



## African Tax Administration Paper 13

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

David Bakibinga and Dan Ngabirano

July 2019

ICTD African Tax Administration Paper 13

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Available from:

The International Centre for Tax and Development at the Institute of Development Studies, Brighton BN1 9RE, UK

Tel: +44 (0) 1273 606261

Email: [info@ictd.ac](mailto:info@ictd.ac)

Web: [www.ictd.ac/publication](http://www.ictd.ac/publication)

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

David Bakibinga and Dan Ngabirano

## **Summary**

Uganda was among the first African countries to embrace a decentralised system of government in the 1990s. The objective of this policy was to bring services closer to the people while at the same time enhancing local participation and democracy. The success of decentralisation was, however, greatly dependent on the amount of funds and other resources available to local governments. Before it was scrapped, graduated tax – a form of poll tax – contributed a significant part of local government own source revenue. Following its abolition, local service and local hotel taxes were introduced to compensate for the loss in revenue. Recent studies, however, show that collections from these two taxes are highly inadequate and that local governments are highly dependent on central government grants in running their operations. This undermines the whole essence of decentralisation which, among other things, aims at strengthening the autonomy of local governments. Be that as it may, the recent population surge and boom in urban areas especially has seen property rates emerge as an important source of own source funding for local governments. The challenge, however, is that while property rates present a huge potential for closing the existing funding gap in most local governments, they are for the most part poorly enforced. Using experiences from the Kampala Capital City Authority (KCCA) and four other municipalities, this paper makes a case for reform of the property rates regime in Uganda. This includes proposals for the amendment of the law to remove exemptions for owner-occupied property, imposing rates on vacant urban land, using ICT processes in collection and enforcement, creating revenue collection units in municipalities, and setting up ratepayers associations to engage the urban authorities on effective collection and use of property rates.

**Keywords:** Property rates, property rates legislative reform, property taxes, property valuation, local government, local revenue, own source revenue, sub-national government, KCCA, municipalities, decentralisation, local taxes, tax administration, tax enforcement, finance and law.

**David Bakibinga** is Professor in the Department of Commercial Law, School of Law, Makerere University in Kampala, Uganda, and author of *Revenue Law in Uganda* (Fountain Publishers, 2006).

**Dan Ngabirano** teaches revenue law and taxation at the School of Law, Makerere University, in Kampala, Uganda. He is also a Fullbright Scholar and SJD Candidate at the College of Law, University of Iowa, USA.

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## Abbreviations

CAMA	Computer Assisted Mass Appraisal
DRC	Directorate of Revenue Collection
ICT	Information and Communications Technology
ICTD	International Centre for Tax and Development
KCCA	Kampala Capital City Authority
KIIDP	Kampala Infrastructure Improvement Development Project
MDF	Municipal Development Forum
NRM	National Resistance Movement
RMS	Revenue Management System
TCI	Tororo Cement Industries
URA	Uganda Revenue Authority
USMID	Uganda Support for Municipal Infrastructure Development

# 1. Introduction

## 1.1 Preliminary

Uganda was one of the first countries in Africa to embrace the new wave of decentralisation, i.e. the transfer of political, administrative and financial powers and functions from central to local government. At the time it was introduced in the early 1990s, decentralisation was seen as a key step to deepening local democracy and promoting service delivery and accountability at the grass-roots level. Although the idea of decentralisation was initiated by donor powers, it resonated well with the agenda of the then new National Resistance Movement (NRM) government, which sought to empower people at the grass roots and had formed Resistance Councils (later renamed Local Councils) – local structures with some level of political, administrative, judicial and legislative powers (Nsibambi 1998; Asimwe and Musisi 2007).

In 1995, decentralisation was constitutionally recognised as one of the political objectives and democratic principles of government. In this respect, the Constitution of the Republic of Uganda, 1995 (as amended) established a framework for the devolution and transfer of functions, powers and responsibilities from central government to local government units. To cover the financial burden that would come with decentralisation, the Constitution also made provision for two major sources of funding for local governments, i.e. grants mainly from central government and locally generated revenues. Property rates fall under the category of locally generated revenues. The other forms of locally generated revenues include fees from permits and markets, parking and trade licences, as well as taxes such as the local hotel tax and the local service tax, among others (Kopanyi 2015b).

