



African Tax Administration Paper 4

How Local Authorities Can Exploit the Potential for Effective Property Taxes: A Case Study of Harare

Munatswi Nengeze

October 2018

ICTD African Tax Administration Working Paper 4

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How Local Authorities Can Exploit the Potential for Effective Property Taxes: a Case Study of Harare
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How Local Authorities Can Exploit the Potential for Effective Property Taxes: a Case Study of Harare

Munatswi Nengeze

Summary

This paper explores administrative challenges that developing countries face in property tax administration. It is internationally acknowledged that local authorities play a vital role in enhancing a country's economic growth and provision of public goods. Their activities rely on revenue collection. It is therefore in the public interest and the interest of all governments to support their activities.

The author identified that the main source of revenue for the City of Harare is property tax. Property tax has the potential to perform better given the boom in urban population. Despite the potential of property tax, it has not been able to generate more revenue because local authorities lack capacity and face a number of challenges.

This paper argues that, in addition to solutions intended to resolve the usual technical and political difficulties associated with property taxation, it is crucial for Harare to improve systems for property taxation. There is a need to invest in information technology, including the use of digital technology, electronic billing and payment systems.

Keywords: property taxes; tax administrator; local authorities; Zimbabwe Revenue Authority.

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Acronyms

CGT	Capital Gains Tax
VAT	Value Added Tax
ZIMRA	Zimbabwe Revenue Authority

Introduction

Property taxation is increasingly on the international development agenda amid growing recognition that it is widely under-utilised as a source of government revenue (Moore et al. 2008). Property tax revenue collection remains very low in developing countries. This study looks at how property tax collection may be improved in Harare, the capital city of Zimbabwe.

The fact that property tax is levied on land and buildings that are immobile makes it a good source of revenue – taxpayers cannot relocate to other jurisdictions to avoid the levy unless they dispose of them (Monkam and Moore 2015). On disposal the seller will be liable for capital gains tax (CGT) or income tax and value added tax (VAT) in some cases. However, despite the potential of property tax, it has not been able to produce more revenue because the tax base is eroded by a number of unreasonable exemptions, valuation inconsistencies, inability to update the valuation database, limited administration capacity and equipment, inaccurate land records and poor record-keeping, collection and enforcement challenges, lack of political support, and government interference in revenue collection. This paper explores the challenges, opportunities and pitfalls of property taxation in Zimbabwe, and proposes recommendations to improve the existing property tax system for urban Zimbabwe.

Property tax collection is low, and the system has resulted in high debts and tax arrears for the City of Harare. Assessed values are lower than market values. Because of the given challenges, there is a need to reform the tax base, valuation, collection and administration system for Harare in particular, and Zimbabwe at large, to increase revenue from property taxation. Property income and property owners are significantly under-taxed in Zimbabwe; this is an important source of inequity and results in lost revenue.

Property tax has strong potential for revenue mobilisation. The tax base is immobile, which makes it easy to be identified. Against this background the country should identify possible areas of improvement in their tax policy and administration system, and change the tax design through enlarging the tax base, upgrading valuation rolls, revaluing property, and strengthening billing, collection, and enforcement procedures.

City of Harare property tax collection

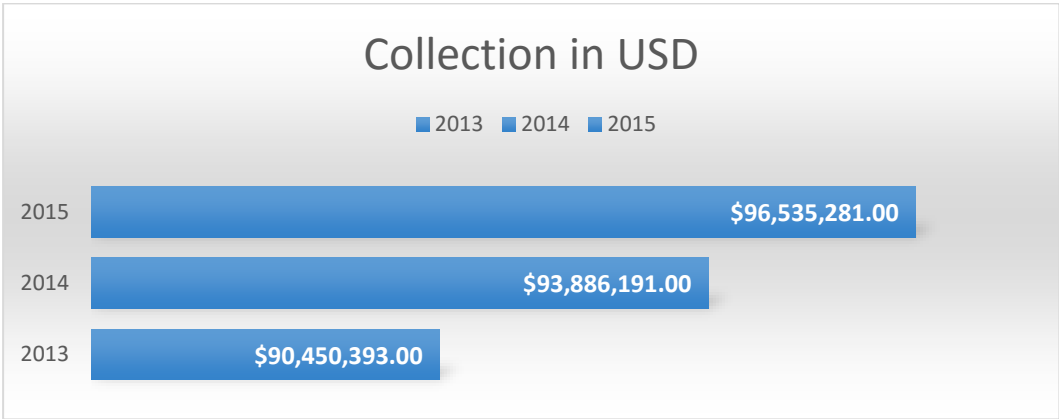


Fig 1.1 City of Harare property tax collection 2013-2015

Source: City of Harare Financial Reports 2013 to 2015

The above figures for property tax collection for the City of Harare show that collection is increasing. However, collection is low compared to urban expansion in the City of Harare. A lot of land around Harare is being turned into residential areas. Most new properties still remain outside the valuation roll, and compliance is low. According to *The Source*, Harare is owed more than US\$380 million in unpaid debts by residents.¹ Harare only collects 55 per cent of billings. This shows that the capacity for revenue collection is highly compromised.

The objective of this research is to contribute to a viable property administration system for Zimbabwe. This will be done through examining the following specific questions:

- i) What are the challenges and opportunities in property taxation?
- ii) How are properties valued and taxed?
- iii) What legislative changes are required to make it effective?
- iv) Who should be exempted from these taxes?

The research aims to lay a platform for an effective system for administration of property taxes that includes:

- i) A simple, transparent and fair collection process for property taxes
- ii) Better mechanism for enforcement of property tax
- iii) Reduced administrative complexity and increased revenue collection.

