tax is a tax on real property and its functionality depends on one hand policy that determines and defines the base, exemptions, valuation standards, collection and enforcement procedures. On the other hand administrative structures that enforce what is advocated by the policy such as maintenance of property tax rolls, assessment, collection, valuation accuracy, billing and ability to enforce. However, the administration and poor policies are the challenges in Kampala.

From these analysis’s indicated above, we conclude that potentials for property performance exist but the challenges are enormous. This study concludes that if the proposed reforms are undertaken, KCC will have a basic source of revenue that may double their current expenditure requirement. The assumption of the study is that funds from property tax are ploughed back to specific services indicated in the LGRA 2005.

Additionally, the research observes that, while it seems easy and appropriate to address the above reforms, KCC must be aware of the existing limitations. Field interviews and interaction during fieldwork made clear that major challenge towards reform may be the existing backlog of undelivered services. KCC faces a huge task of turning this gap around.

# Chapter 6 Conclusions and recommendations

## 6.1 Conclusions

This study was NOT meant to understand how urban services can be financed but simply to investigate how the property tax system works and how improvements can be made within the system. The assumption is that property tax can be a major source of financing the delivery of urban services.

The literature review and different countries analysed helped me to understand what it is and how it functions. Additionally, it helped in the review of the different reform strategies undertaken in a number of different countries. This was important in the design of the field study.

The field survey was important in helping me understand the elements of property tax system on the ground in comparison to the issues raised in the literature review.

Kelly (Kelly, 2000) argues that land forms part of the property tax base in Uganda. The fieldwork survey and my findings prove the opposite. Land is not part of the base. The misunderstandings made by Kelly could have been due to fact that KCC bills and collects property tax and ground rent (tax on a commercial plot) at the same time. During my field interview, commonly respondents were attaching the two together but further findings proved that the two are distinctively separated.

The field study made the argument by Bird and Slack (2004) about exemptions clear. It confirmed that exemptions reduce the tax base considering that some potential properties are left out of the base. It suffices to add that exemptions also weaken the capacity of KCC in the delivery of urban services, because revenue potentials are lost. The field study also highlighted that most tax rebates given are politically influenced and a combination of exemptions and unrealistic rebates undermine the performance of rates and limits the capacity of KCC in service delivery.

The study confirmed the statements made by McCluskey (1991), Kelly (2000) and Dillinger (1991) that the basis of assessment in any country is related to its colonial history. Uganda like any other countries colonised by Britain had inherited an annual rental value similar to Kenya, Nigeria, Pakistan, India and Jordan, which are all formed British colonies.

The fieldwork clarified and confirmed the assertion made by Kelly (2000) that property tax is a functionality of 4 critical ratios of; Tax, Collection, Valuation and Coverage in addition to the tax base. Local governments interested in reform should take it from this study that; the above ratios must be addressed in addition to political aspects such as public acceptability. These elements have been considered as dependent variables of the study.

This thesis research confirms that the case of Kampala (Uganda) was not different from Ibadan (Nigeria), Amman (Jordan), Rio (Brazil) and Calcutta (India) where according to Dillinger (1991) collection inefficiency was causing loss of revenues. It reveals that Kampala had over UGX 15 Billion in arrears. Kampala Central division, which is located in the CBD, was owed UGX 4 billion in arrears in one financial year (2006/07). This was offsetting other gains made especially in valuation and discovery. This fact reaffirms that the potentials for property tax exist. It confirms the hypothesis of the study.

The study underscores that the major challenge to property tax functionality in Kampala city is poor public support. This is a consequence of the failures in delivery of taxpayer services and poor public relations. Furthermore, this was causing resentment among the taxpayers and widening the differences between the statutory and economic incidences. Additionally, administrative failures are also affecting the system, these are corruption; negligence of officials in council; inadequate property discovery; lack of cadastre information; inadequate valuation systems; revaluation lags; untimely billing and collection inefficiencies and poor funding were also affecting the system. The huge backlog of undelivered urban services does not make the functioning of the system any better. However, field interviews made clear that administrative reforms may be addressed easily and locally. For example, the development of a Central Information Sharing System may end council's failures in property identification challenges. Simple reforms in valuation can also be made easily such as mass appraisal, indexing and banding; assessment; collection and billing.

The field study also concludes that policy related aspects are negatively impacting the performance of property taxation. These are inadequate exemptions, inadequate policies, the unfair appeal system and poor enforcement mechanism. The study concludes that some failures can be addressed locally especially those identified here as administrative failures, however, policy failures depend heavily on the political strength and support and calls for the involvement of the central government. This confirms the argument of Kelly (2000) who argues that political support is necessary for any reform to succeed.

Although it may seem easier to address the above policy and administrative failures, findings from the field study indicate that a number of bottlenecks may impede the undertaking of reforms. The reformists may face four major obstacles. These include, financial requirement to implement reforms; the legislative, political and micro management practices; the institutionalised corruption, poor administration and bureaucracy and finally urban services backlog.

Fieldwork helped to underline three fundamental conclusions;

***(i)*** That the encumbrances in the tax system in Kampala must be arrested by undertaking a tax reforms immediately. Otherwise the future of the city is at risk. It may be impossible to make reforms in the future if the backlog of undelivered services continues to rise so rapidly as a simple result of urbanisation that is unmatched by the delivery of services.

***(ii)*** The potential capacity of property tax to finance public service delivery does exit in Kampala; the numbers and evidence collected through the fieldwork confirm that. There are large arrears, which are a result of several types of inefficiencies outlined before. There is a vicious system of collection that either does not cover the entire tax base or the arrears from defaulters are simply not collected.

***(iii)*** And finally, politically motivated decisions can have dramatic consequences on the potentiality of property tax. For example the Presidential Pronouncement 2006 caused KCC a financial loss of over 60% of its revenue and worsened their capacity to deliver urban services.

## 6.2 Recommendations

The study recommends to those interested in property tax reforms, the following reform improvements.

*Reform environment:*

Effective property tax reform must be strategic and mindful of the potential legal, institutional environment, culture and history of property taxation in the area. In the reform strategy, the objectives should be clear by focusing on the ultimate objective not on the intermediate output. As this study observed intermediate outputs are merely a means to an end but not an end. Reform is continual and interactive strategy, thus if the environment change then the strategy should change as well. Reformists should be ready to adjust the initial plan when circumstances change; improvements should be made gradually.