Before it was suspended in 2005 and eventually abolished in 2008, graduated tax – a form of poll tax imposed on all adult males aged 18 years and above as well as women in employment – was the biggest source of local revenue, contributing an average of 70 per cent at its peak (Bakibinga, Kangave and Ngabirano 2018). The abolition of graduated tax was initially spurred by an election promise in 2001 by presidential candidate Kizza Besigye to abolish it. Subsequently, it was suspended by the government in 2005 and abolished in 2008 and replaced by the local service tax and local hotel tax, which have not measured up to previous yields from the graduated tax. The abolition of graduated tax, therefore, left a huge gap in local government funding. Interventions by central government have not been effective in filling this gap, with the result that a majority of local governments suffer budget deficits from time to time. This limits the ability of local government to provide key public goods and services while at the same time increasing their dependence on central government. This undermines the main objectives of decentralisation which, among others, includes bringing services closer to the people and strengthening the autonomy of local governments. The success of decentralisation highly depends on the ability of local governments to mobilise their own revenues without having to depend on central government (Livingstone and Charlton 2001). Property rates now present one of the most viable sources of own source revenue which, if mobilised and efficiently managed, will help reduce the dependency on central government grants, which currently constitute 95 per cent of the annual budget for local government. The recent urban population explosion and the accompanying investment in property presents a very good opportunity for local governments – especially those that are urban-based – to boost their locally generated revenues through the collection of rates on properties within their jurisdiction (Fjeldstad, Ali and Goodfellow 2017; Fjeldstad, Ali and Katera 2017). Since they are imposed on immovable properties, property rates are difficult to evade and if well enforced, constitute a more sustainable source of local revenue (Slack and Bird 2014). In addition to their revenue-

generating capacity, property taxes are considered to be efficient, fair, and progressive, and therefore compliant with tenets of good tax systems (Ali, Fjeldstad and Katera 2017; Norregard 2013; Murangira 2015).

## **1.2 Definition of property tax**

There are two schools of thought when it comes to the definition of property tax. The first takes a broader approach where the term property tax is used to describe a variety of levies on the use, ownership, and transfer of property (Norregard 2013). This rather broad description does not distinguish between levies on the use and ownership of property on the one hand and those on transfer of such property on the other (Franzsen 2002). This notwithstanding, the broad approach seems to capture the reality of these taxes in countries which still impose a wide array of taxes on property. In the case of Uganda, property taxes take the form of property rates, rental income tax, capital gains tax, and transfer taxes (stamp duty).

The second school of thought, which represents the most dominant view in the literature, looks at property tax as a specific tax on the use or occupation of immovable property (Norregard 2013). Riel Franzsen and William McCluskey in their recent study of property tax in Africa describe property tax as that which constitutes a 'recurrent tax levied on the ownership or occupation of immovable property, whether land only, land and buildings, or buildings only' (Franzsen and McCluskey 2017: 6). Franzsen (2002), on the other hand, defines property tax as an annual tax on the ownership or occupation of immovable property, which may consist of land or buildings.

This study bases its discussion on the definition of property rates as a tax or levy on the ownership and occupation of buildings located within an urban authority area. In specific legislative terms, property rates are levied by local governments on immovable properties located in urban areas and on all commercial buildings (Local Governments (Rating) Act, 2005, section 2).

## **1.3 Objectives of the paper**

The purpose of this paper is to assess how the administration, enforcement and collection of property rates has been enhanced or otherwise in Kampala Capital City Authority (KCCA) and the four municipalities of Arua, Gulu, Kabale, and Tororo in Uganda.

## **1.4 Methodology**

In terms of methodology, the paper takes a qualitative approach. It relies on existing literature as well as selected interviews with key informants from central government, civil society, KCCA and the four municipalities of Gulu, Arua, Tororo and Kabale. The municipalities were chosen to represent broad geographical coverage of the Northern (Gulu), Northwestern (Arua), Southwestern (Kabale), and Eastern (Tororo) parts of Uganda.

In Arua municipality, interviews were carried out over two days: 27–28 February 2018. These were guided by an interview instrument with questions that provided direction to both the interviewers and the interviewees. A total of eight respondents were interviewed, most of whom were taxpayers and one a municipal council officer. All respondents were interviewed voluntarily through recommendations from relevant officers and other interviewees. The interviews were in-depth and unstructured. Some interviews were conducted on appointment while others were done by snowball sampling whereby respondents directed us to other suitable interviewees. A major constraint was the absence of the Municipal Clerk and Statistician, despite prior appointment, which impacted on access to relevant statistics.

In Gulu and Kabale municipalities, the study was carried out using a research guide on specific areas of property rates management. The guide was used in focus group discussions with officers in the revenue departments of the municipalities, and individual

interviews of some property owners in the municipalities. The persons interviewed in Gulu included the Municipal Town Clerk, Municipal Accountant, Senior Assistant Town Clerk, Chief Finance Officer, Chairperson, Layibi Division, three property owners and the proprietor of the Florida Hotel.

In Tororo municipality, the study was carried out at the offices of the municipal council using an interview guide specific to property rates management. Interviews and discussions were conducted with top management, officers in the revenue department of the municipality, and a sample of political leaders. These included the Municipal Clerk and his deputy, the Treasurer/Chief Finance Officer, Senior Municipal Accountant, and two municipal councillors.

In Kampala, the study was carried out at the offices of KCCA using an interview guide specific to property rates management. Interviews/discussions were conducted with top management and officers in the Directorate of Revenue Collection.

### **1.5 Scope of the paper**

Section 2 outlines the legal and institutional framework for the administration, enforcement and collection of property rates in Uganda, focusing on KCCA and the municipalities of Arua, Gulu, Kabale, and Tororo. Section 3 reviews the actual practice in those urban entities relative to the law and revenue generation by analyzing findings related to KCCA and the four municipalities. Section 4 gives an evaluation of the practices relative to enhancement of the administration, enforcement, and collection of property rates. Finally, section 5 provides conclusions and recommendations.

