Policy brief
19147 | January 2021

International Growth Centre

Jones Ahabwe, Henry Kikonyogo, Priya Manwaring,
Robert Raikes Mugangaizi, Julius Mutebi, Daniel Muhumuza Nuweabine, and Tanner Regan

Enhancing property tax compliance in Kampala

Preliminary evidence from taxpayer consultations and administrative data

In brief:

- Property taxes are an important source of revenue for Kampala Capital City Authority, making up over 30% of own source revenues in 2018/19[1]. Recent reforms to collect data on all properties in the city have expanded the tax net considerably.

- 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 had taxes paid on time in FY 2019/20. This is in part due to delays in valuation rolls for three divisions and the onset of the COVID-19 pandemic.

- There is a wide variation in compliance depending on geography, property value and property use, with compliance highest for higher value properties in the city.

- Evidence from taxpayer consultations suggests low compliance may be driven by a number of factors – most notably high tax liabilities, limited credibility of enforcement, poor relationship management between KCCA officials and citizens, misinformation, and weak linkages between taxes and service delivery. These discussions with taxpayers highlight a number of areas for further study.

This project was funded by IGC Uganda

1. The current state of compliance 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 2018/19[1]. Recent reforms to collect data on all properties in the city have expanded the tax net considerably.

But 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. As a result, only 34% of potential revenue was raised for the year.[2]

Table 1: Property rates compliance by Division for Financial Year 2019/2020

	Number of Properties	Share of properties that are compliant (payments have been paid on time)	Number of Property Owners	Share fully compliant (owners who are compliant for all properties)	Potential annual revenue (UGX)[3]	Collection rate[4]
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%

(Data source: KCCA eCitie billing and payment data)

There is variation in compliance with property rates depending on:

1. **Geography**, with properties in Central division more likely to be compliant. A third of the properties in Central Division are compliant, compared to the 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

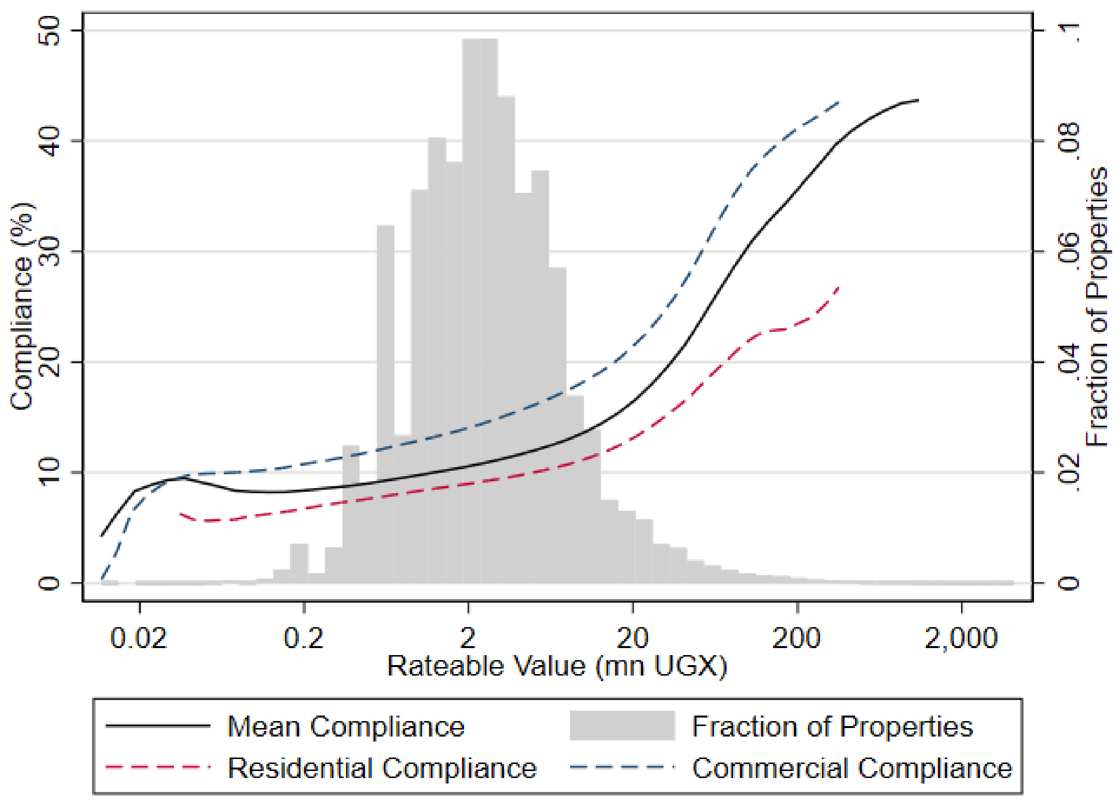
[1]In Kampala, property tax is a tax on the rental or business income of property in the city of Kampala, Uganda that can be applied to commercial, institutional, and rented residential properties across the five urban divisions of the city. The tax is a percentage of the actual (or estimated) annual rental value or business income value and is only collected from property owners that generate income from their property.
[2] Of course, these figures may be particularly dramatic for this financial year where we have seen 1) delays in the roll out of valuation rolls for three divisions in the city resulting from technical and legal challenges b) the outbreak of COVID-19 which has dramatically affected payments since April 2020
[3] Potential revenue is total current rateable value across all properties, and so excludes penalties, waivers, and old debts.
[4] The collection rate is the value of all payments made as a share of total potential annual revenue