*Political and public support:*

That for any property tax reform to be successful, local governments must mobilise political and public support; use community leaders and identify allies within the public to support the reform. These allies may be good taxpayers who appreciate the essence of cost sharing. These should be those that value services most. In Kampala hotels and industries can be made good allies. While mobilising political support, reforms should capitalise on public sector reforms and make tax reforms part of the general sector reforms. Local governments can launch internal and external stakeholder campaigns; may establish working groups to build capacity and enhance stakeholder support and build the capacity if valuers. In this case council has three advantages;

***(i)*** Exploit the government intensions of re-centralising the city administration.

***(ii)*** Exploit the Revenue Enhancement Program funded by Ministry of Local Government and Kampala, and

***(iii)*** Sensitize the public on each Taxpayers Day celebrations funded by URA.

*Policy versus administrative reforms:*

Reform should focus on both tax administration and policy; as they both compliment each other. It is important that certain reforms that seek to address billing and collection may not necessarily need policy reforms. However, tax base definition, enforcement, property assessment, appeal and exemptions may require policy reforms.

*Decentralisation:*

For proper property tax administration, decentralisation of billing and collection is paramount. Reforms should tailor administration to central and local level advantage. While the central may have good expertise; the locals are closer to daily changes in the area and therefore can effectively identify new properties and owners. They are also able to monitor the housing market and may be important in enforcement, as they know who is liable. There is a need to take advantage of what is available at different levels.

*Public participation:*

It's necessary to simplify policy and operational procedure in order to achieve transparency and letting the public know what is to be achieved as a result of their participation. The most important area that should take precedence while addressing property tax reforms should be taxpayer services and accountability. As the study noted, these have a great impact on the performance of the property tax revenues. For as long as the gap between the taxpayers and collectors is not bridged, the essence of property tax is lost and these have a number of consequences on how the systems functionality.

*National tax policy:*

Uganda should develop a comprehensive National Taxation Policy to guide property taxation and other newly created taxes. The policy should have an implementation strategy to address how the public can be made tax responsive. This will create a moral change and facilitate the current timid enforcement. The policy will also make the tax popular and may gather support from particular opinion leaders. Through this policy new measures of property identification which the LGRA 2005 does not address may be addressed. Measures propelling tenants to report their tenancy can also be addressed with clear incentives indicated.

*Reform incentives:*

Proper incentives should be created for property tax payers. There is a close relationship between incentives and improvements. The incentives should be for both taxpayers and administers and how they respond. Improvements in local services and expenditure management can be done by making timely accountability. Managing corruption and closing the door to corruption may be solved by timely reporting.

### 6.2.1 Areas for further research:

It has been observed by this study that the bigger challenge to the functionality of the property tax system is inadequacies in the delivery of taxpayer's services which results in bile of KCC and exacerbates the backlog of undelivered urban service situation. This study recommends that research should be undertaken on how best taxpayer services can be delivered amidst lesser amounts of tax collections. Answers should be sought on what other options are available for improvements in delivery of services? Should KCC borrow to finance urban services with anticipation that repayment will be done through property tax collections? Should user fees be charged as an alternative to funding service delivery and how does this measure against the principles of taxation such as equity or cost sharing?. The study may also look at how corruption can be addressed in local government institutions.

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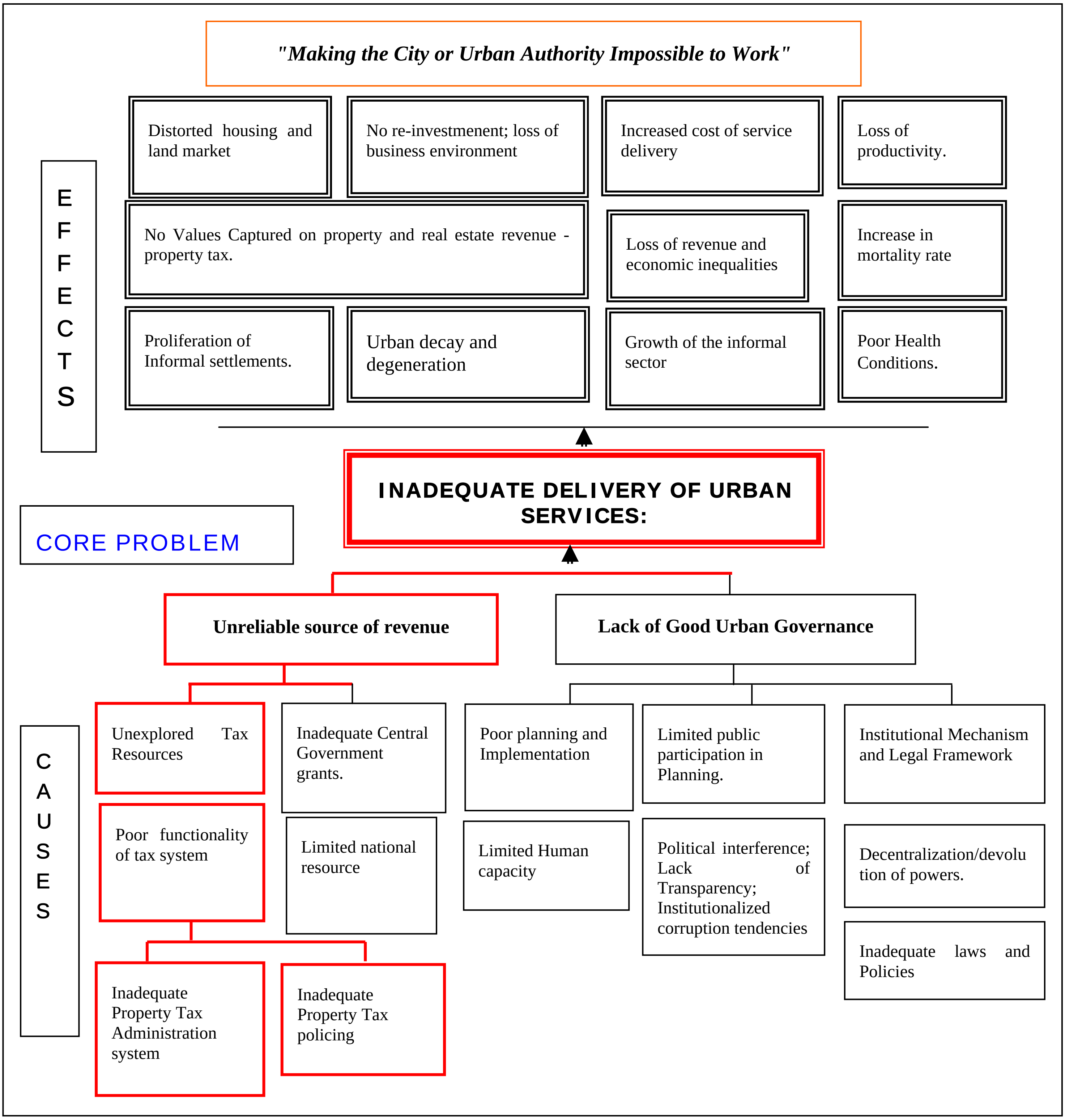
## List of Annexes