## **2. Overview of the property rates legal regime and practice in Uganda**

Property rates are imposed under the Local Governments (Rating) Act, 2005 (as amended). The law was passed by parliament in 2005 to replace the provisions contained in the 1979 rating law. The law provides for, among others, the power of local governments to levy rates on property within their areas of jurisdiction, valuation for purpose of rating, and collection of rates. It also clarifies which kind of properties are subject to rates.

### **2.1 Properties subject to rates – tax base**

Property rates are payable by owners of urban properties as well as commercial buildings found in the rural areas. In a study carried out recently, it has been suggested that the imposition of property rates be extended to urban vacant land, which, in the case of KCCA, comprises 8–10 per cent of the land and could yield additional annual revenue of between UGX245m and UGX1.8bn (Haas and Kopanyi 2018) The total rates payable are determined using the annual rental value of the property subject to rates (Kelly 1999). Once the annual rental value has been ascertained, the local government responsible has the discretion to levy rates starting from a minimum of UGX2,000 up to 12 per cent of the ratable value. The local urban authorities have discretion under the law to vary the percentage levied (Local Governments (Rating) Act, 2005, section 3(2)). Owner-occupied residential properties and residential properties located outside the urban areas are generally exempted from paying property rates. Vacant land is also not subject to property rates under the law. In addition to these, the law contains a detailed list of properties exempted from levy of rates under the second schedule. These include the following:

- i. Official residence of the president;
- ii. Official residences of cultural/traditional leaders;
- iii. Public worship places;
- iv. Cemeteries and crematoriums;
- v. Charitable and educational institutions;
- vi. Outdoor sports and recreational facilities;
- vii. Local council-owned properties;
- viii. Property owned by privileged organisations under Diplomatic Privileges Act; and
- ix. International Treaty Tax-exempt organisations (Local Governments (Rating) Act, 2005 (as amended), section 5).

## **2.2 Challenges with broad exemptions of properties from rates**

The major challenge of exempt properties as listed above, as well as the exclusion of owner-occupied residential properties, is that they significantly reduce the tax base. According to a report published by Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI) and Oxfam (2013), the exemption of owner-occupied residential properties alone resulted in a loss of an estimated 45 per cent of revenue. In a similar vein, it has been observed that 'without the owner-occupier exemption, property tax would have raised UGX20 billion annually, as compared to 5–10 billion actually collected' (Goodfellow 2012). Additionally, the differential approach in taxation of owner-occupied residential properties on one hand and commercial properties on the other is inequitable and goes against the benefit principle (Franzsen and McCluskey 2017). This argument is reinforced by Slack (2011) who makes the point that occupants of residential properties enjoy the most out of public goods and services provided by local governments using revenues realised from property taxes. This is because on most occasions non-residential properties make their own private arrangements with respect to provision and payment for services such as security and garbage collection. On this basis, Slack argues that residential properties should be taxed more. The case for higher taxation of residential properties is strengthened further by the argument that non-residential properties such as businesses are more responsive to taxes and are, therefore, more likely to relocate if they feel that they are heavily taxed (Slack 2011).

The imposition of higher taxes in the form of property rates on business-oriented premises is thus more likely to cause a business to move to an area where taxes are low since this would constitute an extra addition to costs of production, making it less competitive. Also, higher property taxes on commercial premises while exempting residential properties or taxing them less encourages more investment in residential properties at the expense of those for industrial and commercial use (Slack 2011).

Finally, taxation of non-residential properties while exempting or taxing residential properties at a lower rate has been criticised for promoting tax exporting, given that higher taxes inevitably push the prices of goods upwards. This effect is ultimately passed on to the final consumer who may not be a resident of the area where property taxes are paid.

In addition to this, business owners who are not necessarily residents of the taxing jurisdiction are forced to pay more for services they enjoy less. Hence, residents get to enjoy more services than they are willing to pay for. Also, it results in less accountability as those bearing the biggest burden of the tax are a different set from the people enjoying the maximum benefit (Slack 2011).

For the reasons enumerated above, it is extremely problematic to wholly exempt owner-occupied residential properties from the property rates regime. At the same time, it is undesirable to tax such properties at a lower rate, as has been proposed in the past (PSFU 2009). Owner-occupied properties should therefore be subject to the same rates as other properties provided that they are located in urban areas. This will encourage equity and

ensure that local governments generate more revenue locally and are in a position to provide basic goods and services.

