



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

Summary of African Tax Administration Paper 4 by Munatswi Nengeze

### What is property tax?

Property tax is tax charged on real estates or immovable assets. The tax base may be on land only, land and improvements on the land, or improvements on the land only. For the purpose of this paper property tax shall be referred to as tax on all types of immovable properties, residential, commercial and industrial, and farms.

Recurrent taxes on property or rates charged by local authorities are commonly labelled property taxes. These are charged by local authorities in many countries. They are charged on the assessed value of the land, building or a combination of them. Different countries and local authorities value real estate differently and also apply different tax rates on the properties. However, property tax remains the major source of revenue for many municipalities.

### Why property tax may be good

Property tax is potentially revenue productive and revenue income elastic because it has a large and rapidly growing tax base. Property tax has strong potential for revenue generation especially for urban areas and cities. It is possible to collect a significant

amount of revenue from the taxation of properties. 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. This projected growth expected in developing countries will also affect urban Zimbabwe's population and provides an opportunity for the country's tax base to grow as there will be a need for urban infrastructure growth. It is against this background that Zimbabwe need to reform and improve the property taxation system.

### Weaknesses of property taxation in Harare

Taxation of real estate has a number of weaknesses which vary from country to country. Property taxation in Harare is producing less revenue because of several exemptions and reliefs, having valuation inconsistencies, an inability to update valuation databases, and limited administration capacity and equipment. There are also inaccurate land records, poor record keeping, collection and enforcement challenges and lack of political support and government interference.

“The success of property taxation requires investment in training and creation of a good administrative infrastructure.”

## The way forward

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 backup facilities amongst others. The following recommendations are suggested:

- i) The City of Harare should hold taxpayer appreciation events to acknowledge taxpayers and make citizens aware of the need to pay property tax bills.
- ii) The introduction of information technology in billing and payment systems. This will result in more collection platforms and the utilisation of electronic banking platforms. This would mean taxpayers could pay using internet banking, bank transfers or by making a cash deposit via any bank within or outside Zimbabwe. The advantage of this is that it's convenient for taxpayers and reduces the compliance cost to both the local authorities and taxpayers.

“There is a need to revisit and revise the exemptions and favourable treatments of particular property classes, with the intention of reducing them to widen the tax base.”

- iii) Adoption of better valuation methods and procedures for record keeping, regular updating of property values, and improved tax collection rates through strong enforcement and low compliance costs. Property valuation should be based on the value of land and buildings or improvements instead of solely on land if there are improvements.
- iv) There is a need to revisit and revise the exemptions and favourable treatments of particular property classes, with the intention of reducing them to widen the tax base. Instead of full exemptions, Zimbabwe may consider issuing 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, including to 'name and shame' such defaulters.
- vi) Engagement of the public in budgets and accounts. This may improve the opportunities for citizens to exercise their rights and demand accountability from local authorities.

## Further reading

**Citation:** Nengeze, M. (2018) *How Local Authorities can Exploit the Potential for Effective Property Taxes: A Case Study of Harare*, ATAP Working Paper 4, Brighton, IDS.

## Credits

This paper was written by **Munatswi Nengeze**.

**Munatswi Nengeze** is a Training Officer at the Zimbabwe Revenue Authority based in Harare.

The ICTD is funded with UK aid from the UK Government and by the Bill & Melinda Gates Foundation; however, the views expressed herein do not necessarily reflect the UK Governments' official policies. Readers are encouraged to quote and reproduce material from the series. In return, ICTD requests due acknowledgment and quotes to be referenced as above.



ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.

© ICTD 2019