

Final report



International
Growth Centre

Property tax compliance in Kampala:

Preliminary evidence
from taxpayer
feedback and
administrative data



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Table of contents

1. Introduction.....	2
2. A framework for property tax compliance.....	3
3. The current state of compliance in Kampala	4
4. Determinants of compliance: evidence from focus groups	8
5. Areas for further policy exploration.....	19
6. Concluding remarks and next steps for further study.....	22
7. References and further reading	23
 Annex 1: Areas for improvement in eCitie data collection	24
Annex 2: Annual payment dynamics	25

1. Introduction

1.1. Property rates in Kampala

Property taxes are an important potential source of revenue for cities. Faced with limited municipal revenues and rapidly growing populations, taxes on the value land and property can offer a significant source of funding for cities to provide local services and to tap into financing for larger investments.

Kampala is no exception here – property taxes made up over 30% of the Kampala Capital City Authority (KCCA)'s own source revenues in 2018/19¹. However, there is significant room for improvement in property tax revenue collection.

1.2. The compliance challenge

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 2016, 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.

Now that the tax net has been expanded, the city faces a new challenge – raising compliance with property taxes. Currently, property tax compliance is low; 12% of billed properties paid their taxes on time this financial year, resulting in 34% of potential revenue being raised. (Of course, these figures may be particularly dramatic for this financial year where we have seen the outbreak of COVID-19 which has dramatically affected payments since April 2020 - see Annex 2).

This low compliance may reflect a number of factors, including weak means of enforcement, high tax liabilities, and low tax morale. 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.

1.3. This report

This report explores *why* compliance is so low in Kampala. In doing so, it aims to inform policymakers in designing policies that can both raise compliance and improve citizens' perceptions of the city administration. It uses both administrative data that is automatically generated by electronic property rate payments and held by KCCA's Directorate of Revenue Collection, and focus group discussions with taxpayers in the city. In Section 2, we outline a framework for thinking about determinants of tax compliance, before presenting data on the state of compliance in the city in Section 3. In Section 4, we present evidence from focus group discussions with taxpayers in the city. Section 5 presents policy implications from this evidence.

¹In Kampala, property tax 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.

2. A framework for property tax compliance

In order to better understand compliance rates in Kampala, we divide the determinants of tax compliance into three broad categories:

1. **Cost of compliance:** this includes both the tax liability itself and the additional costs associated with the process of payment
2. **Enforcement of taxes:** which refer to measures that make non-compliance more costly by increasing probability of detection, and extent of punishment.
3. **Tax morale:** this refers to additional reasons taxpayers may or may not be willing to pay their taxes.²

The first two categories are captured in the canonical model of Allingham and Sandmo (1972). While the cost of compliance and enforcement are still thought to be the primary determinants of tax compliance, these underpredict the rates of compliance observed empirically, highlighting the additional importance of tax morale. Improving tax morale and lowering the costs of payments are likely to be particularly important where enforcement capacity is low.

² Luttmer and Singhal (2014) break morale into five mechanisms: *Intrinsic motivation to pay taxes*, *Reciprocity* - the willingness to pay taxes in exchange for benefits that the state provides, *Peer effects* - where taxpayers are influenced by peers and the possibility of social recognition or sanctions, *Culture* - where broader social norms affect compliance, *Information imperfections* that make particular taxpayers more or less likely to pay because of misunderstandings e.g. about what is owed and how to pay.

3. The current state of compliance in Kampala

Using billing and payment data generated on the basis of online property tax payments³, it is possible to gain a better understanding of the current state of tax compliance in the city.

For the purposes of this analysis, we look at KCCA taxpayer registry data as well as data on billing and payments dated from **July 1st 2019 to June 30th 2020**. We focus on this period as it marks the beginning and end of the financial year in Kampala and is the timeframe in which payments for a FY are currently accepted. Below are the variables used for this analysis and their definitions:

Variable	Definition	Appears in billing data?
Rateable value	Annual rental income of a property (minus some standard deductions)	Yes
Annual rate	Annual payment owed for a given property. It is 6% of the rateable value of the property	Yes
Current balance	Tax owed net of tax paid for the entire history of a property.	Yes
Payments	Total amount paid toward the property this year.	Yes
Penalties	Sum of fines toward the property for overdue payments this year	Yes
Waivers	Sum of tax exemptions given to the property this year.	Yes
Compliant	Refers to properties for which payments made from July 1 st 2019 to June 30 th 2020 exceed or are equal to the property's annual rate. In other words, these are properties for which full property tax payments have been made for this FY.	No (generated from the data for this report)
Fully compliant	Refers to property owners (identified by their COIN) who are compliant for all of their properties.	No (generated from the data for this report)
Property wealth	Total rateable value from all of a property owner's (COIN's) properties.	No (generated from the data for this report)
Top taxpayer	A property owner in the top 5% of property wealth (UGX 2.2m in annual rates)	No (generated from the data for this report)

Table 1: Variables used for analysis of the current state of compliance

We summarize findings in Table 2 using this data. We find that most (88%) properties in the city are not compliant with property rates. Further, while 12% of properties have paid at least

³ The taxpayer registry includes a unique City Operator Identification Number (COIN) for each owner, along with contact information for the property owner. We can match this data to bills associated with that COIN in the billing data, which itself identifies the property associated with the bill. Each property has an ID called CAMVID and is billed for their annual rates once per year. The billing data records the property's type, sub-type, and GPS location as well as the billing specific records listed above. Finally, the payments data can match to the billing data by CAMVID and contains a record for each payment, including date and amount, made towards the property in the given financial year.

their current rateable value for this year, many properties have old debts from previous years.

	Number of Properties	Share Compliant ⁴	Number of Property Owners	Share fully compliant ⁵	Potential annual revenue (UGX) ⁶	Collection rate ⁷
Central	14,947	33%	5,792	28%	23.2bn	68%
Kawempe	53,627	7%	24,876	5%	14.1bn	13%
Makindye	52,784	13%	26,806	10%	15.6bn	18%
Nakawa	51,985	14%	26,159	10%	20.3bn	34%
Rubaga	49,986	8%	23,229	6%	12.6bn	16%
Total	223,329	12%	106,017	9%	85.9bn	34%

Table 2: Property rates compliance by Division for Financial Year 2019/2020

3.1. Differences across the city

Compliance varies across different areas of the city. A third of the properties in Central Division are compliant, compared to 12% overall. If there is a learning curve to paying property taxes for those owners who were newly introduced to the tax roll in the recent revaluation exercise, this could be due to the fact that the new tax roll has been operational in Central for three years, while it is the first year for Makindye, Rubaga, and Kawempe. Another possible explanation is that Central is simply composed of more valuable properties, which are more likely to comply (see below).