In the case of KCCA, one major challenge that has arisen since the law was amended to exempt owner-occupied residential properties is the extreme difficulty for the authority to distinguish residential properties occupied by their owners from those occupied by non-owners. Yet at the same time, historically residential areas are slowly being converted into commercial rental suburbs such as Kololo and Naguru in Kampala district. For the most part, these properties remain untaxed even when they are not owner-occupied due to the challenges of detecting the change in use (Karugaba 2017). On this basis, KCCA has been at the forefront of pushing for a review in the law to enable it to impose rates on residential properties located within the confines of the city. While this is a matter that will be met by stiff resistance from political elites, many of whom own residential properties in the city and in other urban towns, it is an effort worth pursuing (Jibao and Prichard 2015; Goodfellow 2017). Although equally undesirable, as a starting point in mitigating the political resistance that would come with such a move, local councils should be given the discretion to, at least, impose minimal rates on all residential properties within their jurisdiction. The rates can then be scaled up gradually, especially as local councils begin to demonstrate the link between the rates and improved service delivery.

### **2.3 Valuation**

Valuation is an important aspect in the imposition of property rates (Zebong, Fish and Prichard 2017). For this reason, the law requires every local government to come up with a first valuation list, which should then be updated at least once every five years. The valuation list is to be made with the assistance of a qualified and registered valuation surveyor appointed by the local government and should include the following particulars:

- i. Serial number;
- ii. Detailed description of property such as plot number, street and other relevant details;
- iii. Name and address of the owner;
- iv. Village and parish local council;
- v. Property use;
- vi. Gross property value; and
- vii. Ratable value of property (Local Governments (Rating) Act, 2005, section 10).

The challenge with this is that Uganda has few qualified valuation surveyors. Furthermore, the majority of these are in private practice as compared to those working in the civil service or in the employment of local government. According to a study conducted in 2010, it was established that Uganda had a total of only 32 registered surveyors (Olima 2010; SEATINI and Oxfam 2013), three of which were employed by Kampala City Council and four by the Ministry of Lands, Housing and Urban Development. The rest were in private practice (SEATINI and Oxfam 2013). Currently, KCCA has a chief valuer who is assisted by 36 other qualified valuers.<sup>1</sup> The municipal councils of Arua, Gulu, Kabale, and Tororo, on the other hand, do not have valuers but rely on private valuers to carry out property valuations and compile valuation rolls.

Given this reality, most local governments do not maintain up-to-date valuation lists, which makes it difficult to effectively assess the amount of property rates payable. In the case of KCCA, although it is considered to be more prolific, the last valuation exercise was carried out between 2003 and 2005 with the support of the World Bank (UN-Habitat 2013). By 2015,

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<sup>1</sup> Interview with KCCA official, 2018.

property values in the city had gone up by over 300 per cent yet the city continues to rely on the 2005 valuations to determine rates payable. This is partly responsible for the gross loss of revenue from property rates (Kopanyi 2015b).

That said, during the year 2016/17, KCCA embarked on a revaluation of city properties. So far, two (Central and Nakawa) out of the five divisions in the city have been completed. There are plans to finalise the revaluation of properties in Makindye, Rubaga and Kawempe divisions.<sup>2</sup> From the exercise to date, property rates yielded from the two divisions of Nakawa and Central have been estimated at UGX22bn (approx. US\$6m) and UGX21bn (approx. US\$5.8m) respectively, as shown in Table 1.

**Table 1. KCCA property rates collections**

Division	Old roll		New roll	
	No. of properties	Amount (UGX)	No. of properties	Amount (UGX)
Central	9,398	11,121,447,031.8	15,088	21,214,404,570
Kawempe	26,832	2,493,672,676.32	–	–
Makindye	31,561	4,085,230,589.94	–	–
Nakawa	24,662	4,854,501,769.58	72,503	22,796,336,853
Rubaga	34,568	3,095,914,229.15	–	–
<b>Grand total</b>	<b>127,021</b>	<b>25,650,766,296.8</b>	<b>87,591</b>	<b>44,010,741,423</b>

With regard to the other four municipalities, the last valuations and compilations for Arua were done in 2013; for Gulu and Kabale, in 2015; and for Tororo in 2016.<sup>3</sup> Although these municipalities have more up-to-date valuations, they have come at a higher cost because private firms were hired to conduct the valuation process. This eats into already minimal resources, making the yield from property rates even more minimal.

In terms of valuation modes, there are two predominant approaches used in determining property rates/taxes payable. One is the market value-based valuation, also known as the *ad valorem* approach. The other involves determination of the property value on the basis of the area occupied (Zebong, Fish and Prichard 2017). Some countries, for example Rwanda, have also sought to rely on self-valuation in determining the rates payable (Kopanyi 2015a, 2016). Under Uganda's current rating regime, property rates are applied to the annual rental value (Kelly 1999). The challenge with this approach, which is market-centred – as already pointed out – is that local government authorities lack the capacity to generate up-to-date valuation lists. This is critical for a market value-oriented approach to succeed. At the same time, local governments in developing countries such as Uganda do not have enough funds to invest in obtaining the technical resources needed to come up with an efficient valuation system, especially in light of the fact that land markets are mostly underdeveloped. For this reason, many experts have recommended that such countries should adopt simplified and less sophisticated approaches (Bell and Bowman 2006).

<sup>2</sup> Interview with KCCA official, 2018.

<sup>3</sup> Interviews with officials, 2018.

