Opportunities and Challenges of Property Tax Reforms for Localising the SDGs

DeLoG Webinar

Organized by the Addis Tax Initiative (ATI), the Norwegian Agency for Development Cooperation (Norad) and the Development Partners Network on Decentralisation & Local Governance (DeLoG)

Wednesday, 19 May 2021
Introduction
• Welcome, agenda, operating instructions

Part 1
• Keynote input: Property taxes as a means to raise revenues to reduce inequality and finance public service delivery

Part 2
• Three inputs: Experience from Freetown and Kampala; development partner support to improve property taxes

Q & A
Open discussion
Timetable

<table>
<thead>
<tr>
<th>Agenda item</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening</td>
<td>5'</td>
</tr>
<tr>
<td>Part 1: Keynote input</td>
<td>15'</td>
</tr>
<tr>
<td>Questions from the audience</td>
<td>10’</td>
</tr>
<tr>
<td>Part 2: Three different perspectives</td>
<td>30'</td>
</tr>
<tr>
<td>Open discussion</td>
<td>30’</td>
</tr>
<tr>
<td>Closing</td>
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</tbody>
</table>

*Duration of webinar: 90 minutes*
Keynote input

What role can property taxes play as a means to raise revenues to reduce inequality and finance public service delivery?

Wilson Prichard – Chief Executive Officer, International Center for Tax and Development (ICTD)
Property Taxes, Inequality and Subnational Service Delivery

Wilson Prichard
CEO, ICTD
Chair, African Property Tax Initiative/Local Government Revenue Initiative (LoGRI)
Associate Professor, University of Toronto

May 19, 2021
Why Property Taxes?

- **Revenue shortages, regressive burdens:** Subnational governments in LICs face resources constraints for meet front line service delivery needs, often filling those gaps with regressive and often informal levies.

- **Unlocking the potential of decentralization:** Decentralization promises government closer, and more accountable, to citizens – but that depends on having own source revenues, and collecting taxes in ways that engage citizens.

- **Around the world property taxes provide the backbone of subnational revenues:**
  - **Revenue potential:** In many OECD countries 2-3% of GDP, but less than 0.2% of GDP in most LICs. Administratively straightforward (observable, fixed location), natural buoyancy.
  - **More economically efficient:** Does not distort work and investment decisions, recaptures gains from public investment.
  - **More progressive:** Property owners usually richer, replace highly regressive subnational taxes.
  - **Improved accountability:** Directly links taxes to infrastructure and services, can prompt popular engagement.
Weaknesses of Property Taxation

- Incomplete and inaccurate property rolls
  - Incomplete property registers
  - Ineffective and unequal valuation
  - Significant collusion and corruption

- Significant policy weaknesses
  - Widespread exemptions that undermine the tax base

- Ineffective data management and administration
  - Weak distribution, and tracking of compliance
  - Cumbersome and poorly regulated payments systems
  - Limited enforcement
Technical Barriers

- **Property registration:** Reliance on formal cadasters *prior to* property taxation presents a major technical and political hurdle to complete property registration.

- **Valuation:** *Expert driven market valuation* is high cost, time intensive, untransparent and prone to abuse and errors in contexts of illiquid and opaque property markets; *simplified area-based systems* lack equity and revenue potential; *complex CAMA models* are untransparent, difficult to understand and difficult to implement in complex urban environments.

- **Data Management and IT systems:** Many systems remain manual, but transitions to automation have often been problematic: high costs, poor “fit” and change management, fragmentation, “lock-in” and poor sustainability, opaque markets.

- **Legal and institutional barriers:** Existing laws sometimes erect barriers to adopting alternative approaches, while institutional fragmentation hinders coordination around reform.
Political Barriers to Reform

- Resistance by taxpayers: Particularly from economically and politically influential individuals, but also in particular from “property rich, income poor” groups

- Resistance by administrations: Reform can threaten existing roles and influence, as well as undermining informal revenue streams

- Resistance from central governments: Resistance to local governments gaining greater fiscal autonomy, competition for overlapping tax bases
Potential and Opportunity

- Political opportunity: Post-covid governments are looking for new revenue sources, focused on those more able to pay, creating a window of opportunity.