1 Property tax overview

1.1 What is property tax?

Recurrent taxes on property or rates charged by local authorities are commonly labelled property taxes. These are charged by local authorities in many countries. Property tax is tax charged on real estate or immovable assets. The tax base may be on land only, the land and improvements on the land, or improvements on the land only. Different countries and local authorities value real property differently, and apply different tax rates on the properties. However, property tax remains the major source of revenue for many municipalities, and the revenue is used for a variety of purposes, including provision of services and infrastructure within the local authority.

For the purpose of this paper, property tax refers to tax on all types of immovable property – residential, commercial and industrial, and farms. Once a property is situated in a certain location, tax should be charged on that property in that location or city. The immobility of property makes property tax a good source of local revenue (Norregaard 2013). Because it is geographically defined, property tax is employed as the main source of revenue for local authorities. The collected tax should be used to develop the area in which the property is situated for the benefit of residents. The property tax rate is often given as a percentage of the assessed value of the property. In Zimbabwe these taxes are charged in terms of the Urban Council Act of Zimbabwe Chapter 29:15. It is charged on all rateable property and exempt on all properties specified in terms of Section 270 of the Urban Council Act Chapter 29:15.

¹ *The Source*, 28 September 2015.

1.2 Why property tax may have strong potential for revenue generation

Bahl et al. (2008) argue that property tax is potentially revenue-productive and revenue-income-elastic because it has a large and rapidly growing tax base. This is supported by McCuskey and Franzsen (2005), who are of the view that property tax has strong potential for revenue generation, especially in urban areas.

According to United Nations projections Africa's urban population will more than double between 2000 and 2030, and the world's urban population will double from three billion to six billion in 2050 (AfDB/OECD 2010). This projected growth in developing countries will affect Zimbabwe's urban population, and provides an opportunity for the country tax base to grow as there will need to be growth in urban infrastructure. As more people move to the cities, more properties will be built, to cater for the increasing population. When more properties are built the tax base is larger and more revenue can be generated from property taxation. It is against this background that Zimbabwe needs to reform and improve property taxation.

2 Research methodology

This section explains the research methods and strategy adopted in the collection, analysis and interpretation of data collected for the study. It gives the choice of research approaches and techniques applied to corresponding research objectives.

The researcher used a combination of primary and secondary sources of information to ensure that data is current and relevant to the study. Primary data was obtained by way of telephone and personal interviews, questionnaires and observations. Secondary sources comprised of existing records, procedures and reports from the Zimbabwe Revenue Authority (ZIMRA), the Deeds Office and the City of Harare.

Interviews were carried out using a questionnaire, which guided the researcher in adhering to the requirements and objectives of the study. Informal personal interviews were used to seek clarity on responses given by respondents, as well as to obtain answers pertinent to the research. Using an interview had the advantage that it led to a higher rate of response, and allowed the interviewer to control the process and get to underlying issues that are not probed when using a questionnaire. This enabled the researcher to probe on the topic. The researcher was able get more information from the respondent through observing emotions and body language.

Questionnaires were used because they were cheaper to administer. The researcher delivered the questionnaires in person. The questionnaires consisted of closed-ended and open-ended questions. Secrecy and anonymity were assured, and as a result free and frank replies were given. However, responses were limited to answering predetermined questions, and some questions were interpreted differently by different readers. There was no opportunity to clarify ambiguous answers, and there was no personal or direct control over who responded to the questionnaire, since it was left to be collected later.

The researcher managed to administer a total of 70 questionnaires to various people. Forty of these were for various officers within ZIMRA, deeds office and City of Harare staff, and thirty were to property owners. An appointment date and time were set for collection of the questionnaire, in order to make it easier for respondents to get hold of the researcher once

they had completed filling in the questionnaire. This also helped to ensure that the questionnaire reached the intended respondents. As a means of protecting the confidential data from respondents, all completed questionnaires were sent without names.

To have first-hand knowledge on the current procedures, payment and collection system, the researcher had to conduct a field visit to the ZIMRA capital gains section, the deeds office and City of Harare banking halls to make observations and gather relevant data pertinent to the study.

The population for this study comprise of property owners in Harare, buyers and sellers of real property who visited the ZIMRA capital gains section, officials from the deeds office, city of Harare employees, estate agents, conveyancers and lawyers, ZIMRA employees and managers at Kurima House Harare.

3 Weakness in property taxation administration

The graph below illustrates different sources of revenue for the City of Harare.