The area-based approach has been recommended as being more practical, simplified and affordable (Zebong, Fish and Prichard 2017). This approach is also supported by the Uganda Local Governments (Rating) Act, 2005, section 12, which permits local governments to apply mass valuation. This is defined to mean valuation based on the general features of properties within a local government's area of jurisdiction. Currently, KCCA and the municipalities of Arua, Gulu, Kabale, and Tororo rely on the market-based approach. This has not only come at a great cost but has also greatly affected the progress of valuation as the authorities have to first mobilise sufficient revenue before they can update their valuation rolls.<sup>4</sup>

## 2.4 Billing and collection

The process of billing and collection starts with the issuance of rates by the local government authority. Under the Local Governments (Rating) Act, 2005 (as amended), local governments are required to publish rates in the gazette and in at least one newspaper that is in circulation in the area within seven days of generating rates. The notice is required to include the properties for which such a rate has been made, ratable value of the property, and the amount at which the rate is charged, among others. Once the notice has been issued, the property owner is required to make payment in two equal instalments within the financial year for which the rates are levied. Failure to comply with this requirement for more than 30 days may attract a charge of interest per month on the amount due (Local Governments (Rating) Act, 2005 (as amended)). It was found that when the ratepayers in Gulu and Tororo do not pay within the required period, the collection agent accompanied by an enforcement team consisting of parish chiefs, officers from the divisions and from the municipal council head office move from door to door demanding payment (and exacting threats of retribution). During the visits, the property owners are reminded of their obligation to pay and sometimes some tax education is delivered, which usually yields better results.

When the exercise does not yield the desired result, as is the case with some large taxpayers such as the Uganda Land Commission or Uganda Railways Corporation, then more intense negotiation is applied. For Tororo Cement Industries (TCI), a legal action was taken which the council won; but the court ruling has been appealed in a high court. TCI's contention is that its residential properties are owner-occupied since its workers live in them. The municipality is of the view that workers are not owners. Therefore, TCI should pay based on the value of the housing benefit that accrues to the worker.

The experience is that in most cases, the actions of enforcement teams yield some payments. However, for those who refuse to pay even after enforcement teams have visited, not much was being done.

The methods of collection employed in Arua municipality were mostly manual in comparison to the Uganda Revenue Authority, which involves much more application of information and communications technology (ICT). The municipal council had also departed from outsourcing tax collection to private contractors, following significant decline of property rates contribution to the council budget. The council now employs Local Council 1s (Village) and Local Council 2s (Parish) in the area to act as agents for them in serving demand notices. Based on the mid-year 2018 estimates, the income had far exceeded the collections of the previous years.<sup>5</sup>

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<sup>4</sup> Interviews with Revenue Officers, 2018.

<sup>5</sup> Interview with Senior Accounts Assistant, 2018.

## 2.5 Enforcement

Local governments can enforce payment of unpaid rates through a number of ways, namely, by warrant, action, recovery from rents, prohibition on transfer, and registration of charges on property (Local Governments (Rating) Act, 2005, part V). Where a rate remains unpaid on the date it is due, the local government authority is entitled to issue a demand notice on the property owner requiring him/her to pay the amount due, as well as interest of up to 2 per cent. The local authority may also choose to bring an action for recovery of amounts due. Other options include requiring tenants to pay rates and interest due directly to the local authority instead of the landlord; and the prohibition of transfer where there are outstanding rate arrears. A charge may also be placed on the property where there are outstanding arrears. This approach, including the possibility of court action, is evident from findings in Gulu and Tororo municipalities. In the latter municipality, there is a pending case between the municipality and TCI – as indicated above.<sup>6</sup> However, litigation imposes an extra cost on local authorities.

# 3. Evaluation of performance: KCCA and the municipalities of Arua, Gulu, Kabale, and Tororo

## 3.1 Kampala Capital City Authority (KCCA)

Kampala is designated as the capital city of Uganda under the Constitution. In 2010, parliament created the Kampala Capital City Authority (KCCA) as a governance body with the mandate to administer the capital city on behalf of central government. The establishment of KCCA was meant to pave the way for reforms in the management and administration of the capital city, as the ability of Kampala City Council to deliver on its mandate had declined over the years. The main objective of these reforms was, therefore, to improve the efficiency and effectiveness in delivering its major mandate to provide public goods and services to residents and businesses within its jurisdiction. In order to achieve this objective, it was critical for KCCA to have a consistent source of revenue. Although its main source of revenue constitutes grants from central government, KCCA is also entitled to mobilise revenue from local sources and through borrowing. Thus, although KCCA is under central government, it enjoys the same revenue generation powers as those exercised by local governments. Under the law, KCCA has the power to levy and collect fees and taxes in the form of rent, rates, royalties, stamp duties, cess,<sup>7</sup> trading licences, and registration fees, among others.

Of these, property rates have grown to constitute one of the most important sources of local revenue for KCCA. According to the most recent ministerial statement, property rates were projected to contribute a total of UGX30,416,000,000 during the fiscal year 2017/18. This excludes rate arrears incurred in the previous fiscal year, 2016/17. Property rates, therefore, currently contribute over 20 per cent of KCCA's locally generated revenues,<sup>8</sup> as illustrated in Table 2.