### Annex 1: Problem Tree analysis

### Figure 11: Problem Tree Analysis




*Source: Author 2007*

## Annex 2: List of Respondents

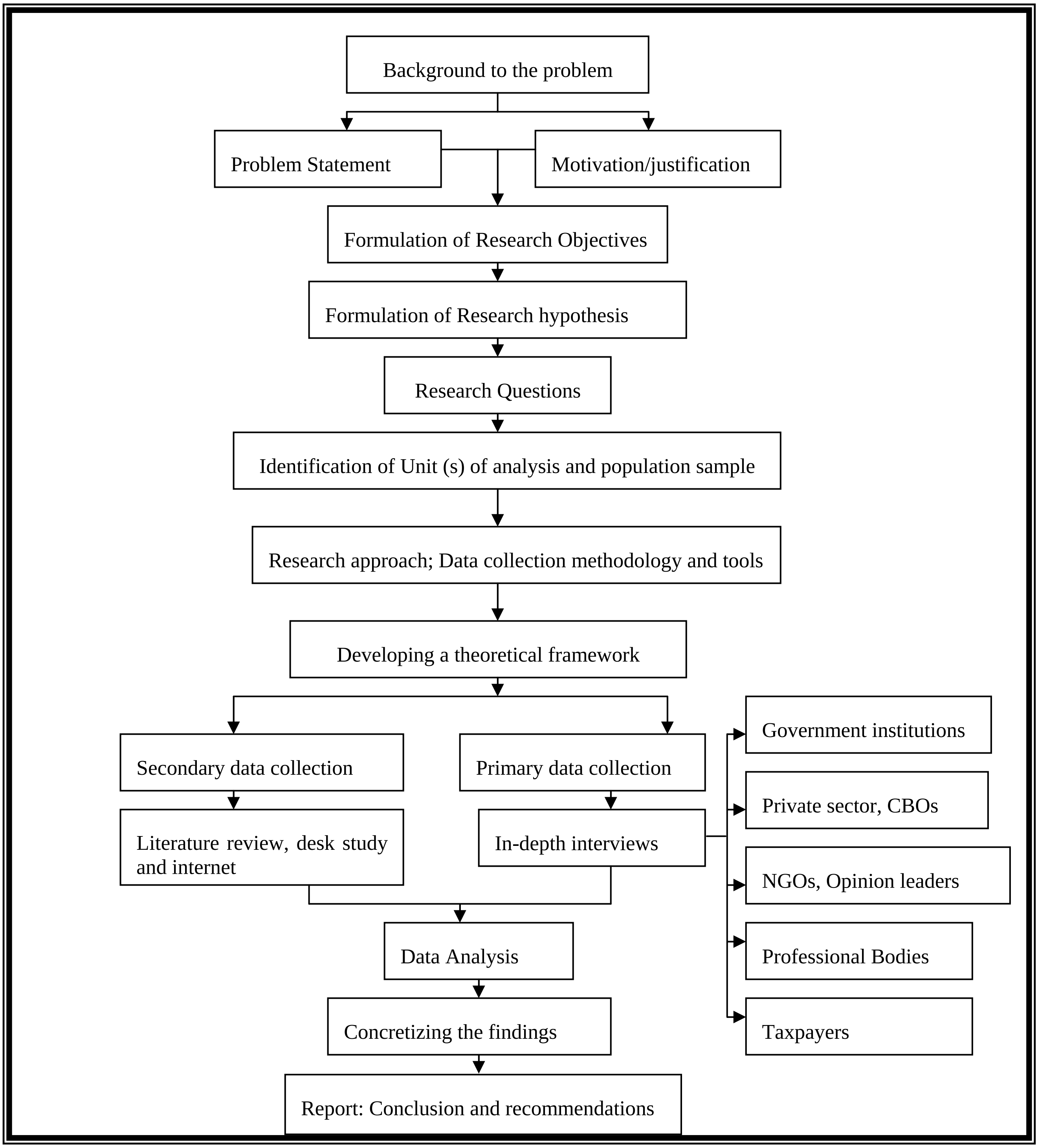
**Table 14: Interview Respondents**

| No | Respondents |
|---|---|
| **1** | Government Institutions:<br>a. Kampala City Council (KCC) - Planning, Finance and Enforcement Division<br>b. Ministry of Local Governments (MoLG) - Department of Urban and Local authorities<br>c. Uganda Revenue Authority (URA)<br>d. Ministry of Finance Planning and Economic Development<br>e. Ministry of Lands, Housing and Urban development - Departments of Physical Planning, valuation, Titling, Cadastre, survey and mappings<br>f. Uganda Bureau of Statistics<br>g. Uganda Law Reform Commission |
| **2** | Opinion leaders; Professional bodies and private companies<br>a. Local Governments Authorities Association of Uganda (LGAA)<br>b. Members of Parliament.<br>c. Businessmen, shopkeepers.<br>d. Landlords of major commercial buildings and tenants<br>e. Institute of Valuers association of Uganda<br>f. Estate developers - Akright Projects Limited |
| **3** | Civil Society organisation and the Public<br>a. NGO Forum - Uganda<br>b. Citizens of Kampala |

*Source: Author 2007*

## Annex 3: Research Design

**Figure 12: Research design**




*Source: Author 2007*

## Annex 4: Interview Guide

This researcher will use the interview guide, open-ended interviews and focus group discussions; other sub questions will be used in the interview process but will depend on particular respondents.