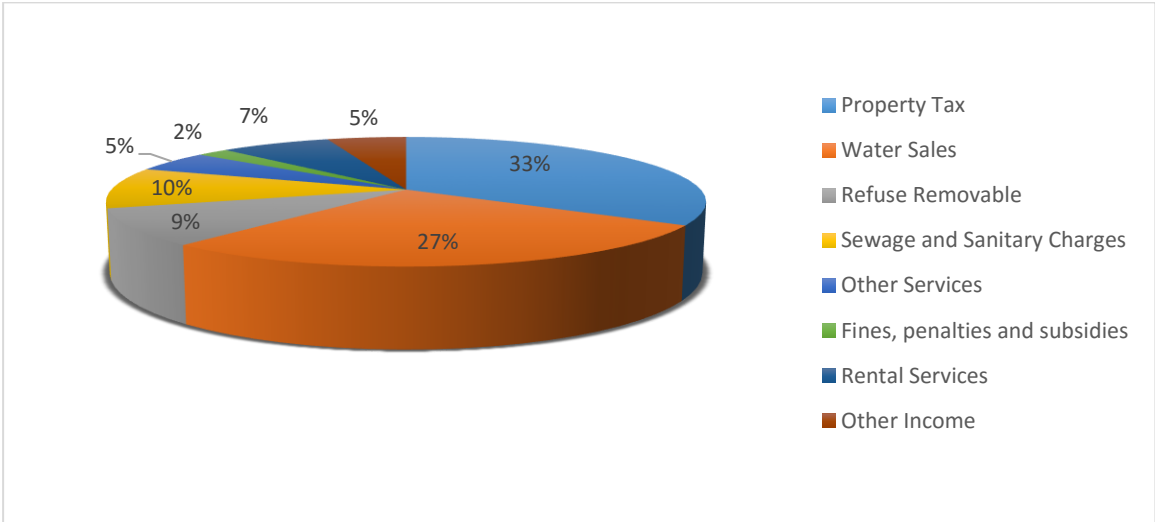


Fig 3.1 Major sources of revenue for City of Harare
 Source: City of Harare Financial Reports 2013 to 2015

The major source of revenue for City of Harare is property tax, followed by water sales. For the period 2013 to 2014, more than 30 per cent of revenue was collected from property tax. The levies for water, refuse removal, sewerage charges, roads and street lighting and supplementary charges appear on the same invoice with property tax. These charges are paid at the same time because they appear on the same monthly bill, and a single payment for these charges proportionally reduces them. A resident cannot pay property tax or for water without paying for the remaining service charges. Other income is made up of income from other activities – for example, advertising, parking and bus terminus charges.

Although most revenue is collected from property tax, property taxation in Harare is producing less revenue because of the following variables, among others:

- i) Several exemptions and reliefs
- ii) Valuation inconsistencies and inability to update valuation database
- iii) Limited administration capacity and equipment
- iv) Inaccurate land records and poor record-keeping
- v) Collection and enforcement challenges
- vi) Lack of political support and government interference in revenue collection.

3.1 Exemptions and reliefs

Application of exemptions means that no taxes will be collected on the ownership, use or transfer of a property. There are several exemptions applied throughout different jurisdictions. The exemptions and tax reliefs narrow the tax base and reduce revenue collection. They also present opportunities for fraud, as those who should not receive the exemptions may end up claiming them.

In Harare, in terms of Section 270 of the Urban Council Act, the following properties are exempted from property tax:

- (a) Property which is used exclusively for
 - (i) public religious worship; or
 - (ii) public religious worship and religious educational purposes;
- (b) Property which is used exclusively for a public library, a public art gallery or a public museum of natural history or of fine arts;
- (c) Property which is used exclusively for;
 - (i) a university or university college; or
 - (ii) a school established for primary or secondary education that is registered under any enactment; or
 - (iii) a nursery school that is registered under any enactment where the building is erected or adapted for the purpose of a nursery school and is sited separately from any dwelling-house; and the nursery school is owned and operated by a board or committee; or
 - (iv) as a boarding-house or hostel in connection with a university or school mentioned above and is owned or controlled by the same person or authority that owns or controls that institution.
- (d) Property which is used exclusively as;
 - (i) a public institution for aged persons or mentally or physically handicapped persons or for any other charitable purpose, a public hospital or a public orphanage; or
 - (ii) a nurses' home or hostel which is maintained by and in connection with an institution referred to in (i) above and is owned or controlled by the same person or authority that owns or controls that institution;
- (e) Property which is used exclusively as a public cemetery or a public crematorium;
- (f) Property which is used exclusively for;
 - (i) amateur theatricals; or
 - (ii) boy scout or girl guide organisations or other similar organisations for youth; and activities normally associated therewith;
- (g) Property which is owned by any other local authority and which is less than five hectares in extent and on which works of a public nature have been erected.

In Harare, like other tax jurisdictions, exemptions are based on ownership – for example, government-owned properties, use of property for religious purposes, charitable purposes,

schools, libraries, colleges, universities and hospitals of a public character (Bird and Slack 2002). Exemptions can also be based on characteristics of the owner. For example, foreign embassies governed by international conventions, or because of age or disability. Some countries also exempt owner-occupied houses or those low-value houses in high-density suburbs owned by the poor. Though some of the exemptions may be morally good, they put pressure and increase the tax burden on the remaining taxpayers, and reduce revenue and the level of local services the local authority can offer. Bahl (2009) argues that 'though there is justice in exempting the poor because little revenue is lost because of low value in their properties there is no justification in giving preference to pensioners and those with large families because they may be very rich'. The argument is supported by Bahl and Linn (1992) who propose taxes on those exempt to the extent of their use of municipal services. The observations suggest that there is a need to incorporate capacity to pay before granting the exemptions.

However, whatever reason is given, the long list of taxpayers not liable to pay property tax has the effect of weakening the tax system. In some cases religious organisations, schools and universities own several properties, and such institutions may have the capacity to pay rates. As long as these institutions benefit from public goods, the writer is of the view that they should pay the rates. In Harare these are now among the richest institutions, and they have the capacity to pay taxes.

Lessons can be learnt from Rwanda (IMF 2014). In Rwanda, property taxation system changes were introduced by a new law at the end of 2011. The Rwanda Revenue Authority took over collection of the tax by March 2014, and the following changes were introduced:

- i) Reduction of exemptions.
- ii) Three-storey buildings were removed from the exemption list.

As in Rwanda, in Ethiopia there was a change in fiscal governance that saw the central branch of the Ethiopian Revenue and Customs Authority take over administration of property taxes for Addis Ababa (Goodfellow 2015). In the new property tax for Ethiopia, exemptions were revised with people on low income who lived in shacks and rented housing exempt from property tax, but major institutional buildings, including government and religious buildings, liable for tax. By revising the exemptions, Ethiopia managed to increase the tax base by taxing those who were previously excluded from the tax net.

