

# Property taxes in Kampala

## Some background information



- In brief:**
- Property rates, as collected by the Kampala Capital City Authority (KCCA), are taxes on the rental or business income of property in the city of Kampala, Uganda that can be applied to commercial, institutional, and rented residential properties across the five urban divisions of the city.
  - Property rates make up a substantial proportion of the KCCAs own source revenues – in FY 2018/19, these taxes made up over 35% of own source revenues. However, there is significant room for improvement in collection.
  - This note provides some background information on property rates in the city including on the process of property rate tax payments and the level of compliance in the city.
  - The most likely driver of low property tax compliance in Kampala is weak enforcement, both in law and in practice. Given this, there may be significant potential for policies to improve tax morale for compliance.

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# 1. Property tax in Kampala



Properties in Kampala  
(Source: Getty Images)

Property tax, as collected by the Kampala Capital City Authority (KCCA), is a tax on the rental or business income of property in the city of Kampala, Uganda that can be applied to commercial, institutional, and rented residential properties across the five urban divisions of the city. The tax is a percentage of the actual (or estimated) annual rental value or business income value and is only collected from property owners that generate income from their property.

Kampala is comprised of five divisions; Central, Nakawa, Kawempe, Rubaga, and Makindye. Together they contain about 121 parishes and roughly 940 villages. In the city, there are approximately 350,000 properties and 64% of these are eligible for the tax.

The liability falls upon the property owner registered under the relevant laws of Uganda or with concession over the property (KCCA, 2005). In Central division, for example, there are 6,608 owners - while the median owner has only one property, the mean owns over two and a half, and some property owners have large holdings that make up to one percent of the total number of properties. The KCCA can legally issue a demand to the property tenant to pay the tax if the owner is not available, and the tenant can legally deduct this amount from the rent they pay. Across all five divisions of the city, the properties themselves are mostly residential (55%), with commercial (33%) and institutional (7%) also making up a fair share.

Property taxes make up a substantial proportion of the KCCAs own source revenues – in FY 2018/19, these taxes made up over 35% of own source revenues. However, there is significant room for improvement in property tax revenue collection.

Until recently, a key source of revenue leakage was the lack of an updated property tax roll, the last version of which was completed in 2006. However, since 2014, the KCCA has successfully expanded the property tax net through a mass enumeration of properties in the city collecting ownership information, locational details, GIS coordinates, and property attributes for over 300,000 properties in the city.<sup>1</sup> This updated property tax roll has raised the potential revenue in Central and Nakawa divisions, for example, from 14 billion in FY 2013/14 to 38 billion in FY 2018/19.<sup>2</sup>

<sup>1</sup> This information for all five divisions is stored in the KCCAs digital eCite platform that allows for taxpayer identification, billing and monitoring. The data collected allows for tracking of individual properties owners, by property, the number of attempts made to pay, the payments actually made, and their timing.

<sup>2</sup> Source: KCCA seasonal revenue projections

## 2. The process of tax payments

The mass enumeration and surveying of properties from 2014-2019 collected ownership information, location (including GIS coordinates), and property attributes.<sup>3</sup> Once the data had been collected, properties were individually valued based on their characteristics and location by professional valuers in most cases, and in some cases by regression model prediction. This information for all five divisions is stored in the KCCAs digital eCitie platform.

Following the identification and valuation of properties, the process of taxpayer notification, appeals, and payment is as follows:

1. An initial version of all property valuations for a division are displayed in hard copies at division offices. These are promoted through press releases, bazaars, radio announcements, and local leaders (LC1s).
2. Property owners have one month to object by filling out an objection form. The burden of proof is on the individual to prove their lower/lack of liability.
3. The KCCA's valuation court then convenes after one month to deal with all appeals, resolves these, and informs the KCCA and citizens of their decisions. Decisions can sustain, increase, or decrease the oweable amount.
4. From these revisions, a final valuation list is created both in hard copy and electronic form.
5. Bills are then printed and attached to 'demand notices' which are delivered to a subset of property owners. Because of staffing capacity, the KCCA is not able to deliver demand notices to everyone, and so high earning properties are prioritised. Under the eCitie system, everyone should also get an automatic (SMS or email) notification of their liability.
6. Billing of all properties on final valuation lists happens at the beginning of the financial year i.e. 1st July. All five divisions in Kampala were billed most recently on 1st July 2019.
7. Taxpayers have until the end of the calendar year to pay their tax on time. People often ask for payment plans, where they can pay in instalments.<sup>4</sup>
8. If payments are not received within this period, the KCCA can issue a legal demand letter to taxpayers, requiring them to pay their liabilities within 2 months or be taken to court.

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<sup>3</sup> It was during this enumeration phase that owners' status as such was self declared. So while it is a voluntary declaration, the enumerator is present at the property and so can 'audit' the owner-occupied status to some extent.

<sup>4</sup> This is done at the discretion of the division offices but officially kept to under a maximum of four equal instalments. In practice, division offices will often accept payments lower than a quarter of the full liability if it is all a taxpayer can pay at a given time. Interest is only paid on those instalments that are made in subsequent financial years (i.e. the payment is in arrears). Interest rates start 30 days after the end of the FY. The same rate is applied to everyone.