properties, which are more likely to comply (see below).

2. **Property value,** with high value properties more likely to be compliant. As can 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 below 10%. This may be 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.

3. **Property type,** with residential properties least likely to pay at all levels of property value, institutional properties are the likeliest to pay for low value properties and commercial properties are likeliest to pay for high value properties. 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 may be more motivating for commercial properties because the KCCA is more willing to lock up delinquent properties if they are commercial.

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



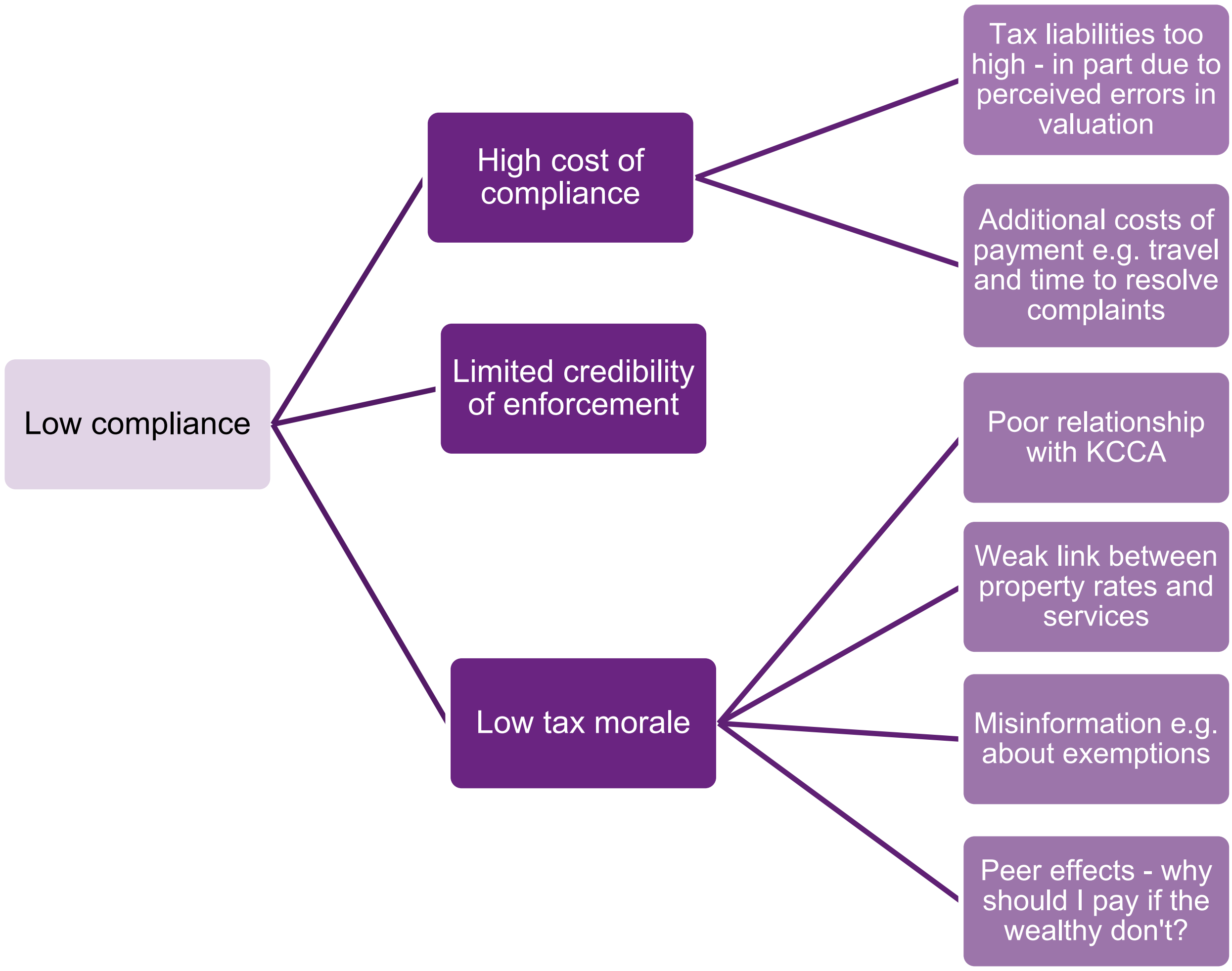
Notes: The density of properties at each value shown by the grey shaded bars in the background. The compliance sample is trimmed by the top 0.1% observations by rateable value. The compliance rate is estimated with a local polynomial with bandwidth of one log-point.