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<sup>6</sup> Interview with the Chief Finance Officer and Senior Municipal Accountant, Tororo, 2018.

<sup>7</sup> Under Section 50 of the Kampala Capital City Act, 2010, the KCCA is given the power to levy taxes and collect fees: cess is one of these.

<sup>8</sup> Interview with KCCA Revenue Officer, 2018.

**Table 2. KCCA locally generated revenues 2011/12–2016/17**

Property rates collection against target (FY 2012/13–2016/17)

Fiscal year	Target	Actual	Performance
2012/13	14,396,246,712	11,810,543,163	82.0%
2013/14	17,600,546,668	17,379,556,780	98.7%
2014/15	22,494,773,619	17,353,482,295	77.1%
2015/16	23,433,322,361	20,370,531,246	86.9%
2016/17	27,928,329,187	17,529,315,161	62.8%

Source: RMS data bBase and eCitie rReports.

The revenue drop during fiscal year 2016/17 is attributed to the write-off of property rates arrears due from a number of government ministries following a directive from the Ministry of Finance. During this time, KCCA also received guidance from the Solicitor General to the effect that government schools were exempt from the property rates regime.

The establishment of the Directorate of Revenue Collection (DRC) was a significant factor in ensuring improvement in KCCA revenue collection (Franzsen and McCluskey 2017).<sup>9</sup> From the beginning, the DRC recruited well-experienced staff, most of them from the Uganda Revenue Authority (URA). These members of staff were largely responsible for introducing new strategies that have seen a drastic increase in revenue collections, from UGX41bn in 2011/12 to UGX85bn in 2014/15 (Kopanyi 2015b). The only downside of this increase is that it came at an increased collection cost, largely because the DRC initially had very limited in-house capacity. As a result, most of the collection was outsourced to private firms. This notwithstanding, the DRC's investment in collection costs were recovered in just one year and even then it was argued that such costs could be justified as initial operating costs (Franzsen and McCluskey 2017).

During the course of this study, it was discovered that the capacity and performance of the DRC has steadily improved over the years. This is attributed to three main factors. First, the deliberate attempt to boost the DRC's capacity by hiring more experienced staff. As of July 2018, the DRC employed over 200 staff whose mandate is to manage the mobilisation and collection of own source revenue in the city. Of these, 42 members of staff have been deployed to division offices to specifically deal with property rates collection. There is also an audit and inspection team within the DRC whose role is to ensure that staff members meet their targets.<sup>10</sup> The DRC has also introduced a separate office that deals with large taxpayers. Under this arrangement, each large taxpayer is assigned an account relationship manager whose duty is to ensure compliance.<sup>11</sup> This move is expected to boost collections as this category of taxpayer has in the past been either under-taxed or gone untaxed altogether.

Second, the DRC has also invested in a number of innovative technological reforms. These include the Revenue Management System (RMS) and eCitie platform. Once demand letters have been processed they are, together with property rates statement of accounts, served on the taxpayer. It should be noted that the statement of accounts are prepared and printed using the RMS. Upon receipt of both the demand and accounts, the taxpayer is required to obtain payment registration slips using the new electronic system known as the eCitie

<sup>9</sup> Interview with DRC official, 2018.

<sup>10</sup> Interview with DRC official, 2018.

<sup>11</sup> Interview with DRC official, 2018.

### **Box 1. Works, transport and road infrastructure improvement for FY 2016/17**

Works, transport and road infrastructure improvement for FY 2016/17: UGX369.11bn (i.e. UGX64.9bn from Government of Uganda, UGX20.0bn from Uganda Road Fund, UGX280.8bn from external funding, and UGX3.41bn from non-tax revenue) was allocated to this sector. By the end of the second quarter, UGX316.37bn had been released, of which UGX58.3bn was utilised. Below is a summary of the achievements:

- i. Kampala Infrastructure Improvement Development Project (KIIDP) 2 projects (UGX31.79bn);
- ii. Completion of KIIDP 2 Batch 1 projects including upgrading to dual carriage of Makerere Hill Road and Bakuli Nakulabye-Kasubi Roads;
- iii. Undertake KIIDP 2 Batch 2 priority roads and junction sub-projects like Acacia Avenue, Nakawa, Ntinda, Kulambiro Ring Road, Portbell Road, Spring Road, Sir Apollo Kagga Road, Kabusu–Kitebi-Bunamwaya Roads;
- iv. Undertake KIIDP 2 priority drainage system improvements including Nalukolongo, and Kinawataka primary channels;
- v. Complete designing of the traffic control centre building;
- vi. Complete development of the greater Kampala metropolitan transport master plan;
- vii. Resettlement action plan; and
- viii. UGX9bn provided for implementing the Batch 2 roads under KIIDP 2, drainage and transport resettlement action plan.