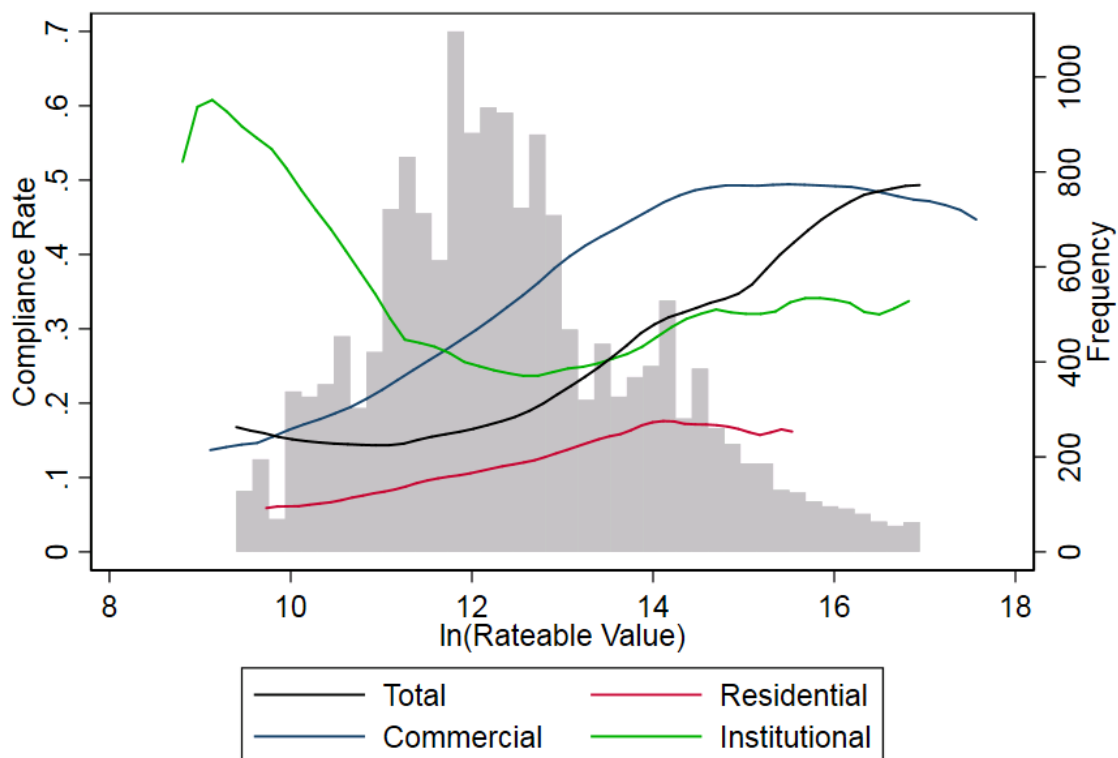
### 3. Tax compliance in the city

The KCCA both monitors and enforces property tax compliance, which can be measured in real time through the new eCite system. Currently, property tax compliance is low; 22% of billed properties paid their taxes in Central Division during the 2018-2019 financial year resulting in only 12.4 billion UGX from an expected 24.6 billion UGX of revenues being raised.<sup>5</sup> There is also notable variation in compliance by location, even within divisions. Considering the 99 villages in Central division with at least 50 billed properties in 2018-2019, ten percent of these have mean compliance rates below 3% while the top ten percent pay at rates above 45%.

Figure 1 shows that there is large variation in rateable values and that compliance varies greatly across this distribution. Compliance is low and rises for more valuable properties; on average compliance rises by five percentage points for a one percent increase in rateable value at the margin, and the highest value properties comply with taxes at a rate four times higher than the lowest value properties.

Compliance may rise with rateable value due to government focus on targeting high valued taxpayers, the higher opportunity cost for high valued properties to be locked up, or simply because high valued properties are owned by individuals with a higher capacity to pay. The first two reasons may be less relevant for residential properties, where government targeting is more politically difficult, and the threat of lockups is lower.

**Figure 1: Tax compliance in Central division vs rateable value and property type**



Trimmed based on 1st-99th percentiles of rateable value (within type)

<sup>5</sup> Source: KCCA Central 2018 PRT analysis report data spreadsheet

### 3.1. Why do we see low compliance in Kampala?

The most likely driver of low property tax compliance in Kampala is weak enforcement, both in law and in practice. As noted above, any liability not paid within 13 months of billing is in 'arrears' – and is subject to interest of 2 percent per month for the period the liability has remained unpaid.<sup>6</sup> However, there is limited means of ensuring taxpayers pay both their initial liabilities and these arrear fines. In Kampala, it is theoretically possible to take any property owner to court for non-compliance, but inefficiencies of the judicial system limit the effectiveness of this approach. As such, the main method of enforcement is to lock-up properties who do not comply. This is not done for residential properties as it is politically infeasible.<sup>7</sup>

The fact that it is mainly commercial properties that are locked up for not paying taxes is reflected in annual compliance rates. During the financial year 2018-2019 in Central Division, compliance rates among commercial properties were 34%, by comparison with only 11% of residential properties. While properties that owe larger rates are more likely to comply, this does not fully explain the differential compliance rates of commercial and residential; residential properties are 19 percentage points less likely to comply than similarly valued commercial properties.<sup>8</sup>

In addition to weak enforcement, taxpayer motivation to pay property taxes in KCCA also seems to be low. One common taxpayer complaint publicised in the media is the feeling of being double taxed for services. However, evidence remains anecdotal and politically biased, and there has been no systematic collection of data to help understand the tax morale of property owners in Kampala.

Considering that changing means of enforcement is not only politically but also legally challenging, there appears to be significant potential for policies to improve tax morale for compliance. Conducting a systematic survey of tax morale across the city would offer a valuable description of tax morale and help identify potentially effective tax compliance policies.

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<sup>6</sup> Local Government Ratings Act (2005)

<sup>7</sup> It is also practically difficult to lock up many buildings with multiple entrances. In some cases where it is difficult to close up a building, they will close the building manager's office or similar.

<sup>8</sup> Source: Central 2018 PRT analysis report data spreadsheet