The data also reveals a high degree of inequality in property ownership in the city. The top 5 percent of property owners in terms of overall property wealth (measured by rateable value of eligible properties) are responsible for more than half of demanded taxes. While these owners are more likely to comply, they also represent the largest uncollected source of revenue (from those high wealth individuals who do not pay). As such, in order to maximise revenue collection it would be valuable to continue to target collection efforts towards these high wealth individuals in particular.

2. Top taxpayer concerns

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 focus group discussions with eligible property rate payers in February 2020. These discussions highlighted a number of concerns summarized in Figure 2 below.[5]

Figure 2: Reported issues with property rate payments in Kampala



Four key issues were highlighted by taxpayers in particular:

"It's not that we don't want to pay - we want to pay, but taxes are too high": high tax liabilities, in part due to errors in valuation

A number of participants in our discussions felt that tax liabilities are too high and **unaffordable** for those liable. This was true for participants across a range of property values, with a number of participants noting 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%

[5] See Ahabwe et al. (2020) 'Property tax compliance in Kampala: evidence from taxpayer feedback and administrative data' for more detail on these discussions

rate, but rather because they believe their properties to be **overvalued**. Common complaints with the valuation process included that valuations assumed full occupancy and that vacant or owner-occupied properties were incorrectly valued when they should have been exempt. Individuals noted that mistakes often came from KCCA staff valuing properties without consulting owners.

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.”

“Show us love, we shall also pay taxes with love”: poor relationship with KCCA

Currently, there appears to be a poor relationship between KCCA officials and taxpayers, negatively affecting taxpayer willingness to pay. 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.
- Valuations being conducted with little consultation of property owners and without transparency.
- Lengthy processes for resolution of concerns that are not resolved by due dates for payments
- The use of excessive force/ verbal abuse by KCCA employees

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”.

“Our money is just taken but we are not sure how it is spent”: what are taxes spent on?

Generally, respondents in our focus groups had very little understanding or knowledge of how their property rates were spent. Many respondents think that revenues from property rates are simply used to pay for government (and specifically KCCA) salaries, with limited benefits to citizens. This was a key issue for respondents and is likely to reduce tax morale because taxpayers believe there is no *reciprocity* for their rates. Most respondents note that while current delivery of services is poor, more effective delivery would motivate them to pay their rates.

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.

“Why do these people who take cash fail to sensitize us?”: lack of or misinformation on tax payments

There was also a significant level of confusion around which properties are exempt from rates, payment due dates, tax liabilities, how valuations are determined, and the role of different taxes being imposed on rental income. This is in part due to administrative issues that for example result in taxpayers receiving multiple SMSs with different liabilities and names.

3. Policy areas for future study

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**. **One potential cost-effective way to increase resources for these activities is to involve local government LC1 leaders** as a provider of information in case of misunderstandings and as a communicator of issues on behalf of an entire village.

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.

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 and increase acceptance of these taxes by those liable.

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. 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.[6] Another way to make the link between revenues and services more direct is to allocate local public goods/services on the basis of village level compliance.

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.

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

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.

[6] 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.