Source: Ministerial Policy Statement, FY 2017/18.

platform. It is after this process aimed at capturing all transactions that payments of the rates due can be made to the bank.<sup>12</sup> The DRC has also been able to use the Computer Assisted Mass Appraisal (CAMA) program to develop a detailed property registry. The program is responsible for ascertaining the location of city properties and assigning individual addresses to each property (Franzsen and McCluskey 2017).<sup>13</sup>

The property rates revenue and other revenue collected are usually not enough to cover all services provided by KCCA; additionally, it receives funding from central government and donors, as indicated in Box 1.

Finally, although KCCA has not undertaken a comprehensive property evaluation since 2005, the authority has taken steps to improve its valuation process. For example, during the re-evaluation of properties in Nakawa and Central divisions, KCCA was able to appoint the Chief District Valuer and to recruit valuation staff and data clerks. KCCA has also undertaken data collection on properties within the city. This was done concurrently with house numbering and road naming. Importantly, KCCA has constituted a valuation court. Under the rating law, every authority is required to constitute a court with the mandate of adjudicating disputes arising from property valuations. So far only KCCA has been able to achieve this. In Arua, Gulu and Kabale, there is no appropriate adjudication mechanism.

KCCA's valuation process has also immensely benefited from constant engagements with property owners, tenants and other influential stakeholders such as local leadership councils, and cultural and religious authorities. In the course of these engagements, the importance of property rates in delivering critical services is explained.<sup>14</sup>

<sup>12</sup> Interview with DRC staff 2018.

<sup>13</sup> Interview with KCCA official, 2018.

<sup>14</sup> Interview with KCCA official, 2018.

The interventions above, if sustained, will go a long way in improving property valuation and compliance with property rates at KCCA. Even more importantly, they provide valuable lessons for the other four municipalities, which are still struggling with valuation and compliance notwithstanding the fact that they have more up-to-date rolls.

## **3.2 Arua**

### **3.2.1 Perception of property rates**

The study, to a large extent, revealed awareness on the part of taxpayers of the property rates, the need to pay them and their utility to the municipal councils. However, a section of the public treated property rates as part of the annual fees or taxes paid to various authorities for licences or as income tax to the URA. Most did not know precisely for what purpose property rates are collected and only had a general idea. There was a minimal level of participation evidenced by attendance of council meetings, deliberations, and negotiations concerning the rates.

### **3.2.2 Valuation**

Valuation of properties is done after a period of ten years and a valuation roll is made for that purpose. This subsists for a period of ten years after which it is updated. The methods used for data collection mainly involved use of human resource other than ICT. ICT was only used for storage of data. Further findings indicate that property rates are utilised mainly to maintain the municipality in a good state and contribute to the urban authority budget, and that taxpayers were largely not satisfied with the corresponding services offered by the urban authorities.<sup>15</sup>

### **3.2.3 Methods of revenue collection**

The methods of collection employed were mostly manual compared to the URA mode of collection, which involves much more application of ICT. The study showed that the municipal council had departed from the tendering of tax collection to private contractors when the contribution of property rates to the council budget had significantly dwindled. The council now employs Local Council 1s (Village) and Local Council 2s (Parish) in the area to act as agents for them in serving demand notices, and estimated income for the year to mid-2018 far exceeded the collections of the previous years.<sup>16</sup>

### **3.2.4 Impact of property rates on the budget**

The study showed that the collection of property rates contributes to the urban authority budget. The funds are used for, among other things, keeping the municipality clean, installing and maintaining security lights, and the management of sewerage. While there was a general recognition that the council utilises the property rates in that respect, a substantial section of the respondents believed more could be done by the council.<sup>17</sup>

## **3.3 Gulu**

### **3.3.1 Administration of property rates**

Property rates, similar to all other local revenue sources, are governed by the Local Governments (Rating) Act, 2005. The process of property rate administration begins with the registration of all property owners within the municipality as potential taxpayers. This is followed by the formation of an assessment committee to value each property and set the ratable value, on which the amount of tax to pay is set. The tax is supposed to be set at not more than 12 per cent of the ratable value of a property. In 2018, the rate had been set at 5 per cent. The assessed rates are publicly displayed for not less than two weeks for taxpayers to view and give feedback. Any complaints are submitted before an *ad hoc* tax tribunal for advice and resolution. At this stage, owner-occupied property owners also submit

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<sup>15</sup> Interview with Senior Accounts Assistant, 2018.

<sup>16</sup> Interview with Senior Accounts Assistant, 2018.

<sup>17</sup> Interviews with businesswomen and businessmen/property owners, Central Division, Arua, 2018.

their returns for exemption in accordance with the current presidential directive. The returns are then verified and excluded from billing. The final data is then compiled into a hard copy register for record purposes after which it is computerised into a database provided by the Local Government Finance Commission.

The database can be used for billing the taxpayer, although in Gulu the finance officers still manually prepare demand notes for each of the ratepayers, and distribute them door to door.