## A: Schedule for Kampala City Council and Key Government Institutions[32]

1. Introduction and brainstorming:
   a) What is your name and professional background and how did you end up working here?
   b) What is your level of responsibility?
   c) How does your responsibility relate to property tax?
   d) Have there been any changes in the property tax system since your arrival in this office or since you undertook that responsibility.
   e) What changes?
2. Understanding of property tax system and its functionality
   a) Could you explain your understanding of property tax?
   b) Could you explain in your view how the property tax system works? In terms of administration?
      1. Valuation system
      2. Billings and Collection system.
      3. How about Coverage (what percentage of properties in the valuation roll did you cover over the last financial year)? Do you have any records corresponding to that?
      4. Enforcement mechanism - How is it made?
      5. The Appeal process (is it fair, well understood?)
   c) Governance and Public acceptability
      1. How many people are paying tax?
      2. Is the business sector in particular paying tax?
      3. How do you relate with the central government in terms of property tax administration? Is their monitoring or approval of rates?
      4. Is it generally acceptable among the public? How and why? Why not?
   d) Do you have documented revenue collections to prove its performance (whether good or bad). *Can I have a copy of the document?*
   *e)* What are the incentives of paying tax? Are there incentives of paying tax?
3. Obstacles and reforms
   a) What obstacles do you encounter in tax administration?
   f) Do you think the systems need reform? Why? Really? Explain more? How?
   g) What do you think can make reduce these obstacles better?
   h) Why do you think the past reforms have failed? Are there issues such reform failed to address?
4. What kind of infrastructural developments would you invest in if you had better property tax returns?
5. What issues or realities do you think may have to be faced if reforms were to be made? How?

***End - Thanking the interviewee and requesting to advice on any person who would be willing to discuss this topic (snow-ball) and if necessary request him to more discussions at a later date.***

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[32] These Government Institutions are mainly Kampala City Council (KCC), Uganda Revenue Authority (URA) and Ministry of Local Governments (MoLG).

## B: Schedule:

**For Opinion leaders: Professional Bodies; Private Companies; NGOs and Government Institutions[33].**

1. Introduction and brainstorming:
a. What is your name and professional background and how did you end up working here?
b. What is your level of responsibility?
c. How long have you been involved in activities/ work related to property tax?
2. Understanding of property tax system and its functionality
a. Could you explain your understanding of property taxation?
b. Have there been any changes in the property tax system known to you over the years?
c. Could you explain in your view how the property tax system works? In terms of administration?

1. Valuation system
2. Billings and Collection system.
3. How about Coverage (how many properties did you cover over the last financial year in comparison to those billed?
4. Enforcement mechanism - How is it made?
5. The Appeal process (is it fair, well understood?)

d. Do you have any records? Can I have a copy of the document?
e. Do you think the public understands this system? Do you think it is generally acceptable among the public? How and why? Why not?
3. Obstacles and reforms

A). Do you think the systems need reform? Why? Really? Explain more? How?
b). what do you think can make these obstacles better?
c). Why do you think the past reforms have failed? Are there issues that tax reforms have failed to address?
d). Are you satisfied with the Local government-rating act 1979? Is there a need to make reforms in the current law?[34]
e). What reforms or issues do you think the tax law or policy should address?

4. What issues or realities do you think may have to be faced if reforms were to be made? How?
5. Could you propose any particular way how these reforms can be made? and in what part of the system (administration or policy)

***End - Thanking the interviewee and requesting to advice on any person who would be willing to discuss this topic (snow-ball) and if necessary request him to more discussions at a later date.***

## C: Schedule for Tax payers[35]:

General for all Taxpayers
1. Introduction and brainstorming:
a). What is your name and professional background and how did you end up working here?
b). What is your level of responsibility?

[33] Particular Questions will be left out while interviewing a given type of respondents in the above, schedule since they are secondary source of information. This interview guide will also be used for Honorable members of parliament on the Economic affairs and local governments committees in parliament.

[34] For example this question is meant for Uganda Law Reform

[35] This will include Individual business premises owners, shopkeepers, business companies, estate developers, estate managers and industries or proprietors of industries.

* Specifically for an interview with a tax defaulter.

c). How long have you been in this business?

2. Understanding of property tax system and its functionality

- Could you explain your understanding of property taxation?
    a) Could you explain in your view how the property tax system works?
    b) Do you know how much you pay per year? Do you have any records of these payments? Can I make a copy?
    c) How do you make your payments? And where?
    d) Who assess your property
    e) Would you be willing to pay more if you knew its use?
    f) What particular services would you want more from your payment of tax?

3. Obstacles and reforms

a) What do you think is the problem in the way property tax is administered?

b) Do you think the systems need reform? What kind of reform? Why? Really? Explain more? How?

c) What do you think can make these obstacles better?

4. What issues or realities do you think will have to be faced if reforms were to be made? How?

*Particular to any property tax defaulter:

i). Why are you not willing to pay property tax? What is your motivation?