In South Africa reforms started in 1993 by extending the property tax base to former black municipalities; exemptions were reduced and limited to religious institutions exclusively used for religious purposes (Franzsen 1999).

A survey of ZIMRA officials and officials from the City of Harare carried out in Harare showed mixed views on exemptions from property taxation. Most respondents acknowledged that the list of exemptions is long, and needs to be reduced. Some notable comments on exemptions include the view that elderly taxpayers should not be taxed – this will erode their income as most elderly are no longer employed. Others were of the opinion that the tax administrator should exempt a portion of elderly taxpayers' income or the lower tax rate for old age instead of total exemptions. Others suggested that old-age exemption should be granted on only one property, and any subsequent property should be taxed.

Concerns were also noted on exemptions for churches, with most respondents suggesting that churches should pay property tax. Similar suggestions were on estates of the deceased.

Many suggested that Zimbabwe should tax estates of the deceased, since those who inherit will benefit from the assets. They should pay tax on inheritance. This may result in the introduction of inheritance tax in Zimbabwe.

3.2 Valuation systems

A valuation system is important, as tax will be charged on the value of the property. It is necessary to arrive at the correct value for the tax system to be fair and to be acceptable. A number of valuation methods are used across the world; Bahl (2009) suggests the valuation methods commonly used are:

- i) Market-based method
- ii) Area-based method
- iii) Rental-value method
- iv) Land-value method.

Though in principle there are different valuation systems, in practice many valuation systems combine elements of different valuation methods. Which method to select and use is critical; this depends on the intentions of governments, as each method comes up with a different tax base. The methods are discussed below.

3.2.1 Market-based method

This method estimates the value that the market places on the property being valued. According to Bird and Slack (2002), market value is defined as the price that would be agreed between a willing seller and willing buyer in an arm's length transaction. Market-based methods can use the comparable sales approach, the depreciated approach or the income approach. The comparable sales approach compares the valued property with other sales of similar property. With the depreciated cost approach, the value of the property is estimated using land value as if it were a vacant stand, adding the cost of replacing the buildings and other improvements to that value. When using the income approach, the value is arrived at by estimating the potential gross rental income the property could fetch and removing operating expenses. This method is intended to tax the property at a fair market value at the time of taxation.

3.2.2 Area-based method

Upon application of this method, one pays tax in relation to services received in that area. The rate to be applied on the assessed value is determined by services available in each area or zone, such as garbage collection, street lighting, roads and sanitary services, and the quality of the structure. The assessment of the value is based on square metres of land area, building or a combination of land area and building. Properties are taxed at a specific rate per area unit of land and structure. The total value of the property will combine the value of land and value of the structure. This means properties in different zones will attract different values.

3.2.3 Rental-value method

With this method, the value is based on the estimated rental value or net worth of the property. Through application of this method each property is assessed based on its current use. In other words, each property is taxed on the basis of reasonable rent that is likely to be

received in a fair-market business operation. This method is easier to understand and cheaper to administer, but has its weaknesses. Bahl (2009) explains that the approach causes problems in coming up with values of properties that are not in the rental market, such as owner-occupied, industrial properties, vacant land and properties covered under a rent control act. It is challenging to come up with acceptable values under these circumstances, and it may not be ideal to use the rental-value method. In such circumstances the rental-value method cannot be used, and the market-value method would apply.

3.2.4 Land-value method

Through this method the tax base is the market value of the land only excluding improvements and buildings. When using this method there is no difference between a vacant piece of land and a built-up area. The method places less burden on those properties with high-value structures (Bahl 2009). Despite the above, Bird and Slack (2002) are of the view that the land-value method may help to improve efficient use of land. Their argument is based on the fact that since improvements are not taxed, the landowner has an incentive to develop the land to its most profitable use without the burden of tax. One may be discouraged to build and erect improvements because of tax. This method may not be fair – for example, if the same tax is charged for a one-bedroom house as a twenty-bedroom house. Given this scenario the twenty-bedroom house would be under-taxed as the owner enjoys more benefits or services provided by the local authority. In these circumstances it may not be ideal to use the land-value method.

3.2.5 Rating-zone method

The City of Harare levies property taxes on residential property through a rating-zone system, and non-residential properties on the basis of valuation in terms of Section 252 of the Urban Council Act, Chapter 29:15. Non-residential properties are charged property tax on land and improvement value of the land. Residential properties are assessed using the rating system, where the calculation is done on the basis of rating units assigned to the property, and determined by the rating zone within which the property is situated.

The term rating refers to areas or locations in which the property is situated. Harare is divided into zones or locations depending on their proximity to service providers like schools, hospitals, banks and the central business district. Where applicable, each rating zone contains residential properties that are adjacent to each other. In most cases the adjacent properties are similar in size and structure. Each zone is given a value per square metre and forms the basis for coming up with tax at the end of the month. The zoning system has been used since 2011. The system does not recognise the value of improvements, therefore limits property tax to the value of the land. Although the system is easy to administer, it limits collection as it taxes landowners on the same value. This system is similar to the earlier hut tax, and does not take into consideration the ability-to-pay principle.

