



ICTD

Research in Brief

Issue 47 • September 2019

Enhancing Property Rates Administration, Collection and Enforcement in Uganda: The Case of Kampala Capital City Authority (KCCA) and four other Local Authorities

Summary of ATAP Working Paper 13 by David Bakibinga and Dan Ngabirano

Introduction

Uganda embraced decentralisation as a system of governance in the early 1990's. The success of decentralisation was pegged on the capacity of the local governments to mobilise their own revenues in order to fulfill their responsibilities. Before its suspension in 2005 and eventual abolition in 2008, graduated tax constituted a dominant source of local revenue. Although Local Services Tax (LST) and Local Hotel Tax (LHT) were introduced to fill the funding gap left by the abolition of graduated tax, their yield remains significantly low. Consequently, local governments are still heavily dependent on central government funding - a position that undermines their autonomy. Property rates, a form of property taxation, have emerged as a key source of local revenue. Property rates provide a stable and sustainable source of revenue for local governments, partly driven by urbanisation.

Methodology

Based on review of relevant literature, records and interviews of stakeholders from Kampala Capital City Authority (KCCA) Arua, Gulu, Kabale and Tororo municipalities, this paper analyses the current property rates regime in Uganda in order to identify ways for enhancement of property rates administration, enforcement and collection.

Property rates legal regime

Under the Local Government (Rating) Act, 2005 (as amended), property rates are imposed on urban properties and in the case of rural areas, on commercial properties. In 2006, the law was amended to exempt owner occupied residential properties from paying rates. This is in addition to other exempt properties which include, rural based residential premises, public places of worship, official residences of the President and cultural/traditional leaders, cemeteries and crematoriums, charitable and educational institutions, outdoor sports and recreational facilities, local council owned properties, property owned by diplomatic missions and treaty tax exempt organisations. The challenge with these unnecessarily broad exemptions is that they significantly affect the revenue yield. As of 2013, the exemption of owner occupied residential properties alone was responsible for an estimated 45% loss of the total revenue expected. In the case of KCCA, the exemption of owner-occupied residences has made it almost impossible to tax residential properties since it is very difficult to distinguish between those occupied by owners from those occupied by non-owners.

“The creation of specialised and well-resourced revenue collection departments in the municipalities is key for improved property rates administration, collection and enforcement.”

Valuation

Uganda has a market centered property valuation system where the rates payable are determined using the annual rental value. On this basis, local authorities are required by law to develop valuation lists and to update them every five years. The main challenge with this is that most local governments do not have enough qualified staff to undertake valuations. As of 2010, Uganda was reported to have only 32 valuation surveyors. Only seven of these were in government employment while the rest opted for private practice. Currently, only KCCA has a permanent staff of valuers while the four municipalities rely on private valuers. The last comprehensive KCCA property valuation was conducted in 2005. Delayed and outdated valuations defeat the very purpose of market-based valuation systems. They are also responsible for revenue losses since the rates paid are out of sync with the actual property rental values.

Billing collection and enforcement

The process of billing and collection starts with the publication of rates payable by property owners in each of the local authorities. Property owners are then required to pay the assessed rates in two equal instalments within 30 days of publication, failure of which they are liable to pay a monthly interest on all outstanding sums. In terms of rates collection, only KCCA relies on ICTs while the four municipalities of Arua, Gulu, Kabale and Tororo still rely on manual systems. In case of default, local authorities may recover through; issuance of warrants, recovery from rents, registration of charges on the property and litigation.

Property rates performance

Tororo registered the largest yield with property rates contributing up to 39.3% of the municipality's local revenue followed by KCCA at 20%. Kabale and Arua registered 13.1% and 9.1% respectively while Gulu had the least at 7%. This said, KCCA has on average registered the most success in as far streamlining the administration,

collection and enforcement of the property rates is concerned. KCCA's success is owed to the creation of a specialised Directorate of Revenue Collection (DRC). On the other hand, the four municipalities rely on their general staff, local councils and in some cases private contractors for collection of rates. Importantly the DRC has embraced modern technological innovations such as the Revenue Management System (RMS) and the e-citie platform, all of which make the enforcement of rates in the city more effective. In contrast, the municipalities of Arua, Gulu, Kabale and Tororo have been very slow in embracing modern ICTs and currently rely on databases provided by the Local Government Finance Commission (LGFC). Finally, the challenge of political interference is responsible for the reduction of property rates to as little as 4% notwithstanding that under the law local governments can impose up to 12%.

Conclusions and a way forward

Property rates revenue has the potential to fill the current local revenue gap. From the study of KCCA and four other local authorities, it has been established that property rates constitute between 20-32% of own source revenue. This is still very low when compared to the contribution from graduated tax which was up to 70% of all local revenue. The creation of specialised and well-resourced revenue collection departments in the municipalities is key for improved property rates administration, collection and enforcement. Local authorities should also invest in public education campaigns that, amongst other things, emphasise the link between property rates and service provision; carry out regular property valuations and embrace ICTs in valuation, billing and enforcement of property rates. Additionally, there is need to operationalise tribunals for quick determination of rate related disputes, to reverse statutory provisions on exemption of owner-occupied residential properties and to review current provisions to extend the application of property rates to vacant lands in urban areas.

Further reading

Citation: Bakibinga, D. and Ngabirano, D. (2019) *Enhancing Property Rates Administration, Collection and Enforcement in Uganda: The Case of Kampala Capital City Authority (KCCA) and four other Municipalities*, ATAP Working Paper 13, Brighton, IDS

Credits

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