***End - Thanking the interviewee and requesting to advice on any person who would be willing to discuss this topic (snow-ball) and if necessary request him to more discussions at a later date.***

## Annex 1: Facts and figures of Kampala City Council

**Table 15: Kampala population dynamics**

| Year | Population | City Growth Rate (%) | National Growth Rate (%) |
|---|---|---|---|
| 1969 | 330,700 | | |
| 1980 | 458,503 | 3.14 | 2.71 |
| 1991 | 774,241 | 4.76 | 2.52 |
| 2002 | 1,208,544 | 4.1 | 3.4 |
| 2006 | 1,419,272 | 4.1 | 2.87 |

*Source: Economic Planning Unit*

**Table 16: Administrative structures of Kampala.**

| Area | Parishes | Villages |
|---|---|---|
| Central | 19 | 138 |
| Kawempe | 22 | 122 |
| Makindye | 22 | 132 |
| Nakawa | 23 | 279 |
| Lubaga | 13 | 131 |
| District | 99 | 802 |

*Source: Economic Planning Unit 2007*

**Table 17: Summary of the political administrative structure**

| | Administration level | Head |
|---|---|---|
| 1 | Kampala City Council | Mayor/ Chairman LC V |
| 2 | Divisions | Chairmen LC III |
| 3 | Parishes | Chairmen LC II |
| 4 | Zones/Wards/Cells | Chairmen LC I |

*Source: Author 2007*

**Map 2: Administrative Boundary of the City**

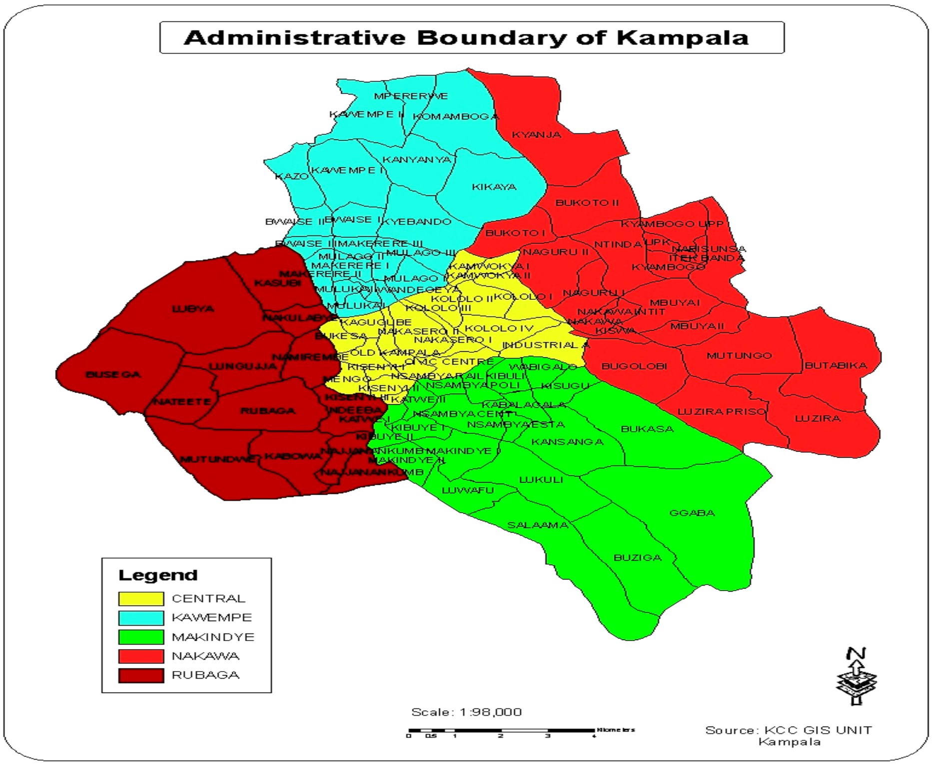



**Table 18: Population size per division in terms of area (sq.km), density and distribution**

| Division | Population | | | Area (sq km) | Density/ Km² | Distribution % |
|---|---|---|---|---|---|---|
| | male | Female | total | | | |
| **Central** | 44,001 | 44,093 | 88,094 | 14.6 | 6,191 | 8 |
| **Kampala** | 123,502 | 138,663 | 262,165 | 31.5 | 8.529 | 22 |
| **Makindye** | 145,556 | 157,615 | 303,171 | 40.6 | 7,416 | 25 |
| **Nakawa** | 118,098 | 122,526 | 240,624 | 42.5 | 5,795 | 20 |
| **Lubaga** | 137,918 | 157,170 | 295,088 | 33.8 | 8,938 | 25 |
| **District** | **569,075** | **620,067** | **1,189,142** | **169.0** | **7,378** | **100** |

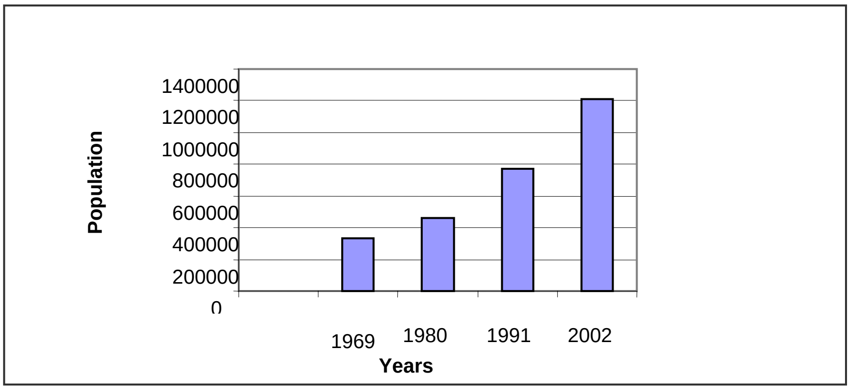
*Source: Physical Planning Department, KCC 2007*

**Table 19: Population density by Indicator**

| Indicator | Description | Percentage |
|---|---|---|
| Resident Population | 1,208,544 (2002 census) | |
| Daytime population | Estimated at 2,000,000 | |
| Average annual growth rate | 3.8% | |
| Age distribution | Children below 5 years | 14.0% |
| | Below 15 years | 37.9% |
| | 15-64 years | 63.3% |
| | Above 60 years | 1.8% |
| Sex Distribution | Females | 51.3% |
| | Males | 48.7% |
| Sex Ratio | | 92% |
| | Women 5 – 49 years | 26.7% |
| | Adolescence (10 – 19 years) | 23.6% |
| | Youth (10 – 34 years) | 46% |

*Source: Planning and Finance Department, KCC 2007*

**Figure 13: Population Growth of Kampala, 1969-2002**




*Source: Finance and Planning, KCC 2007*

**Table 20: The scope of mailo land and the Occupancy Question**

| **City land area : 201 sq. km.** | | | |
|---|---|---|---|
| **Land Tenure** | **Percentage** | **Status** | **Issues** |
| Mailo | 75% | Fully Titled with estimated 45,000 titles | Slum infestation unplanned, demarcation of occupancies and disengaging existing relationships |
| Leasehold | 15% | Higher percentage titled | Planned |
| Kabaka's land | 7% | Titled | Unplanned and demarcation of occupancies and disengaging existing relationships |
| Freehold | 3% | Titled | Partly planned |