3.2. Differences across property types

From this data, we can also see that:

- High value properties are disproportionately complying. While only 12% of properties are compliant, they make up 34% of potential revenues in the city as seen in Table 2. This phenomenon can also be seen in Figure 1 below - the compliance rate for the highest value properties is around 20-40% while most others comply at a rate near 10%. Compliance may rise with rateable value due to government's 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.

⁴ As noted above, this refers to properties for which full annual property tax payments have been made for this FY

⁵ This refers to all property owners who have made full payments for all properties for this FY

⁶ Potential revenue is total current rateable value across all properties, and so excludes penalties, waivers, and old debts.

⁷ The collection rate is the value of all payments made in the city as a share of potential annual revenue in the city.

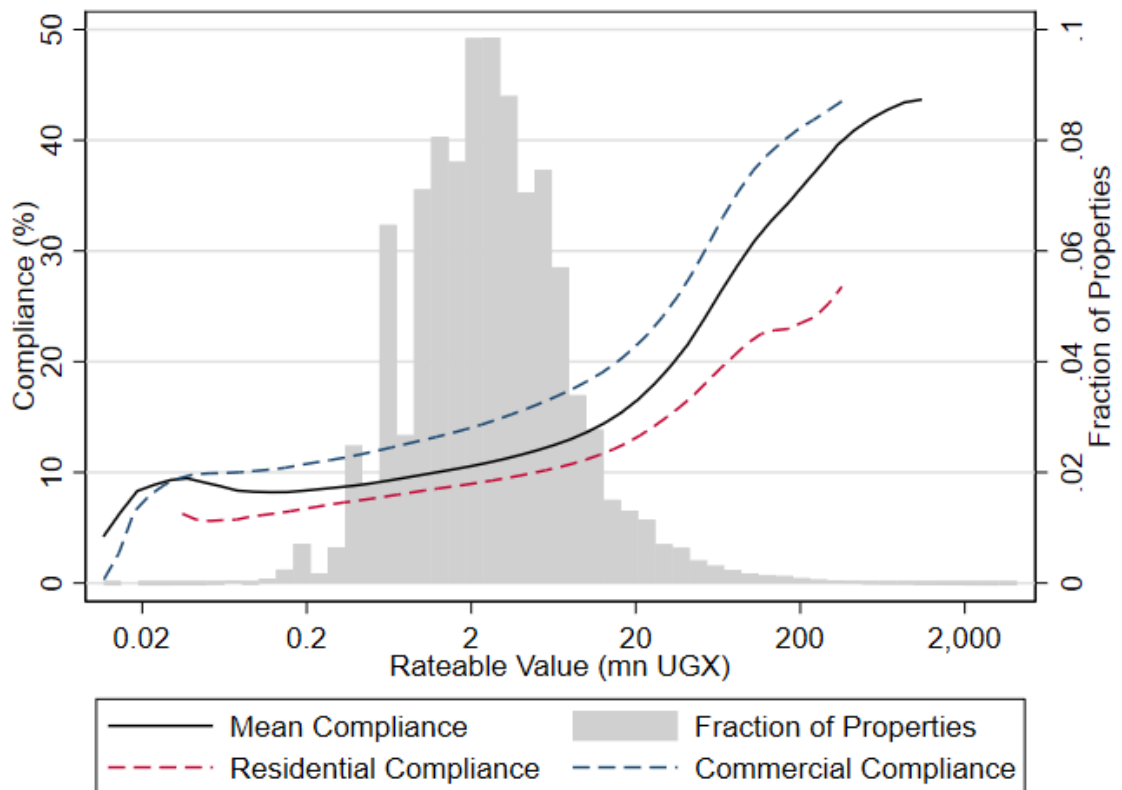


Figure 1: Compliance rate by current rateable value and property type.

Notes: The density of properties at each value shown by the grey shaded bars in the background. The compliance sample is trimmed by the top 0.1% observations by rateable value. The compliance rate is estimated with a local polynomial with bandwidth of one log-point.

- Comparing across property types, rented residential properties are less likely to pay than the average at all levels of property value. Commercial properties are the more likely to pay than the average at all levels of property value. At high property values, commercial properties are much more likely than residential properties to comply (30-40% vs. about 25%). One possible explanation for the high compliance of high value commercial properties may be that the high opportunity cost for high valued properties to be locked up is more motivating for commercial properties because the KCCA is more willing to lock up delinquent properties if they are commercial.

3.3. Differences across wealth levels

Figure 2 highlights which property owners contribute to revenue. For each ventile (1/20th) of property wealth, this figure plots potential revenue (solid blue bars), uncollected revenue (transparent orange bars), and the collection rate as a percentage of potential revenue (dotted line).