- Expanded technical understanding: Recent success piloting reform strategies that are tailored to the capacity, institutional and political environments of lower-income countries, and new investments in learning, resource development and experience sharing.

- More politically informed approaches to reform: Growing understanding of needs, and opportunities, to navigate politics (e.g. attention to administrative incentives, strengthening revenue-services links, reform models that can mobilize popular support, reducing fragmentation).

- Expanded donor engagement: Historically support has been heavily informed by technical perspectives from wealthier countries, and frequently fragmented and untransparent - new engagement offers space to adopt locally-appropriate solutions and improve dialogue, coordination and transparency.
Merci Beaucoup!
Thank you!
Keynote input

Questions from the audience
Property taxes in Freetown

What can fellow local governments learn from Sierra Leone’s capital for catalysing property taxation for local revenue generation?

Rosetta Wilson – Financial Management Advisor, Mayors Delivery Unit, Freetown
Property Tax Reform as Part of the #TransformFreetown Agenda

Rosetta Wilson
Financial Management Adviser to the Mayor of Freetown and Sector Lead for Revenue Mobilisation

19th May 2021
Transform Freetown Through 11 Priority Sectors Using an Inclusive Approach

4 Clusters 11 Priority Sectors

1. Resilience
   - Environmental management
   - Urban planning and housing
   - Revenue mobilization
2. Human development
   - Education
   - Skills development
   - Job creation (focus: tourism)
   - Disabilities
3. Healthy cities
   - Health
   - Water
   - Sanitation
4. Urban mobility

Multi-stakeholder working groups

Social players
Private players
Public players
In order to deliver essential services for Freetown, Transform Freetown has **two targets** for revenue mobilization:

1. Increase tax revenue five-fold from Le 7 billion to **Le 35 billion** by 2020
2. Double non-tax revenue from Le 3 billion to **Le 6 billion** by 2020
Background on the Reform: *The Baseline*

- Under **50%** of properties were captured in the database and even fewer were being taxed.
- Valuation of properties were *hugely out of date and mainly* area based.
- Primarily manual property tax administrative system and process.
- Lack of a comprehensive *address system*.
- Need for a transparent and equitable basis for property assessment.
- **Sustainability and resilience** in generating *own source* revenue to improve service delivery.
Geo-mapped the city and referencing of properties using PlusCodes

<table>
<thead>
<tr>
<th>Property</th>
<th>Size</th>
<th>Type</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>House A</td>
<td>120</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>House B</td>
<td>130</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

Introduced a new valuation system using a points-based approach taking into account size, type and quality based on property features (including location) instead of purely area-based method.

Automated systems and processes including the property tax database, delivery and payments.
Background on the Reform: *The Outcome*

- Successful introduction of fully streamlined and automated system
- Over 100% (from 57,000 to 160,000) increase of properties in the database, including businesses located within those properties
- Assessment of property values in a more equitable, transparent and progressive way
- Five-fold increase in revenue potential, mainly driven by large increases in assessment for previously undervalued high-value properties
- Increased revenue collection for the city
Property Tax Reform: *Lessons Learnt*

- **CONSCIOUS AND DELIBERATE** efforts to bring on board all stakeholders and commitment to managing change
- **SENSITISATION** on all relevant aspects of the reform
- Political commitment and engagement
- **CREATE** strong partnerships and outsource if needed
- **EMBRACE** innovation and technology
- **IDENTIFY** areas of capacity building and develop a plan for training
- **ESTABLISH** an outlet for taxpayers to query and appeal
- **REMAIN** flexible and be ready to think outside the box, without compromising on core principles
- **STRONG** leadership to navigate the reform
- Support from development partners
- **BE PATIENT** and be ready for the long haul!
Property taxes in Kampala

What can fellow local governments learn from Uganda’s capital for catalysing property taxation for local revenue generation?

Samuel Sserunkuuma – Director Revenue Collection, Kampala Capital City Authority (KCCA)
Catalyzing Property Tax for Local Revenue Generation
Presentation By

Samuel Sserunkuuma
Director Revenue Collection

Together we can transform Kampala city
Background

- The administration of property rates is governed by the Local Gov’t Rating Act 2005.