*Source: KCC 2007*

**Table 21: Percentage Distribution of the Economically Active Population by Selected Characteristics**

| No | Selected Characteristics | Male | Female | Percentage Total |
|---|---|---|---|---|
| 1 | Paid employees | 33.3 | 18.3 | 51.6 |
| 2 | self employed | 18.7 | 13.8 | 32.5 |
| 3 | Unpaid family worker | 0.8 | 2.3 | 3.1 |
| 4 | looking for work | 6.0 | 6.8 | 12.8 |

**Table 22: Major Networks and Streetlights**

| Network | Km |
|---|---|
| Tarmac/bituminized roads | 305 |
| Marrum/Gravel roads | 600 |
| Railways | 23 |
| Roads with street-lights | 77 |
| Number of street lights | 2,780 |
| Average daily car accidents | 21 |
| Percentage fatal accidents | 32% |

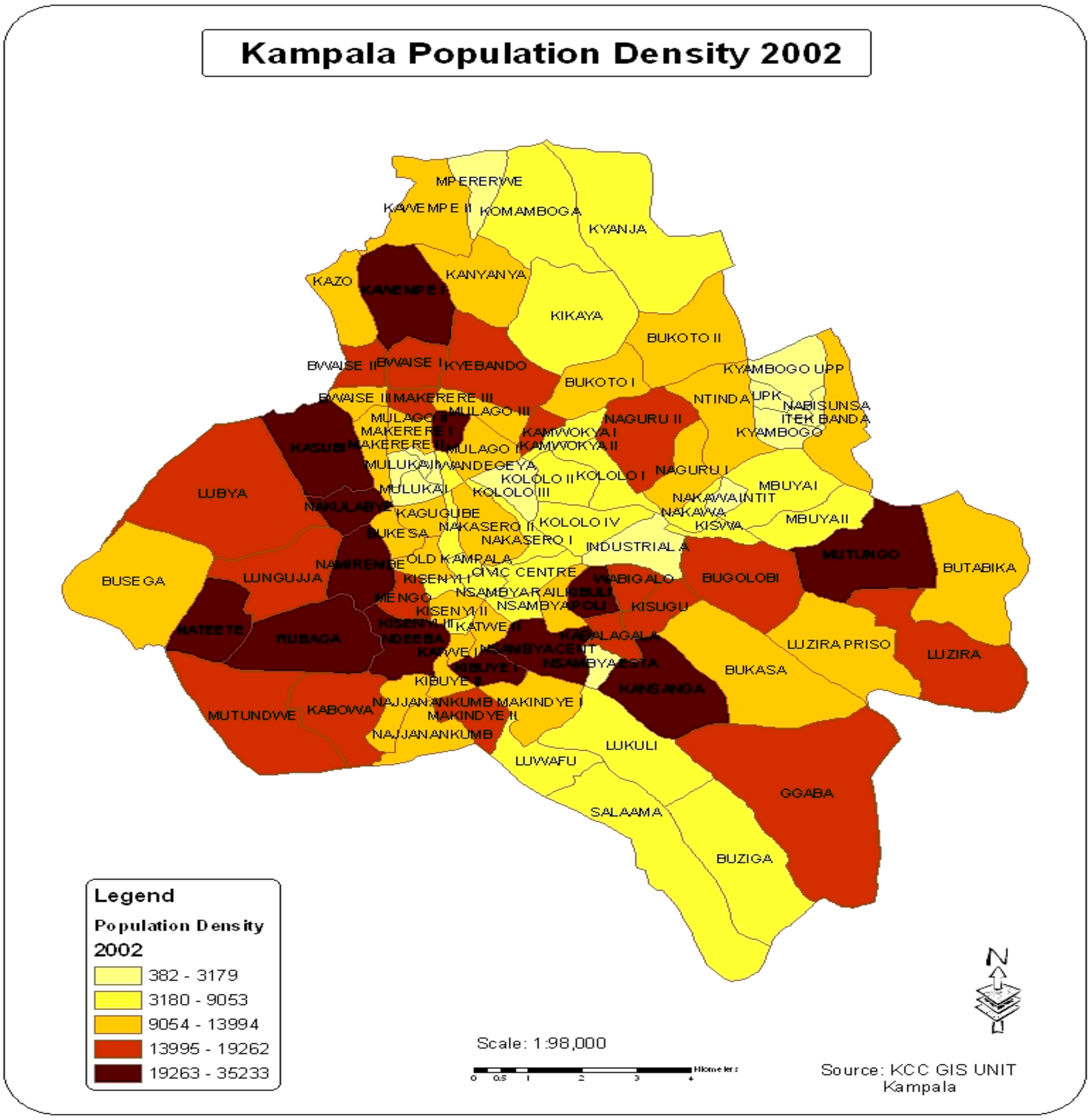
*Source: KCC 2007*

**Table 23: Estimate of revenue potentials uncollected 1995-1997**

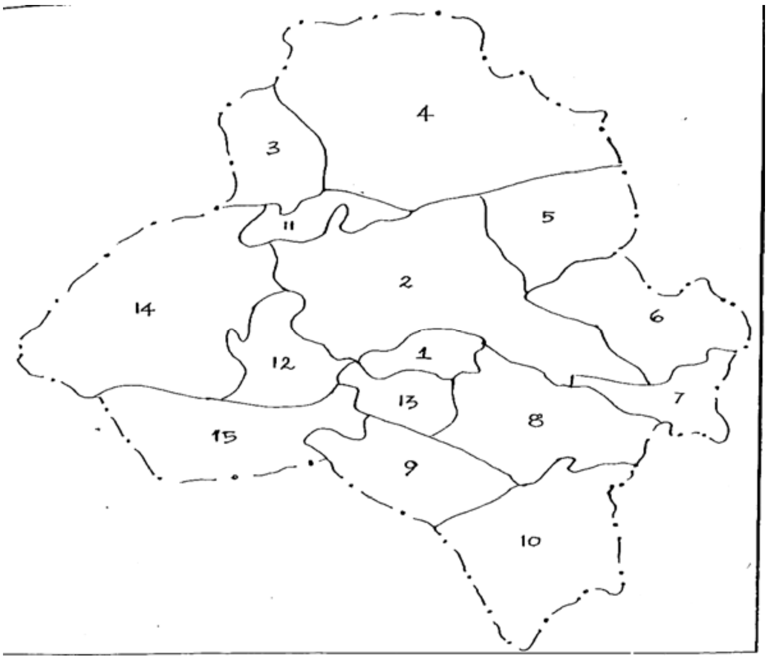
| Rating Zone | Estimate RV in UGS | Amount not Collected by KCC | |
|---|---|---|---|
| | | 1995/96 at 5% | 1996/07 at 6% |
| Makindye | 4,000,000,000 | 200,000,000 | 240,000,000 |
| Gaaba | 2,5000,000,000 | 125,000,000 | 150,000,000 |
| Mengo East | 1,961,266,000 | 98,063,000 | 117,675,960 |
| Mengo Central | 3,500,000,000 | 175,000,000 | 210,000,000 |