Table 3.1 Rating zones and charges

Suburb	Stand size in m ²	Zone	Unit charge US\$ per month
Hogerty Hill	4,500	1	30.14
Borrowdale Brook	4,000	2	40.00
Borrowdale	4,000	3	32.17
Borrowdale West	2,000	4	18.10
Highlands	4,000	6	32.17
Athlone	4,000	7	21.45
Cleveland	4,000	8	18.77
Mufakose	120	50	4.00
Mbare	200	55	4.00
Hatcliffe	200	59	4.00
Tynwald	2,000	60	16.06

Source: City of Harare 2017 Budget Statement

The above table shows an extract of zones or locations set by the City of Harare and property tax charges paid by residents per month. The stand sizes range from 120 to 4,000 square metres, and from zone 1 to zone 61. The charges range from as little as \$4 to as high as \$40 per month. The charges are based on stand sizes, and anything above or lower than the set units will be apportioned accordingly. A tax invoice containing the property tax is sent to the resident together with other user charges like water consumption and sewage removal fees. Billing for property tax and the other charges is done every month, and the resident is expected to pay the tax by the fifteenth day of the month following billing.

3.3 Tax administration

Collaboration between local authorities, revenue authorities, and networks of other service providers including banks, utility companies and government agencies make tax administration effective and efficient (Moore 2013). The administration of property tax varies from country to country. For Harare, like many countries, administration of urban property tax lies with local authorities. However, local authorities lack the capacity to administer the tax. Many functions are performed manually and are not computerised, all properties are not included in the tax base, collection rates are low and there is no enforcement in place.

The City of Harare is not doing well in revenue collection, and this results in poor service delivery to the extent that the city is not cleaned, there is no constant clean water supply, and in most cases their employees fail to get their salaries on time or in full.

City of Harare workers have gone for more than four months without being paid in the past.² Poor service delivery discourages residents and property owners from paying taxes. They do not see the need to pay taxes because they see no benefit in doing so. On the other hand, if employees are not paid on time they are not motivated to work and collect taxes.

The City of Harare has also failed to retain qualified personnel, including engineers and valuers. The result is that the City of Harare does not have enough valuers, and relies on external valuers for the purposes of assessment of property values. This negatively affects revenue collection. Franzsen (2007) notes the effects of shortages of qualified valuers as resulting in failure to prepare and maintain property registers. Lack of qualified and dedicated staff means that no effort will be made to correctly capture all the properties and to enforce collection.

² *Newsday*, 6 September 2016, <<https://www.newsday.co.zw/2016/09/06/council-ponders-offsetting-salary-arrears-stands/>>.

Shortage of valuers cripples service delivery, and in turn reduces revenue collection. *The Herald* reported that Harare City Council missed its revenue collection target.³ The city treasury department management accountant attributed the low revenue collection to workers' depressed salaries, a poor economy and high unemployment. The same position was supported by the then Reserve Bank of Zimbabwe governor, Dr G. Gono, in his assessment of parastatals and local authorities. Dr Gono asserted that the major challenge facing local authorities had been poor corporate governance practices characterised by lack of transparency, lack of meaningful capital investment, weak financial controls and systems, poor policy guidance, poor policy implementation, poor business culture, failure to produce audited financial statements and inadequate staffing levels (Gono 2006). All these challenges have led to dwindling revenue collection and hence budget deficits.

3.4 Political interference in local authorities

In Zimbabwe, councillors who administer local authorities are elected into office on a political party ticket, and because of this tend to lack the necessary technical expertise required for prudent policymaking and implementation. No qualifications are specified, but the councillors supervise operations of local authorities. Given such a position local authorities are not run professionally, but enjoy political bias because politicians fear political protest. The above argument is supported by Semboja and Therkildsen (1992), who cite political pressure as a major impediment to revenue collection in local authorities. This problem stems from the fact that taxes are generally disliked, and councillors who want to be re-elected disassociate themselves from increased taxation. In some cases councillors are also reluctant to raise local charges and taxes because they are major local landowners or business people, and seek to minimise their personal tax burden.

This view is consistent with the conclusions of Gono (2006), which highlights that most Zimbabwean councillors are in local authorities to pursue their own political and self-interest, and may not necessarily add any value to the running of local authorities. Since they are elected on a party ticket they may want to serve the interests of those who elected them. Their mandate is to protect their party agenda instead of development.

The Government of Zimbabwe directive to local authorities on 22 July 2013, to write off debts owed by residences for debts and bills from February 2009 to 30 June 2013, affected revenue collection.⁴ Whereas the decision was based on complaints by residents associations over arrears caused by unjustified increases in rates and bills the residents could not pay because of low disposable income and unemployment, the directive caused those who were paying to stop payments. This was a way of rewarding residents for voting for the ruling party, since it was election time. Currently most residents are not paying taxes, and wait for the same benefits in the 2018 election period. Harare City Council acknowledged this in *The Daily News*, when they stated that low compliance is a result of the 2013 directive, as residents are anticipating another write-off in 2018.⁵ The researcher is of the view that to increase revenue collection the government should be bold, and state that there would be no further write-off ever again. This would inform taxpayers that they should meet their obligations, or they would be penalised.

³ *The Herald*, 5 September 2012, <<https://allafrica.com/stories/201209050206.html>>.

⁴ *The Herald*, 22 July 2013, <<http://www.herald.co.zw/write-off-all-debts-govt-orders-councils/>>.

⁵ *The Daily News*, 14 August 2016, <<https://www.dailynews.co.zw/articles/2016/08/14/residents-expect-2018-debt-write-off>>.

3.5 Record-keeping

Record-keeping involves maintaining property ownership with constant updating, and upgrading record-keeping methods and systems. In Harare most records are kept manually on paper. Harare City council employees physically visit properties for, for example, water consumption readings, and the invoices are also delivered door-to-door. This is time-consuming and sometimes inaccurate. In some cases invoices are posted. This causes delays, and invoices can be delivered to the wrong address.