- The Ratings Act 2005 provides for exemptions such as Owner occupied properties, Houses of worship, residences of religious leaders, the President, diplomatic missions and designated cultural leaders.

- Property rates presently account for approx. 38% of the City`s non tax revenues
Property rates reforms undertaken

- Automation of property valuation and rates administration; GIS, mass valuation, property numbering, smart permit etc
- Dedicated unit for taxpayer engagements and sensitization
- Segmentation of taxpayers; creation of Premium office
- Client relationship management/Portfolio Management
- Banded system of rates administration
Property rates reforms undertaken

- Infrastructure development
- Enhanced debt management; enforcement on defaulters, instalment arrangement, litigation
- Curriculum development
- Dedicated unit for arrears management, audits and inspections of collection processes
Challenges

- Unfavorable and ambiguous exemption regime
- Costly valuation exercise compounded
- Perceived double taxation on properties; property rates vis-à-vis rental income tax
- Inability to pay on account of low occupancy
- Poverty as properties are the only source of income for low income earners
- High rate of objections arising from inability to attend valuation court
- Tax payer expectation gap
- Limited participation of political leadership in rates administration
- Inadequate recovery mechanisms within the law
Way forward

- Linking services to tax efforts
- Enhancing the regulatory framework
- Enhancing collaboration with local politicians in revenue mobilization
VNG International’s approach to improving property taxes

What are success factors and how have countries implemented it?
Making local taxes less taxing

VNG International approach to improving property taxes
1. Introduction VNG International
2. Local Tax Hub projects
3. Integrated approach for a systems change
VNG International

- VNG International is the International Cooperation Agency of the Association of Netherlands Municipalities (VNG).
- 150 FTE in The Hague and local offices combined
- $\approx 30$ mln Euro turnover; 40% Dutch MFA, rest international donors
- Projects in more than 40 countries, 9 local offices
Projects on subnation DRM

- Ethiopia Water Pricing – Dutch Min Economic affairs – 2019 - 2023
- Decentralization of Property Tax in the Palestinian Territories – Dutch MFA – 2019 – 2022

- Smaller projects with local tax components:
  - ULGE Ethiopia – EU – 2021-2025
  - IDEAL Uganda – Dutch MFA – 2017 -2021
  - Kosovo Civil registration – EU – 2017 - 2020
Integrated approach for a systems change

Integrated innovative approach

- Leadership
- Citizens
- Policies
- Process redesign
- IT support
- Administrations
Leadership involvement

Strategic coaching

- Focused on interaction between governments and citizens
- Public financial management training
- Transparency of financial information
- Public meetings for accountability over the revenues
Citizens involvement & tax awareness

Communication development

- Supporting public events for public priority setting
- Developing communication strategies in districts and local governments
- Organising stakeholder forum
- Radio and Community Information Centres
Improved policies

- Enforced collection where necessary
- Legal steps: disputes and appeals
- Waivers and write-offs for who is unable to pay
- In close cooperation with the existing policy
(re)Design processes

Process redesign

Based on assessment of current situation

Optimal local tax process:

- Process flows
- Process descriptions
- Work instructions
- Training materials
  - Management
  - Operational staff
- Monitoring & reporting
**taxMan administrative system**

**taxMan software**

- taxMan administrative software for local revenue

- Aimed result: fitting IT-support for the newly designed processes, with additional functionality to the current local IT system:
  - IT functionality based on:
    - New processes
    - Fit for purpose
    - Open source based – no license costs
    - Not overly complex
Data collection with mobile app

Automated data collection

Location App for data collection and revenue collection collects information on:

- Property location
- Satellite navigation
- Street name and house number (if available)

- Administrative information
  - Owner details
  - Property characteristics
Dear Christine Lagarde,

you have a property located in Moree Junction, Masalachi, AAKDA. Shortly you will receive an e-bill with payment details for Property

E-billing

• The tax payer dials the short code that is stated on the electronic / paper bill
• The tax payer enters the bill-id received in the SMS and/or printed on the bill, the amount to be paid and approves
• Provider forwards all data to relevant municipality via online
• Money is transferred to bank account of municipality daily
Administation systems with clear monitoring capacity

### Monitoring framework

- Peer to peer technical assistance to support the systems change
- Monitoring framework for supervising authorities to continuously monitor and intervene where necessary
- This will help supervisory committee to gain insight in differences between municipalities and target interventions