| Mengo South | 2,500,000,000 | 125,000,000 | 150,000,000 |
| Total | 14,461,266,000 | 723,063,000 | 867,675,960 |

*Source: Valuation section, KCC 1997*

**Map 3: Population density by location and number**



**Map 4: Kampala District Rating Zones**



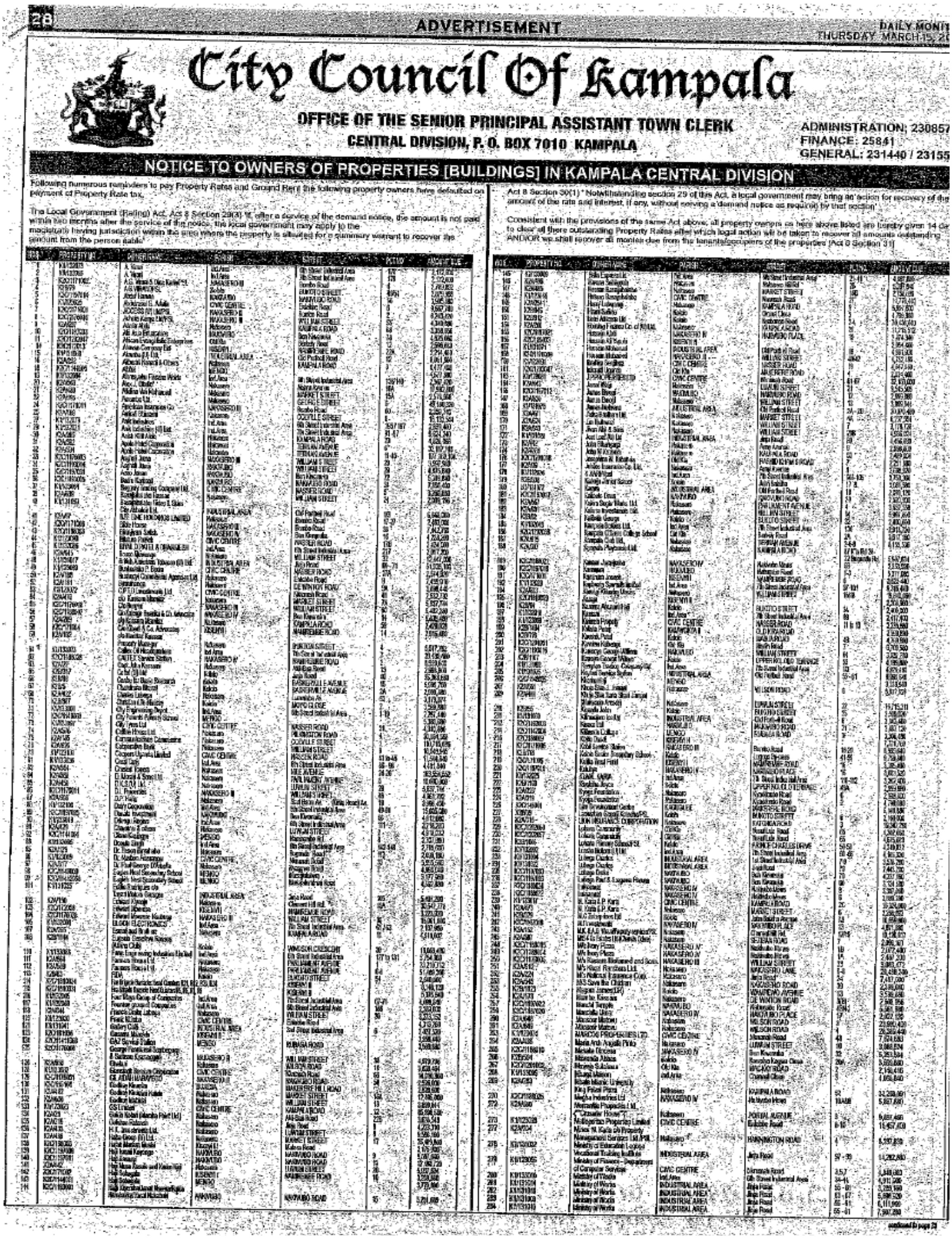

**KEY: Kl: Railways K2: Central K3: Kawempe K4: Kyanja K5: Mbuya K6: Nakawa K7: Portbell K8: Muyenga K9: Makindye KIO: Gaba Kll: Mengo North K12: Mengo Central K13: Mengo East K14:Mengo West K15: Mengo South.**

*Source: Mungati Paul, 2007*

**Picture 2: Shorts indicating status of urban services coined by LGRA 2005**

# Annex 6: Advertisement of Tax Defaulters

**Figure 14: Advertisement of Property Tax defaulters**



DAILY MONITOR
THURSDAY MARCH 15, 2007

ADVERTISEMENT

29

continued from page 28

Senior Principal Assistant T[illegible]
Central Division

UGX 4,613,016,327/=

***Source: The Daily Monitor, Thursday 15th March, 2007***

## Annex 7: News paper article regarding political interference:

# Babu wants politicians out of city control

By Geresom Musamali

FORMER Minister of State for Housing, Capt. Francis Babu, wants politicians excluded from the management of Kampala.