A preferred system would be to move from a manual to a computerised recording system. After computerisation local authorities should be able to track all new properties and improvements to properties. Changes in property ownership should be immediately captured, and all subdivisions approved and noted. In most developing countries this is a challenge; Franzsen (2007) reports that there is limited availability of property registers and data in most African countries, except South Africa.

The valuation database in Zimbabwe is not up-to-date, and revaluations have not been done for a long time. The tax base is not growing because new properties and improvements are not incorporated in the valuation roll. The City of Harare, for instance, does not have enough valuers and relies on outsiders to do the work for them. Most properties have been subdivided, and no corresponding updates have been made in the database.

3.6 Corruption

The use of a manual system by Harare City allows the risk of corruption. Since assessments are done manually, tax collectors and tax assessors face the temptation to collude with taxpayers to agree on an assessment that is lower than the legal level. Face-to-face interaction between the tax assessor and taxpayer means that they can negotiate. They then share the difference between the correct tax and lower tax collected. This physical verification, according to Piracha and Moore (2015), encourages both the possibility of extortion and collusion with taxpayers. Most functions should be automated to reduce such chances of corruption.

The Newsday reported that levels of corruption have also extended to senior management, and presented cases of senior council officials being sacked by the minister for corruption and embezzlement of public funds.⁶ These examples of corruption mean that revenue collection will not increase. Taxpayers are discouraged from making payments, as they believe their money will not be put to good use. Criminal proceedings should be instituted and lengthy jail terms put in place to discourage corruption. Those caught involved in corrupt activities should also be named and shamed.

3.7 Collection, enforcement and appeals

An equally important pillar of any tax system is collection, enforcement and appeals. In Harare tax invoices are sent or delivered to each household or property every month, and the property owner is supposed to make payment by the fifteenth day. Failure to pay on time leads to a reminder being sent, and summons issued thereafter. They encourage ratepayers to approach City of Harare offices in case of challenges for negotiation of payment plans. In cases of continuous default and failure to owner payment plans, the first step taken by the

⁶ *The Newsday*, 25 September 2012, <<https://www.newsday.co.zw/2012/09/page/6/>>.

City of Harare is to disconnect water. This is done to force the property owner to pay the taxes. In some cases the City of Harare hands the debt over to debt collectors or institutes legal proceedings.

Challenges normally faced include failure to deliver the invoices on time. Invoices are at times delivered three months late or are delivered to wrong addresses. This is due to poor postal communication and infrastructure. Some areas have poor street design, the streets are not named and houses not numbered. Tax bills are not easy to deliver in the absence of street addresses.

3.8 Tax morale

A good collection and enforcing procedure is based on the ability to build tax morale. Taxpayers are willing to pay tax if they are constantly told how much has been collected and how it is going to be used. This is supported by Everest-Phillips (2009), who argues that compliance is higher if the elites share the conviction that taxation is necessary for their benefit and that of the country's future development. Many Zimbabweans are unwilling to pay taxes because they feel the government does not provide the basic necessities that tax money should fund, for example water and sanitation. Reports of corruption and stealing of state funds, as noted above, have the effect of discouraging compliance.

Kellam and Kew (2004) find that local governments can increase revenue by establishing a good system of providing incentives to actors and partners in the whole process of revenue collection. This can be done by initiating achievement rewards, such as a bonus system for employees attaining a target. Another option is to acquire and maintain customers through customer care and instilling loyalty to customers.

3.8.1 Frequency of payment of bills by respondents

Tax morale can be measured by the frequency of bill payments by residents of Harare. In the survey carried out, 16 per cent of respondents indicated that they never paid for services offered by the local authority, and this is also noted in the local authority's records. Harare City Council records indicate that about 45 per cent of the residents are debtors who are not up to date with paying their bills since the 2013 debt write-off directive. The table below illustrates the frequency of payment by the residents.

Table 3.2 Frequency of payment of bills by residents

Frequency of payment	No of respondents	%
Always	6	24
Sometimes	15	60
Never	4	16

Source: Primary data

3.8.2 Reasons behind the failure to pay bills

From the survey done, 24 per cent of respondents indicated that they pay for their services because they know that by paying their bills they will be helping the municipality to provide better services to the people, and they indicated that they believe it is the right thing to do. Sixty per cent of respondents indicated that they pay their services out of fear of being penalised by the City of Harare, as water will be disconnected if they do not pay. The researcher views this mixed feeling by residents as a sign that most residents do not know

why they pay tax. There is a need therefore to take education campaigns to property owners and residents to increase compliance.

Poor billing was cited by 42 per cent of respondents as a constraint to revenue collection, while 78 per cent indicated corruption and embezzlement of funds by officials, 64 per cent cited poor debt collection mechanisms and 24 per cent cited lack of power to enforce payment.

The most popular revenue constraint noted by respondents is poor service delivery, noted by 82 per cent of respondents. Moreover, 28 per cent of respondents are of the opinion that poor corporate governance by council administration has a negative impact on the effective collection of revenue.