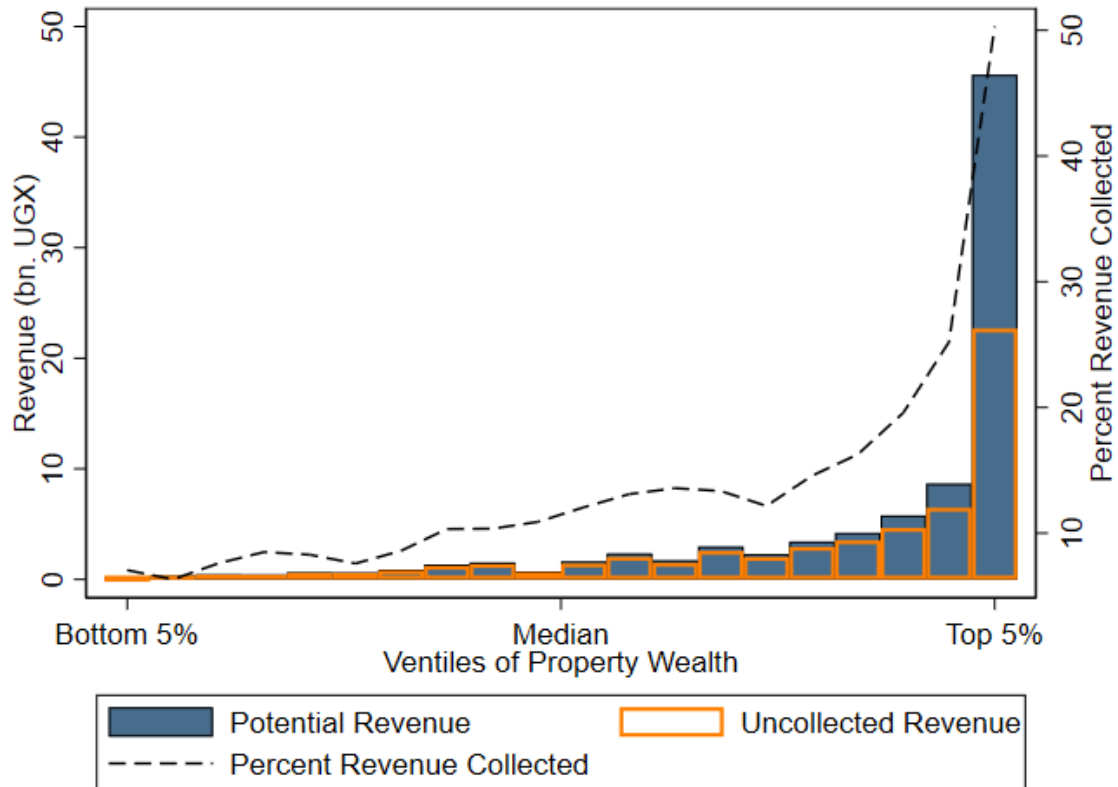


Figure 2: Potential revenue collection by taxpayer property wealth

From this, we can see that:

- High wealth property owners represent a very large share of the potential revenue, in fact the top five percent of property owners are responsible for more than half of demanded taxes.
- While the property owners with the highest property wealth are more likely to comply, they also represent the largest uncollected source of revenue (from those high wealth individuals who do not pay).

4. Determinants of compliance: evidence from focus groups

In order to better understand the determinants of tax compliance in Kampala to identify areas for improvement in tax administration to raise revenues, we conducted a set of preliminary focus group discussions with eligible property rate payers in February 2020⁸. Seven focus groups were held with villages selected to get both geographical variation and to include two villages above the 95th percentile of average property value.⁹

Group ID	Division	Zone	Number of respondents	Average Property Value	Date held
1	Rubaga	Namalawa 1	13	Typical	February 8th
2	Rubaga	Namalawa 1	11	Typical	February 8th
3	Rubaga	Kisugu	10	Typical	February 9th
4	Nakawa	Stage V Luzira	14	Typical	February 10th
5	Rubaga	Nyanama	16	Typical	February 12th
6	Nakawa	Luzira water village	4	High	February 22nd
7	Nakawa	Ntinda Village 16	9	High	February 23rd

Table 3: Focus group locations

Below we summarise the key findings/reflections from these discussions on revealed attitudes towards the KCCA's administration of property rates and how this can be improved¹⁰. We report on taxpayer views as they relate to the different determinants of compliance, in particular highlighting three key areas for concern for taxpayers; relationship management, administration issues, and service delivery.

The focus groups have given us a rich set of opinions on the aspects that determine compliance, but we must provide the usual caveat that these responses are from a small and selected population and reported opinions on factors affecting compliance may differ from actual behavioural responses. More quantitative work of taxpayer behaviour is required to better understand how policy changes may influence taxpayer behaviour, sentiment, and ultimately, compliance.

⁸ These focus groups were conducted by the two principal investigators and two professional enumerators. On some occasions a KCCA representative also attended to field questions. Each focus group discussion lasted roughly two hours and participants were owners of properties in the local village who were liable for property rates.

⁹ It was important to include high value villages, because these property owners are likely to have different opinions of the property rates system and they also represent a significant share of the potential revenue (property owners above the 95th percentile of property wealth hold just over 50% of the city's total potential revenue).

¹⁰ Throughout this report we anonymize individuals with a code FGxRy, which corresponds to focus group ID x and respondent ID y.

4.1. The cost of compliance

The cost of tax payment property owners face is perhaps the most important determinant of compliance. A very low liability will make taxpayers indifferent to complying, and a very high tax liability will exceed their income making them incapable of complying. Regardless of enforcement measures and inherent willingness to pay, if the cost of complying is unaffordable for taxpayers, compliance will be low.

4.1.1. Tax liabilities too high

According to FG2R6, "it is not bad paying tax rates, but the issue is us being charged so highly". This reflects a sentiment shared by a number of participants in our discussions that tax liabilities are too high and **unaffordable** for those liable. This is also true for richer areas - FG7R1, for example, said that "it's not that we don't want to pay - we want to pay, but taxes are too high". A number of participants note that property rates are squeezing their businesses, and that they have to choose between evading taxes and going out of business.

Many focus group respondents argue that the property rate liability is too high, not because of the 6% rate, but rather because they believe their properties to be **overvalued**. It is important to note that while valuation can be relatively accurate on average, errors in valuation make the liability too high for some (who will choose not to pay), and too low for others who may pay but only at lower rates. Some taxpayers express significant concern that they are faced with rates much higher than can be expected to be earned from their property. Some common complaints are:

- Valuers assume full occupancy (even if the property owner is unable to secure tenants all year long). While this is not necessarily accurate, with formulas for calculating rateable value accounting for lower occupancy, this emphasises the need for further communication with taxpayers on valuation methods (see section 4.3.4. below)
- Rooms or even full properties that are used by the owner-occupier are not properly exempt. FG3R3 explained that in their case they have "... a house that is divided by the family with the boy's quarters (small units around the big house) being used by the children. So KCCA valued those ones thinking that we are using them as rentals for tenants."
- Claims of valuation and billing of vacant plots which should be exempt from property rates

Where this occurs, overvaluation of properties can lead to tax liabilities being much more than six percent of annual rental income.

! Errors in valuation resulting in high rates is a **top concern** to taxpayers.

Individuals noted that mistakes often came from KCCA staff valuing properties without consulting owners - FG4R10 noted "even the names [the valuers] tagged to some properties

are not those of the property owners”. FG1R2 requested “KCCA to revisit properties and get to know right ownership of properties instead of just assuming”.

Some participants mentioned that tax liabilities are too high in part because of the various other taxes imposed by government. According to F5R4, “The tax would not be bad, but it needs to be reduced because there are so many other responsibilities that we have to handle. For example, we have to pay income taxes, then property taxes etc. It needs to be reduced.”