Babu, who is also a former Kampala Central MP, yesterday appeared before the committee probing the mismanagement of Kampala Central Division. He recommended that professional people be appointed to manage the city instead of elected politicians.

The committee pointed out that some technocrats have also been involved in the mess. But Babu said that was why enough safeguards should be enshrined in the law that provide for a special status of Kampala as the capital city.

"There is a need to look at the systemic failure of Kampala City Council as a whole. The probe should go beyond examining the affairs of Kampala Central alone because all city divisions are encountering the same problems," Babu advised.

"The problems have also not cropped up recently. They date as far back as 2001 when Christopher Iga was chairman (of Kampala LC5)."

Babu attributed the infighting among politicians to conflict of interest.

"Politicians have business interests in the city and all the battles you see are related to those interests."

Meanwhile, the committee has requested security officers to investigate reports that a certain journalist was selling video recordings of the proceedings to some of the people implicated in the scandals.

The committee chairperson, Irene Ovongi, said the practice was likely to scare people away from testifying.

*Source: New Vision, 17th July 2007 page 6*

## Annex 8: Typical Rating announcement

**THE LOCAL GOVERNMENT (RATING) ACT 2005**
**KISORO TOWN COUNCIL**

**Section 21: Notice of Valuation List:**
Take notice that Kisoro Town Council Valuation List has been approved by the Minister of Local Government and has come to force with effect from 1st July, 2007.

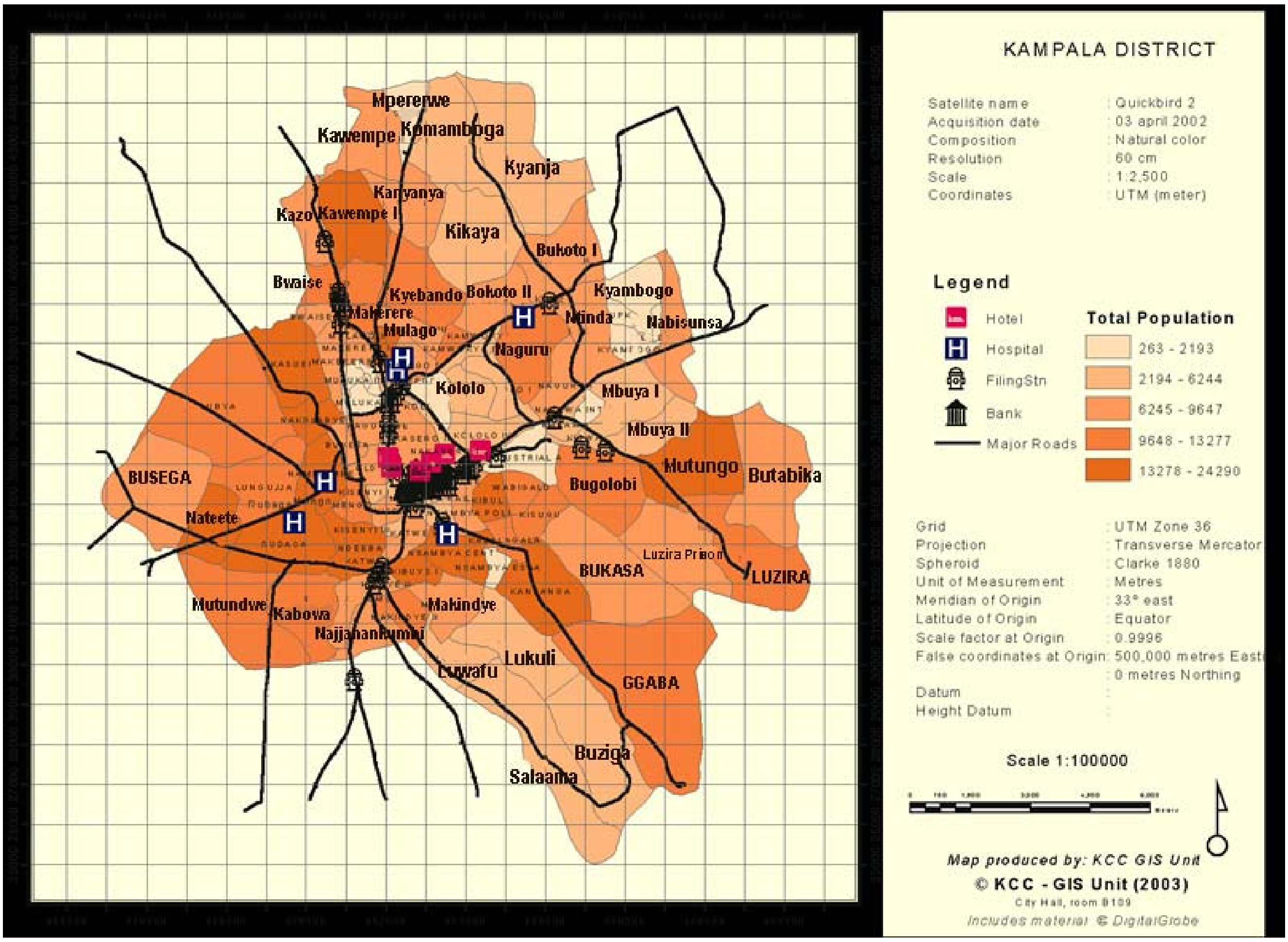
**Section 26: Notice of rate**
Further take notice that Kisoro Town Council and the Ministry of Local Government approved the property tax of 3% and 5% on rateable value of all residential (not owner occupied) and commercial structures respectively, with effect from **1st July, 2007.** The valuation list on which the rate is charged is available at the Council Offices.

29/06/07
Isaiah Tumwesigye
Town Clerk
Kisoro Town Council

***Source: New Vision, July 3rd 2007***

## Annex 9: Map of Kampala (Study Area)

**Map 5: Kampala city.**




*Source: http://www.kcc.go.ug (Accessed 13th August 2007)*

## Annex 10: Map of Uganda

**Map 6: Map of Uganda - highlighting the location of Kampala**


**Location of Kampala City, the area of Study**

*Source: http://www.infoplease.com/atlas/country/uganda.html*
***(Accessed 16th August 2007)***