The following figure illustrates respondents' opinions on revenue collection constraints:

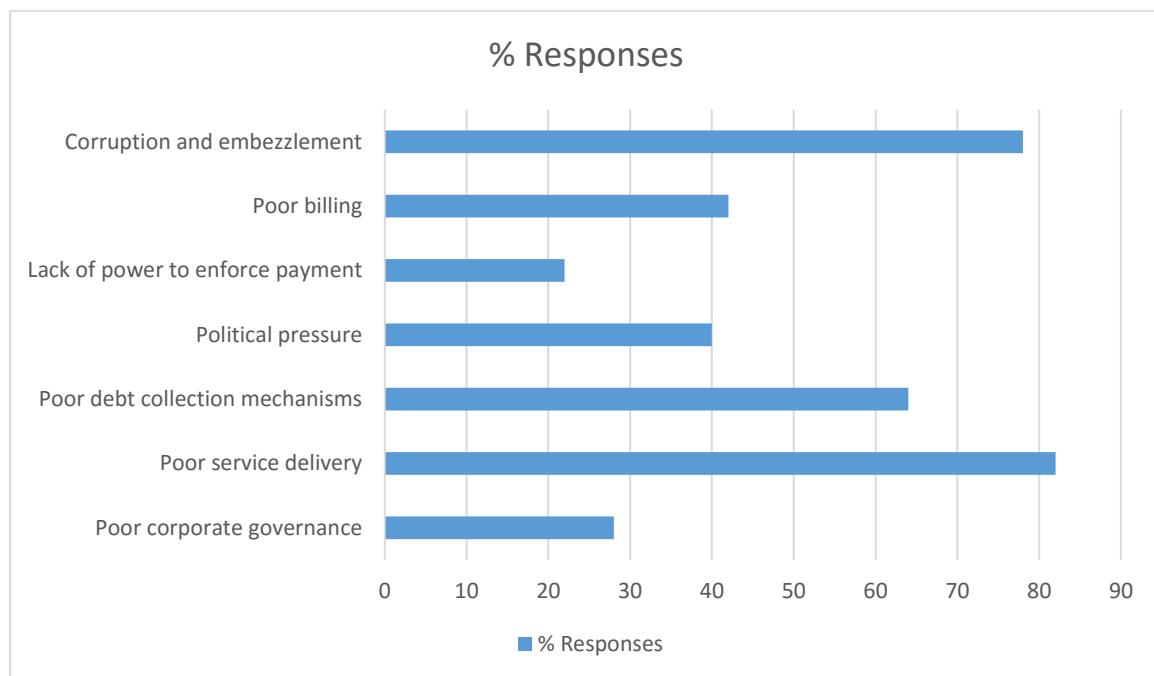


Fig 3.2 Revenue collection constraints

Source: Primary data

Interviewees also noted that politics plays a big role in the effective collection of revenue by local authorities. Efforts to use legislation to collect revenue have been thwarted by politicians who make some populist decisions to please residents at the expense of council operations. It is government policy that water should not be disconnected at properties owned by residents, and the council is expected to offer residents perfect services even if they default in payment. This policy discourages compliance, as it is difficult to enforce payment if residents cannot be sanctioned for failure to pay bills.

3.9 Solutions to constraints on revenue collection by City of Harare

The figure below summarises respondents' opinions on solutions to revenue collection constraints.

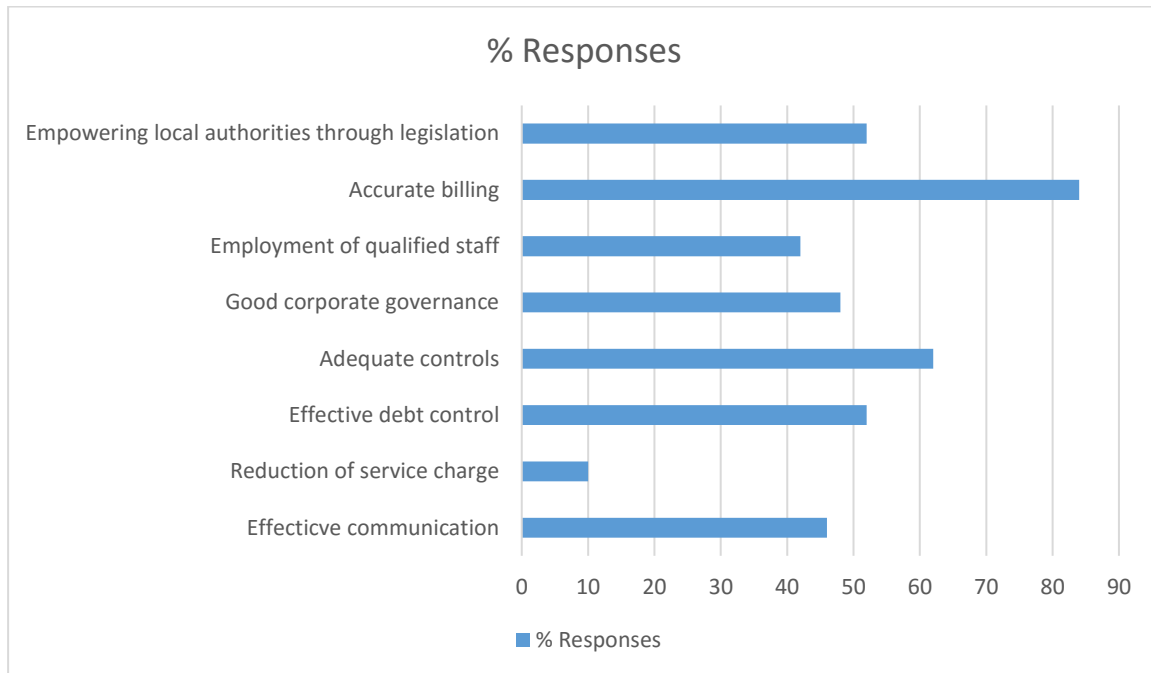


Fig 3.3 Solutions to challenges to revenue collection

Source: Primary data

Results of the survey show that 10 per cent of respondents felt that service charges are high, and their reduction will improve revenue collection. Half of the respondents (52 per cent) indicated that the local authority should improve its debt collection mechanisms – currently there is no enforcement of payment mechanisms in place. Also, 52 per cent of respondents highlighted that the government should empower local authorities in revenue generation and collection through legislation. The current acts, the Urban Councils Act and Rural District Councils Act, do not adequately empower local authorities to recover their debts as they do not provide for debt collection. The majority of respondents, 84 per cent, were of the opinion that accurate billing will encourage ratepayers to honour their bills on time. As reported in *The Herald*, this opinion is well supported by the Harare City chief accountant, who asserted that accurate bills would improve debt collection, as residents would be more inclined to pay for actual consumption.⁷