4.1.2. Tailoring rates to ability to pay

There are respondents who think that the overall ability of an individual to pay should be taken into account in the determination of property rate liability. This is often expressed broadly as lowering rates for the poor, but there were also many more specific cases like exemptions for the old and widowed. FG1R4 explains “there are widows who were left in small houses which they decided to rent out so as to have something to eat, in a year they get like 1.5 million but you still come and value such a person, these are people who have orphans to take care of in addition of paying school fees for them”.

Similarly, respondents think that specific types of property owners may be less able to pay, suggesting to only tax businesses and not residential rental properties to avoid the tax being passed on to tenants in the form of higher rent. Similar arguments were made for only taxing larger and not micro enterprises.

4.1.3. Additional costs/inconvenience of payment for the poor

One final issue on the costs of payment is the added cost of having to physically make a tax payment.

In the past, property owners in Kampala had to pay their property rates in person, but now are able to make a payment through a bank transfer or using mobile money. To a large extent, respondents noted that this new digitised system of payments has improved convenience of payments and reduced costs as well as opportunities for corruption so that this process is now relatively inexpensive. Albeit, a few respondents still noted the additional costs of tax payments from bank charges.

However, in low income areas a few respondents still cite time and travel costs as impediments to payment, particularly those associated with:

- Travelling to division or city hall offices to collect (in some cases multiple) payment slips. FG5R11 noted “It would be better if it is decentralised to parish levels. But we are invited to those far areas, a lot of stairs to climb, have lift phobia, this makes it unfair.”
- Processes property owners have to undergo to resolve issues and have their questions answered. Many respondents in focus group 5 mentioned these costs, with FG5R10 noting their experience; “went to division offices first, then to city hall because I had been charged highly with houses that didn’t belong to me. I had been

charged 1.2 million complained went to court, and it was reduced to 50,000UGX per room”.

This is unfortunate, as these travel and time are costs faced by the taxpayer are not received as revenue by the KCCA, and so are purely inefficient.

4.2. Enforcement

Enforcement of property rates by KCCA: in theory and practice

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 2020. Taxpayers have until the end of the calendar year (i.e., until December 31st) to pay their tax on time. People can ask for payment plans, where they can pay in instalments.

As noted in the Local Government Rating Act (2005), if payments are not received by the 31st December, the KCCA can:

- Issue a reminder letter to taxpayers, requiring them to pay their liabilities or else be taken to court to recover the amount owing from the property owner by warrant
- Directly take legal action to recover the amount owed
- Recover rates from tenants directly from payments they would make towards rent. Tenants who can then deduct the equivalent amount from rental payments to the owner.

Any liability not paid by 31st December is in ‘arrears’ – and is subject to interest of 2 percent per month for the period the liability has remained unpaid. No properties in arrears can be legally transferred.

In practice, due to limited resources for following up on payments, demand letters are often targeted towards high value property owners. At the same time, while it is theoretically possible to take any property owner to court for non-compliance, the 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.

4.2.1. Enforcement measures known by taxpayers

Almost every focus group knew of/recognised the penalties that could be faced by property owners if they did not pay their rates. Penalties noted by respondents included:

- 2% interest penalty payments
- Lock ups of delinquent properties
- Property confiscation
- Being taken to court
- Imprisonment

Of these, lock ups were most frequently cited, perhaps reflecting more common use of this enforcement measure.

However, there is some lack of clarity among taxpayers regarding enforcement measures: FG4R10 asked "what penalties are set by KCCA? We are just assuming and don't know exactly what can happen." Property confiscation was sometimes heard of as a 'rumour' and there was scepticism as to whether this would actually happen.

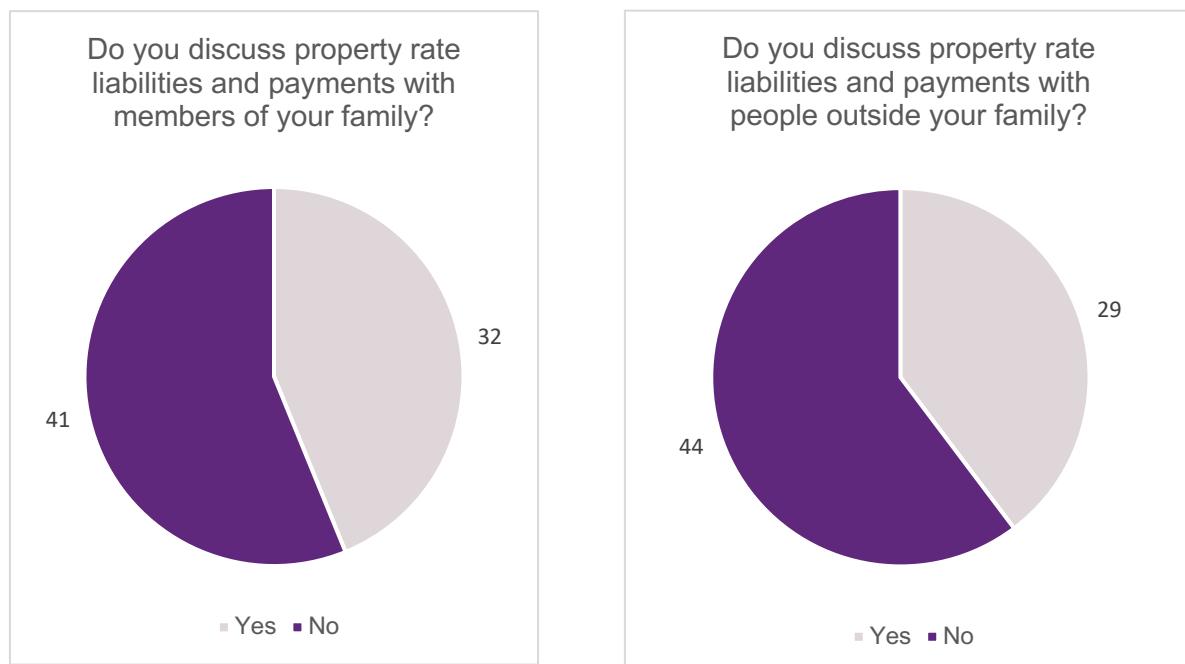
4.2.2. Limited credibility of enforcement measures

However, despite knowing about many enforcement measures that could be taken in theory, some expressed doubt about what enforcement measures the KCCA can and will actually take. Some respondents expressed that issues in tax administration meant that enforcement is not credible - FG6R1 noted "as a property owner I don't think anything can happen... My property is my property... even if you take me to court, I can tell them it's because I don't get valued on time".

