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PROJECT MEMO

LOCAL REVENUE REFORM IN RWANDA: PROPERTY TAX

Researcher: Mihaly Kopanyi
Partner organisation: the Ministry of Finance and Economic Planning (MINECOFIN)

IN BRIEF

- Efficient tax collection is essential to service delivery yet implementing an effective property tax policy remains a challenge for the Rwandan government
- This project analysed Rwanda's draft property tax law, recommending measures to improve both policy and implementation
- Researchers recommended a 'mass valuation' of all properties and a focus on expanding the tax base

Efficient tax collection is essential to provide resources for cities to finance urban infrastructure and urban services. Taxation of appreciating real estate values have strong economic efficiency, equity, and governance benefits; however, administrative and political costs have prevented property taxes from being used effectively in Rwanda. The Rwandan government expressed a strong interest in the IGC advising on the draft property tax law during a Country Director visit in 2014 following on from previous work done by the IGC.

The government's proposed tax system relied on land-owners' self-reporting of the value of their property and land. Using drafts of the law, reports, and data describing land and property management and challenges in Rwanda, and in-depth discussions with stakeholders, the researcher evaluated the merits and challenges of the law, and walked the government through potential steps forward.

This study highlights the problems of self-declaration in an underdeveloped market without data to guide any audits. It outlines the relative merits of instead conducting a 'mass valuation' of all properties in Rwanda, to ground tax obligations. The IGC researchers present options for design of a mass valuation (particularly advocating use of market proxies such as floor area, urban zone, quality of local and on-site infrastructure, building materials, etc.), and evaluates some alternative systems, potential sequencing, and measures for enforcement, appeals, and transparency. The researchers highlighted the importance of involving district authorities, and ways this could be achieved.

The Minister of Finance has indicated his desire to improve property taxes. The government has solicited further IGC analysis of real estate transactions.

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