Residents only pay as and when they feel they want to pay. This is in contradiction to Myers and Brealy (2002), who state that when a customer is in arrears, the usual procedure is to send a statement of account and to follow this at intervals with increasingly insistent letters or telephone calls. The credit control department and municipality police patrol sections should be adequately resourced in terms of personnel and transport for effective revenue collection. All the respondents interviewed advocated for punishing and suing defaulters as an ideal solution to enhance revenue collection. This finding is supported by Bowman and Kearney (2008), who recommend that there is a need to disconnect defaulters. They argue that using a consultative method will have an encouraging effect on other residents to default on payment. However, there is a great need for political back-up for successful implementation of this solution.

⁷ *The Herald*, 04 September 2012, <<https://www.herald.co.zw/city-misses-revenue-collection-target/>>.

3.10 Challenges posed by politics on revenue collection

All the respondents acknowledged that there is a relationship between politics and revenue collection. Generally, local politicians are caught between the ideology of protecting the interests of the electorate, and efficient service delivery to the same electorate. Councillors are sometimes forced to make populist decisions to please the electorate, so as to garner adequate votes in the next election. Consequently there is always a misunderstanding between officials and councillors when it comes to enforcement of revenue payments. For example, facts gathered reveal that local politicians halted enforcement of payment of local businesspeople's debts on service charges before operating licences could be granted.

3.11 Measures to be put in place by tax administrators to improve revenue collection

The interviews and questionnaires indicated that there is a need to improve collection of property tax, and made the following suggestions:

- i) Automation of all procedures and functions
- ii) Capacity building for staff and managers on property taxation
- iii) Punishing defaulters, corrupt taxpayers and tax officials.

4 Conclusion and policy recommendations

4.1 Conclusion

Property taxation has the potential to perform better than it does presently because it is a tax on immobile assets. The tax is underutilised because of reluctance to pay by residents who are not happy with the offered services, and due to ignorance of the need to pay by most residents. Though it has potential, its administration can be challenging because of the valuation methods used, exemptions and tax reliefs granted, poor record keeping, and lack of expertise and required infrastructure.

The success of tax collection lies on tax administrators and local authorities. The City of Harare should improve efficiency in service delivery, practice accurate billing, improve revenue collection mechanisms and curb corruption and embezzlement of funds by officials. Local authorities need to have good relations and reputation with all stakeholders. They should uphold good corporate governance, as this will encourage ratepayers to pay their bills. Local authorities are recommended to come up with debt collection policies. Politicians, on the other hand, should support local government's initiatives in revenue collection. Lack of administrative capacity within local or central governments is also a major concern, as noted by Monkam and Moore (2015).

4.2 Policy recommendations

Since property taxation is essential for state-building, good municipal governance, legislative reforms, technical know-how and political will are essential to ensure increased revenue collection. The success of property taxation requires investment in training and creation of a good administrative infrastructure with the enabling hardware, software, power and back-up

facilities, among others. In light of the above conclusion and findings, the following recommendations are suggested.

- i) The Zimbabwe Revenue Authority, like the national revenue authorities of Rwanda, Tanzania, and Uganda, hold taxpayer appreciation events during which taxpayers are acknowledged. A similar model can be employed by the City of Harare and other local authorities to make citizens aware of the need to pay property tax bills. This will encourage payment of property tax in return for infrastructure and services provided by local authorities, such as clean water, waste collection, street lighting, roads, schools and health facilities.
- ii) Currently in Zimbabwe local authorities collect property tax mostly from their banking halls on a cash basis. There is a need to introduce more collection platforms, and utilise an electronic banking platform where one can pay from any point using internet banking or transfer, or make a cash deposit via any bank within or outside Zimbabwe. The advantage of this is that it brings convenience to taxpayers and reduces the compliance cost to both the local authorities and taxpayers.
- iii) There is a need to put in place better valuation systems and proper procedures for regular updating of property values. Property valuation should be based on the value of land and buildings or improvements, instead of just on land if there are improvements.
- iv) The legislation in Zimbabwe has a lot of exemptions by local authorities. There is a need to revisit and revise the exemptions and various favourable treatment for particular property classes, with the intention of reducing these to widen the tax base. Instead of full exemptions, Zimbabwe may consider the issue of reduced rates and/or rebates that may reduce the tax payable on a sliding scale to zero in exceptional cases.
- v) Appropriate sanctions should be consistently applied to taxpayers who fail to pay property tax. This should include naming and shaming individuals and businesses for not paying their dues.
- vi) The current use of rates clearance from local authorities and capital gains tax clearance from ZIMRA before transfer of a property is also a long process which frustrates taxpayers, as it involves going from one office to the other. If all the taxes are collected by one body this would result in efficiency and reduce the tendency for corruption where one may be cleared before payment of taxes.
- vii) There is a need to engage the public in budgets and accounts. This may improve the opportunity for citizens to exercise their rights and demand accountability from local authorities. When they are part of the process they are likely to comply with property tax laws. This is among the lessons from tax reforms in Uganda (Reinikka and Svensson 2002).
- viii) Use of information technology should be encouraged. There is a need to invest in information technology. This should include digital technology, remote sensing and digital mapping, and electronic billing and payment systems. There is need for development of a system that generates and records accurate information on property transactions.

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