4.2.3. The potential for 'social' sanctions

In the absence of legal sanctions, one potential method of enforcement is through leveraging *social* sanctions, whereby individuals pay their taxes because of how others will perceive them.

We asked respondents if they are comfortable openly discussing their compliance and whether they would feel socially pressured to comply if others knew whether they did or not. People have mixed views on this - about 40% of the respondents already discuss tax rates and their compliance with members of their family, and with individuals outside their family.



Those respondents who say that they would share details of tax payment with those outside of their family seem to be those who comply with tax payments – FG1R7, for example,

explains “I share so that others can also know the importance of paying tax rates and get encouraged by those fulfilling the responsibility.” Similarly, FG1R8 mentions the importance of sharing tax payment with tenants to pressure them to pay rent: “I share with other people outside the family especially tenants so as to directly ask them to pay.”

About half of respondents said that they would be more likely to pay property rates if others knew their compliance. However, the idea of sharing people’s tax compliance was an area of contention, with FG2R8 noting compliance is something “others should not know about, it is my secret so does not concern other people”. Respondents also noted that the extent to which sharing others’ liabilities would influence their decisions depends on the overall fairness of valuations and whether the rich were paying their taxes as well (see sections 4.1.1 and 4.3.5).

4.3. Tax morale

4.3.1. Perceptions of/relationship with KCCA

One key factor affecting whether taxpayers pay their property rates in Kampala is their relationship with the KCCA and its officials. Poor **relationship management** can lower willingness to pay taxes if the government is seen as antagonistic to taxpayers.

Generally, the current relationship between taxpayers and city officials appears to be poor. Despite the fact that in 2014, the KCCA began to assign all taxpayers to dedicated account relationship managers (ARM) who are expected to manage the relationship between KCCA and taxpayers, follow up on tax payments, and address any issues/queries, only 10/52 respondents know who their ARM is, and only 2 of these interacted with their ARMs. Respondents noted in particular:

- Limited engagement of KCCA with property owners and community leaders, in raising awareness as well as in administering valuations and billing. For example, FG1R10 noted “KCCA employees come to field for demand notes delivery but only pass them under the door without informing any responsible person, which is rude to us taxpayers”.
- Taxpayers in particular cite being upset that valuation was conducted with little consultation of property owners and without transparency. Respondent FG4R10 expressed discontent with the lack of communication in the process; “there is no way you can do valuation before asking me how much I charge for the house, or how big the house is, and you just tell me I have to pay”.
- Lengthy processes for resolution of concerns that are not resolved by due dates for payments, with KCCA unwilling to compromise with taxpayer’s appeals on valuations. A respondent at FG4 requests that “before KCCA tells us to pay let us first sit and agree on the taxes we are supposed to pay, because we are not okay with their valuations. Also listen to all the complaints. But forcing me to pay what i don’t agree upon, it’s ... really hard.” FG5R6 echoes this sentiment: “The challenge is

KCCA do not work on our complaints. They have not worked on my complaints, but they continue to put more charges.”

- The use of excessive force/ verbal abuse by KCCA employees. One respondent noted that they would expect KCCA to treat taxpayers with respect even if there are issues with payment – the first response should be one of resolution, rather than more aggressive/antagonistic means of enforcement. FG1R12 requested “... please KCCA employees, show us love, we shall also pay taxes with love”.

As a result, there seems to be limited willingness to listen to city guidance on tax payment: as FG1R10 noted, “KCCA cannot influence us because we are enemies”. Poor relationship management may even be actively discouraging taxpayers from complying - FG5R12 advises; “Get down to the ground and establish a good relationship with the people. Because currently we see them as policemen whether they are to offer help or not, we see them as enemies. So they need to rectify their image on ground.”

! Relationship management was a **top concern** for taxpayers.

4.3.2. Reciprocity: what are taxes spent on?

Service delivery, if poorly implemented or simply not salient, can lower tax morale because taxpayers believe there is no *reciprocity* for their rates. This was a key issue highlighted by the focus groups – while (unsurprisingly) most respondents note that service delivery is important to them, the majority of respondents did not know whether the property rates they were going towards delivery of such services by KCCA:

- While almost all respondents know that KCCA is responsible for collecting property rates, many do not know which institution is responsible for spending this revenue.
- Generally, there is very limited knowledge on how these taxes are spent. When asked what their property rates pay for, the overarching sentiment of respondents was expressed succinctly by respondent FG4R10; “we don’t know because we don’t see anything being done”, and FG4R4; “our money is just taken but we are not sure how it is spent”. Respondent FG3R7 explains that “KCCA does not break down expenditures for us”.
- Many respondents think that revenues from property rates are simply used to pay for government (and specifically KCCA) salaries, with limited benefits to citizens. FG4R3 noted that “We do not benefit from the tax we pay; it is only KCCA employees that benefit.”
- There was also mention of broken promises about how rates will be spent: “During collection KCCA assures service delivery which they then do not fulfil.”

As a result, FG1R4 noted that property rates should be reduced from 6 to 4% to make up for the spending individuals have to do on public services not provided by government.

One key issue exacerbating the lack of clarity around how property rates relate to public service provision is apparent 'double charging' for services such as garbage collection and road improvements, whereby taxpayers are paying separately for these goods and services that they believe should be covered by property rates. One respondent noted "property rate is good in general but the way it is spent is the problem. There is no service delivery - we pay tax and still pay for garbage collection; we are charged 30,000UGX for this, we work on our roads". FG6R4 noted "people are complaining because they pay property rate but they are also asked to contribute for electricity."

Most respondents note that while current delivery of services is poor, more effective delivery would motivate them to pay their rates. For example, FG4R2 noted: "rates are not bad but we do not realize proper usage of the tax. Once we realize what the taxes are used on then we would be having no problem. [currently] there are no drugs in hospitals, schools are in bad shape, roads are not maintained, so I don't think it is worth it." FG4R9 also noted, "we need to pay taxes for service delivery if any development is to take place. We are supposed to get service delivery from these taxes. But as per now this is not realized."

In terms of what property rates *should* be used for, respondents noted a number of examples of local public goods and services, such as feeder roads, street lighting, mosquito spray, sewage, trenches, security, medication, garbage collection, and electricity

! Reciprocity was a **top concern for** taxpayers.