<table>
<thead>
<tr>
<th>Actsuals</th>
<th>2020</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billable properties</td>
<td>6.272</td>
<td>6.272</td>
<td>5.050</td>
<td>6.193</td>
</tr>
<tr>
<td>Billed properties</td>
<td>5.356</td>
<td>5.511</td>
<td>5.050</td>
<td>5.440</td>
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<tr>
<td>% bills generated</td>
<td>85%</td>
<td>88%</td>
<td>100%</td>
<td>88%</td>
</tr>
<tr>
<td>Revenue potential bills generated (GHc)</td>
<td>369.105</td>
<td>378.334</td>
<td>381.893</td>
<td>376.914</td>
</tr>
<tr>
<td>Revenue potential per bill (GHc)</td>
<td>68.91</td>
<td>68.65</td>
<td>75.62</td>
<td>69.29</td>
</tr>
<tr>
<td>Paper bills distributed</td>
<td>0</td>
<td>1.398</td>
<td>2.540</td>
<td>2.601</td>
</tr>
<tr>
<td>% Bills distributed of billable properties</td>
<td>0%</td>
<td>22%</td>
<td>50%</td>
<td>42%</td>
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<tr>
<td>e-Bills distributed</td>
<td>0</td>
<td>0</td>
<td>2.238</td>
<td>2.238</td>
</tr>
<tr>
<td>Payments in taxMan</td>
<td>0</td>
<td>0</td>
<td>296</td>
<td>304</td>
</tr>
<tr>
<td>Amount cash payments (GHc)</td>
<td>0</td>
<td>0</td>
<td>18.470</td>
<td>19.068</td>
</tr>
<tr>
<td>Number e-Payments</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Amount e-Payments (GHc)</td>
<td>0</td>
<td>0</td>
<td>275</td>
<td>311</td>
</tr>
<tr>
<td>% GHc paid vs billed in taxMan</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Payments according to MMDA</td>
<td>0</td>
<td>0</td>
<td>27.663</td>
<td>38.914</td>
</tr>
<tr>
<td>Payments vs Revenue potential</td>
<td>0%</td>
<td>0%</td>
<td>7%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Collection led methodology

- Coaching for accountable leadership
- Develop redesigned process with tailor made IT functionality
- Monitoring framework for monitor revenue performance

Develop light assessment method

- Property rate
- Property valuation
- PR Database
- PR calculation
- PR calculation
- Bill creation
- Bill distribution in person
- Cash payments
- Non Payment
- Collection process

Develop app for data collection

- Indexing PT values
- Debt Assessment
- Data collection

Improve compliance through taxpayer communication

Develop process & IT for e-billing

- E-billing
- E-payments

Improve citizens participation in public expenditures

- Enforcement process improved
- Accrual based accounting

Accrual based accounting

Improve citizens participation in public expenditures
Challenges

• Political commitment at central level: to promote local DRM and fiscal authonomy

• Political commitment local level: willingness to increase accountability and transparency

• Technical: working with existing data versus new data collection methods
Thanks for your attention!

The local tax team worldwide:

<table>
<thead>
<tr>
<th>In Ghana:</th>
<th>In Palestine:</th>
<th>In Ethiopia:</th>
<th>At headquarters:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mawuena Dotse</td>
<td>Bashar Jumaa</td>
<td>Kidist Bekele</td>
<td>Vaidas Valikonis</td>
</tr>
<tr>
<td>Bless Darkey</td>
<td>Luai Khalaf</td>
<td>Tegenu Zerfu</td>
<td>Peter Jongkind</td>
</tr>
<tr>
<td>Michael Brenu</td>
<td>Saleh Khalailah</td>
<td></td>
<td>Henri Ten Broeke</td>
</tr>
<tr>
<td>Hamza Brawa</td>
<td></td>
<td></td>
<td>Siebe Stellingwerf</td>
</tr>
<tr>
<td>Doreen Awuku-Dei</td>
<td></td>
<td></td>
<td>Miriam Collaris</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Thymen Ballering</td>
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Open discussion

Comments and questions from the audience
Closing of webinar

Thank you for participating

For questions and to stay in touch:

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