4.3.3. Lack of or mis-information on tax payments

The information a taxpayer has about payment obligations and processes is an important determinant of their compliance. Certain types of misinformation as well as inadequate information can discourage or confuse individuals and reduce their tax payments.

Overall, respondents express confusion around:

- 1) *The determination of exemptions.* Many respondents seem to believe that the exemption on owner occupied properties means that all residential properties are exempt. If many property owners who rent residences are not paying simply because they believe they are exempt, then clarifying this exemption could improve the compliance of many taxpayers. At the same time, there is also some confusion over whether certain ages are exempt - FG4R1 notes "We were told that anyone above 65 years is not supposed to pay. But we have very many above this age even in 90s who are charged." In one focus group, participants expressed that there had been confusion over whether citizens in their division still owed property rates at all or were exempted from this year.

- 2) *How valuations were determined.* Many taxpayers expressed lack of clarity on the basis for property valuations and are therefore less trusting of these figures as a legitimate tax amount. FG3R3 noted “KCCA lack transparency on valuations. We want them to take us through the valuation guide so that we can also know how the valuations are made”.
- 3) *Payment due dates.* Another important area of confusion is around due dates; roughly half of our respondents who claim to know when payments are due state that it is December, while the other half state June, and a significant amount simply do not know when they are due. It is not difficult to imagine why many people do not comply by December if half of taxpayers honestly think they do not need to make a payment until June. In order to improve compliance, the KCCA should be clearer about when they expect payments to be made.
- 4) *The role of numerous taxes.* While not as predominant, some concern is also expressed over the confusion across different taxes levied by KCCA and URA. A typical property owner faces charges from ground rent, trading license fees, and income tax in addition to property rates, and may also face fees like those for garbage collection. Multiple charges in this way make it less clear what is owed and what is being paid for. FG2R6 noted “if someone is paying income tax, then that person should be exempted from property tax. Its double payment to us, that’s how we see it.”
- 5) *Actual tax liability.* Clear from the focus group discussions was the fact that there was a significant amount of misinformation regarding what people’s actual tax liabilities were

! Misinformation was a **top concern for** taxpayers.

Discussions at the focus groups highlighted four key reasons for these information issues:

- 1) Inaccurate registry data or mistakes in use of this data means that some individuals are notified with irrelevant or inaccurate information, and others are not notified at all. This seems to be a particular problem for SMS messages. While most respondents noted that SMSs are a helpful (if painful) reminder on tax payments and are how most people find out about their liabilities, many respondents note that text messages often have mistakes in terms of listed names/liabilities, and this actually increases confusion. For instance, FG7R4 states “they can send different messages reading differently. So one can’t decide which one to clear, one might be reading 160,000 and another 180,000 in the same period, so it confuses.”
- 2) Delays in notification of liabilities. Respondents noted that one reason for issues with payment is that, despite strict deadlines for payment, delivery of KCCA demand notices is often significantly delayed, or not delivered to individuals but to their LC1s. FG4R1 noted that KCCA employees “don’t give demand notices directly to each

taxpayer. They instead drop them at the chairman's place. Thus, at times some tax payers never get their demand notice or get them late yet they have deadlines and penalties attached to deadlines." Often SMSs are sent to LC1s who are unable to relay this information to all property owners - in one focus group the LC1 suggested they receive hundreds of messages addressed to different people. Even if individuals can access their liabilities online or at division offices, this in turn perhaps signals a lack of sensitisation on this.

- 3) Language barriers. Another issue concerning text messages that was expressed, especially in villages of lower property wealth, was that the KCCAs messages were only sent out in English and so for many people it was difficult to understand.
- 4) Lack of adequate sensitisation. Limited contact with taxpayers themselves in terms of initial sensitisation on processes of valuation and payment seems to be a key reason for misinformation. FG5R1 noted "When we got an Ebola outbreak, the health personnel educated us very well. Every one of us knows how to handle these situations. But why do these people who take cash fail to sensitize us?"

4.3.4. Peer effects

The empirical beliefs that taxpayers have about the **compliance of their peers** can be important in determining their own willingness to comply. For instance, individuals may be more likely to comply if they believe that most of their peers do as well.

In terms of people's beliefs, a significant share (36%) of respondents believe that most people pay their property rates. For this group of the population, informing them of the true rates of compliance (about 6% of property owners are fully comply as noted in the section above) could be very demotivating and actually lead to a decline in compliance.

Respondents also expressed their beliefs about the compliance behaviour of different types of peers:

- Many note that the very poorest are less likely to pay because the tax is unaffordable to them
- Many think that the rich are less likely to pay, but interestingly almost all of our focus groups identify as poor and the 'rich' as other people i.e., not themselves. This is despite having a wide variation in property wealth levels across our focus groups.¹¹
- Respondents also think that individuals who are influential/well connected are less likely to pay, as stated by FG7R10 "people in the big businesses don't pay indirectly ... if someone is supposed to pay 50m, he will use all kinds of methods and might end up paying only 25m or even 10m. That means many are not paying."

For most taxpayers, these beliefs important for compliance - 67% of respondents say that they would be more likely to pay their property rates if they knew most people were. This

¹¹ In reality, the property owners with the most property wealth are much more likely to pay.

could be because of feelings of fairness in payment or because of the perceived threat of detection - FG1R5, for example, explained “if I default, I will end up being a criminal alone, if we all decide not to pay, there it will be nice. Therefore, I check myself and follow others who are fulfilling the responsibility of rates payment”. However, some respondents said that other people’s behaviour would not influence them. FG7R7, for example, states “I only care about the safety of my property, and not the actions of others”.

Respondents also reveal mixed views on whether they are influenced by the compliance of specific individuals. When asked who the most influential roles models are, most respondents mention politicians, LC1s, KCCA employees, the Lord Mayor, the Kabaka, LC3 chairman, and famous musicians.

Some say the rich are influential, as noted by FG6R1 “when I get to know that even the big boys pay, why not me”. Others say that the rich are not influential because they should be paying as they have higher ability to pay. When asked if they would be more likely to pay if they knew the rich were paying, FG4R2 responded “no, the rich earn highly so it is easy for them to pay”.

5. Areas for further policy exploration

While the focus group discussions held in February 2020 are by no means representative of views across the city and rely on declared rather than observed tax behaviour, these discussions, alongside the administrative data collected by KCCA, suggest some areas for further investigation for policy:

- 1) **There appears to be a need for further investment in staff time and training for sensitization, delivery of notices, relationship management and dispute resolution.** Many participants requested more in-person KCCA meetings and consultations on property rates, either with property owners themselves at their village or with their LC1s.

One potential cost-effective way to increase resources for these activities is to involve LC1s as a provider of information in case of misunderstandings and as a communicator of issues on behalf of an entire village. Many participants highlighted the value in improving relations of KCCA officials working more closely with LC1s in different aspects of tax administration, including in outreach and valuation, with FG6R1 saying “it is disrespectful for KCCA not to work with local leaders”. One respondent in FG1, for example, suggested “We are always with the chairman in our villages, give him a summery sheet showing the percentage of how much we are supposed to pay and the guidelines showing us how we are supposed to pay.”

Research in the DRC highlights the potential importance of decentralizing administration to officials who are more familiar with taxpayers. One study compares the effectiveness of local (appointed) leaders as tax collectors compared to the central government, finding that local collection generated 30% higher revenues and 24% lower transaction costs compared to central collection.¹²

- 2) **There may be value investing in additional means of communication for sensitization**, for example in letting taxpayers know about exemptions, due dates and what taxes are used for. Means of communication noted at the focus groups as key modes to improve taxpayer understanding included SMS, TV, radio and social media. Information on valuation processes can also be provided on bills themselves. Providing communication both in English and Luganda may also be helpful in improving taxpayer information and therefore compliance.
- 3) **It could be worthwhile involving taxpayers in the valuation process.** By involving taxpayers and asking them for evidence of claims where needed, it may be possible to both improve accuracy of valuations by removing potential errors (e.g. due to assumptions on occupancy) and increase acceptance of these taxes by those liable. As FG1R5 suggested, “Go on ground, walk house to house to pick true ground information which will help you improve on valuations.”

¹² Balan, Bergeron, Tourek, and Weigel (2020). [“Local elites as tax collectors: Experimental evidence from the DRC”](#)

- 4) It would be valuable to explore ways to more closely link property compliance to public goods and services.** This include both spending revenues from property rates on public services that are demanded by the public and clearly communicating to taxpayers that the city is doing so.

Respondents noted a number of local public goods and services that property rates should be used for, such as feeder roads, street lighting, mosquito spray, sewage, trenches, security, medication, garbage collection, and electricity. By investing in these goods and services, taxpayers may be more willing to pay property rates as a legitimate price for improvements in the city. Surveys from Lagos for example, suggest that high levels of property tax compliance are correlated with taxpayer beliefs that taxes have been well spent, in turn the result of large and publicly visible investments in things like road improvement¹³.

Expenditures could be made more salient by, for example, creating clear signage alongside investments with the KCCA logo and the project expenditure amount. Investments in signage, television and radio announcements, and in-person meetings have been used to raise awareness of public benefits of property taxes and compliance in Lagos, Hargeisa and Arusha.¹⁴

Another way to make the link between revenues and services more direct and to encourage compliance is to allocate local public goods/services on the basis of village level compliance. Linking property rates with services can also act as a useful additional enforcement mechanism.

- 5) Taxpayer understanding and acceptance could be improved by reconciling or clarifying taxes and fees for public services in the city.** A number of taxpayers expressed concern and confusion around multiple taxes and fees levied by both URA and KCCA that they believed to be all for the same public services. It would be valuable for URA and KCCA to either a) consolidate overlapping taxes to reduce taxpayer confusion, perceived burden and also administrative costs, or b) improve communication to taxpayers to communicate the difference between these fees and their purposes.

Related to this, it would be important to clarify to taxpayers that while property tax rates should not necessarily have to be lower for individuals with lower overall incomes – instead, this should be tackled through differential taxes on other types of income as well.

- 6) It continues to be important to clean and improve registry data** to limit misinformation/confusion for taxpayers through KCCA communication and improve KCCA ability to monitor and follow up on payments

¹³ de Gramont (2015) 'Governing Lagos: Unlocking the Politics of Reform' Carnegie Endowment for International Peace

¹⁴ de Gramont (2015) 'Governing Lagos: Unlocking the Politics of Reform' Carnegie Endowment for International Peace, Paul Mundy and Jean du Pleiss, eds. (2010), *Count Me in: Surveying for Tenure Security and Urban Land Management*. UN-HABITAT, Loy Nabeta (2014) 'Building Arusha: One City's Journey to Better Urban Services, Access and Quality of Life', World Bank.

- 7) **It may be valuable to communicate compliance of influential or high worth individuals in particular**, who a) may be effective in influencing behavior and b) who many taxpayers do not think are as compliant. In reality, the property owners with the most property wealth are much more likely to pay. Improving transparency on the extent to which the rich and influential pay their fair share of taxes could reduce scepticism over whether the system is fair, and potentially encourage compliance. This of course will have to be complemented with policies to ensure such taxpayers *do* pay their taxes – which is where social sanctions may be particularly useful.

6. Concluding remarks and next steps for further study

Enhancing compliance with property rates is crucial for the KCCA in raising revenues for necessary public goods and services. Recent improvements to the tax administration system in Kampala have expanded the tax net and raised revenues. However, this report highlights that despite these significant improvements, 64% of potential revenue remains uncollected.

This report presents evidence from taxpayer focus groups on the determinants of compliance in Kampala, outlining a series of concerns relating to the cost of compliance, enforcement, and tax morale. Of top concern for taxpayers were; errors in property valuation, the state of relationship management, misinformation along many dimensions of the tax system, and poor reciprocity of public services for property taxes.

Based on these concerns raised and drawing on experiences from other cities, the report considers some avenues for policy in future to improve property tax administration. Many of these reforms are complementary, and their effectiveness relies on an overall coherent strategy for improving administration and communication around property rates. Crucially, a number of the recommendations relate to building up the relationship and communication between citizens and the city as the KCCA begins to collect this tax from the recently expanded net. Tax perceptions developed now will be hard to change – given the recent rehaul of the property tax system, now is a crucial time for setting expectations and developing a positive relationship of tax payment.

The primary evidence collected in this report relies on focus group interviews. As noted above, the results of these interviews are unlikely to give the full picture of taxpayer attitudes and will not necessarily match the real behavioural responses to changes in tax policy. As such, there is need for further data collection to get a more representative picture of taxpayer attitudes, and more rigorous research to be able to causally identify the impact of different policies on taxpayer attitudes and compliance levels. Currently there is survey work being done to complement this report by providing representative and quantitative measures of taxpayer attitudes. Our planned study will also look at the causal impact of a KCCA program to publicly disclose tax behaviour, as well as providing information on enforcement, public service delivery, and relationship management services. There are still many avenues for future research, notably incorporating LC1s more closely in the tax administration process and raising the salience of the link between tax compliance and public service delivery.

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Annex 1: Areas for improvement in eCitie data collection

Having reliable and high-quality data on property owners is one of the main rationales for the new digital eCitie program. While working with the administrative taxpayer registry data held by KCCA, we ran a number of data checks which suggested areas for improvement in the way data on owners is collected in future.

Unique property owner identifiers

The KCCA's taxpayer registry includes all taxable property owners in Kampala, with individuals identified by a City Operator Identification Number (COIN). Focusing on only properties that owe rates, i.e. dropping those property owners that have only owner-occupied property, the registry lists 106,017 unique property owners as measured by their COIN. However, there are only 81,626 unique phone numbers listed in the database. While this may be due to issues in data collection of phone numbers (see below), the KCCA's research team believe that at least part of the issue here is that many property owners are registered under multiple COINs (for instance a new COIN for each of their properties), which would mean that in reality the registry should have fewer COINs. The KCCA is currently taking measures to try and consolidate these.

Correct phone numbers

Another potential reason for missing phone numbers is inaccuracies in contact data collection – a number respondents in our focus groups said that in many cases the KCCA enumerator could not identify the property owner's actual phone number and instead assigned a local contact number to such cases. For instance, LC1s report receiving notifications for many property owners in their village. This limits the effectiveness of such data to be used in contacting taxpayers.

Completeness of property owner names

Property owner names have been reasonably well populated in the registry. There are 4% of COIN that are legal entities and so only have a legal entity name. For the remaining 96% of COIN all have a last name and only 3.2% are missing the first name. However, there is a larger problem when looking at those property owners with the largest holdings. For top taxpayers, 30% are legal entities. For the remaining 70% all have last name, but 7.9% missing their first name. This could be due to top taxpayers being more reluctant to share their full information.

Accurate information on property owner's home address

Another issue arises with locational data recorded across the registry and property rate billing data. While properties subject to billing have their GPS locations as well as division, parish, and village name, records of home locations for property owners only include their division, parish, and village. Further, the parish and village names come from two different conventions and they are not coded so it is difficult to compare locations across the two. Ideally, the registry would also contain a GPS of the property owner's home location to be

able to locate owners easily. Given that this may be difficult, it would at least be advisable for parishes and villages to be named and coded according to the same convention as is used in the billing data.

Annex 2: Annual payment dynamics

The graph below shows the dynamics of payments in FY 2019/20. There is a weekly cycle with no payments on the weekends, as well as a seasonal cycle. Of course, we see a significant drop off in payments in between April and June 2020, which is likely to be associated with the spread of COVID-19 and associated lockdown measures and falling incomes in the city.

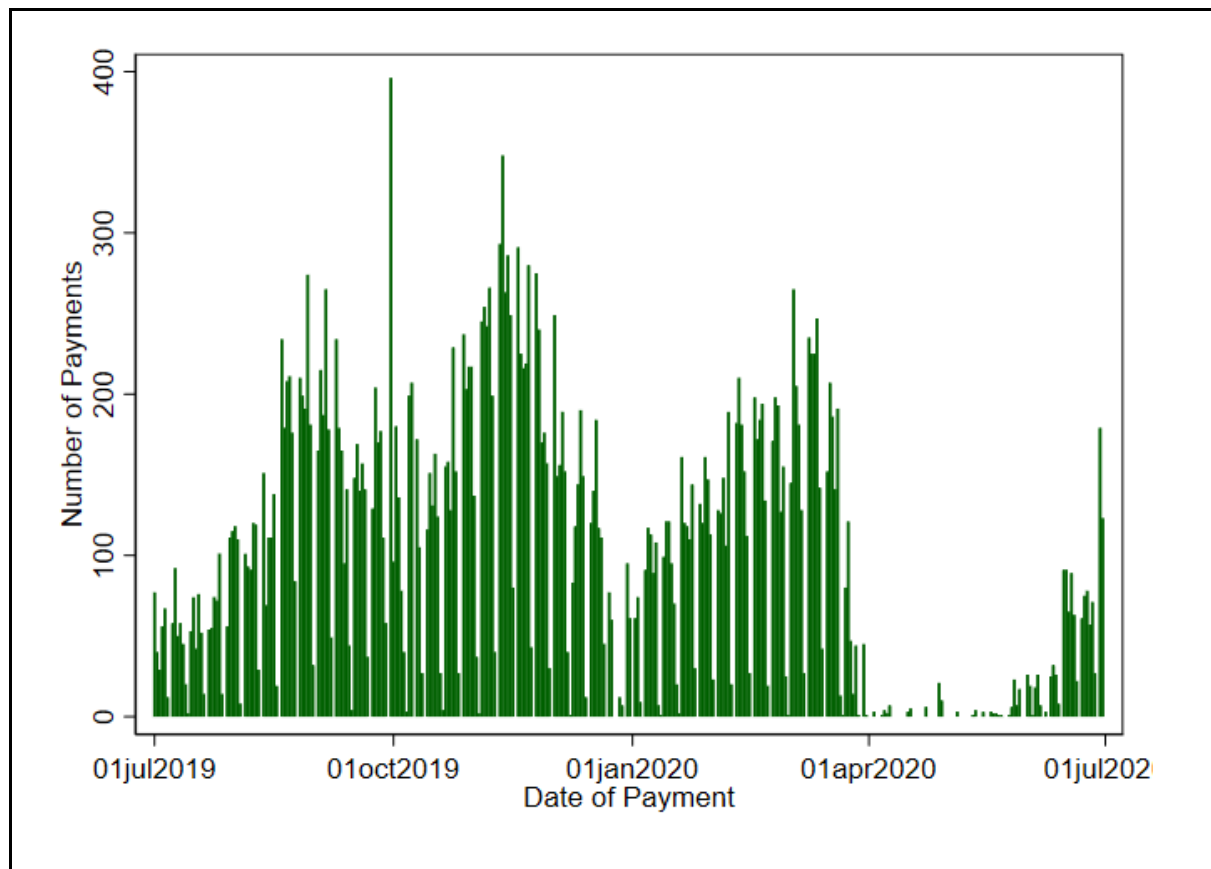


Figure 3: Number of payments made by date in 2019-2020 FY

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