Currently, the municipality is piloting with a contractor to distribute the demand notes and follow them up to ensure payment. The pilot is restricted to the central business district of Gulu municipality: central parts of the three divisions that constitute the municipality are covered. If the ratepayer does not pay within the required period, the enforcement unit of the municipal council visit to remind them of their obligation to pay, and sometimes they deliver education. If this does not yield the desired result, the building may be locked with a padlock or an official seal.

However, at the time of interview not much was being done towards those who refuse to pay even after the building had been locked, . The other available option is court action, but as a costly and lengthy process, is rarely used. This is one of the reasons why the municipality has engaged the services of a debt collector on a pilot basis in the central business district. He will be paid 10% of the collected proceeds. The rest of the municipality is still administered by municipal revenue staff.

The debt collector The debt collector's role is to distribute demand notes and to follow them up to ensure payment is made into the municipal bank account. The collector is paid 10 per cent of the proceeds on making returns, which are first verified by the revenue staff before payment is made.

### **3.3.2 Valuation and assessment of properties**

The municipality contracts an approved/certified valuer of properties through a competitive bidding process. Properties in the municipality were last valued in 2015. The valuation list is then tabled before the council, which approves its publication. A tribunal is then set up for hearing any objections, after which the council approves the roll. The exemptions are also considered at this stage. The final roll can then be gazetted as a tax register for the municipality for a given period of time.

With regard to assessment, the income approach is used. The various streets in the municipal council have set estimated income from each property in accordance with size and type of business being conducted there. However, a more reliable source of such income is from the property owner declaration of his/her earnings, which would be used after discounting overhead costs and income tax. It has been discovered that most property owners tend to under-declare. Consequently, the valuer may end up using other sources of information to estimate the income, thus forcing the owner to provide the actual amount.

Where the property has a dual purpose of owner-occupied and commercial section, the valuer sets rates of possible income from both, but records them separately in the valuation roll. The income from the commercial part is the one used to determine the ratable value of the property. From the gross rate, an allowance of 22 per cent for costs is offset to establish the ratable value on which 5 per cent is being levied as property tax. The original rate set at 8 per cent was successfully appealed against.

### **3.3.3 Methods of collection, including the use of ICT**

The Local Governments (Rating) Act, 2005 requires that all taxes are paid into a single municipal collection bank account . The taxpayer is expected to go to the bank and pay to the specified teller for the services of the municipality. The taxpayer takes the bank paying-in slip to the municipal division offices as evidence of payment and is then issued with a municipal receipt and entered into the database to update his/her tax liability status. The

payments are then verified by the revenue office before being distributed among divisions and the municipal head office in accordance with the law.

Currently, Gulu municipality uses the database provided by the Local Government Finance Commission to reconcile payments, issue receipts, and update the tax register. Each division has a tax register which, together with those from the other divisions, are consolidated at the municipal headquarters into one register.

### **3.3.4 Performance of property rates relative to the urban authority budget**

During the year 2016/17, property rates performance in relation to municipality budget was 7.2 per cent. The total rates collection was UGX285,127,095 against a total revenue budget of UGX3,964,097,713, as shown Table 3. (No other data was readily available at the time of interview.)

**Table 3. Property rates performance FY 2016/17, by division (Gulu municipality)**

Item	Layibi	Pecee	Larol	Badege	Total
Property rates collections	UGX40,391,700	UGX117,062,695	UGX73,307,700	UGX54,365,000	UGX285,127,095
Division revenue budget	UGX724,853,594	UGX1,702,020,576	UGX1,151,091,243	UGX386,132,300	UGX3,964,097,713
% of total budget	5.6%	6.9%	6.4%	14%	6.9%
Properties in roll	1,152	2,301	545	1,160	5,158

Source: Municipal Accountant's records.

Currently, the valuation roll has 5,158 properties, including the exempted owner-occupied properties. Data was not available on the actual number of properties from whom the collections are being made.

The municipal revenue staff interviewed expressed optimism over increased performance in the current year based on the pilot contractor.

### **3.3.5 Utilisation of property rates revenue and awareness and involvement of ratepayers**

In Gulu municipality, under the Local Governments (Rating) Act, 2005 (as amended) the revenue is to be used for street lighting, garbage collection, and drainage maintenance. It is clear that the taxpayers are aware of this provision. This is partly because Gulu municipality is one of the 14 municipal councils being rehabilitated under the Uganda Support for Municipal Infrastructure Development (USMID) programme in the Ministry of Lands, Housing and Urban Development where drainage and street lighting are a major component. Under the USMID programme, the innovative Municipal Development Forum (MDF) was created to bridge the gap between the municipalities and the various interest groups living and or working within the municipality. This is intended in part to engage municipal dwellers in matters of infrastructure maintenance when the USMID programme is over: the forum ensures that people are engaged in the planning, development, and sustainability of their municipal infrastructure using locally generated revenue.

Despite the gains of this forum, there has been no attempt to concretely link the property rates collection to the services offered despite evidence of provision of these services.

When we interviewed taxpayers, they were aware of the USMID programme, but did not seem to appreciate their own contribution to the sustainability of the investments put in place by it. Instead, they want government to reduce the burden of taxes and be more accountable.

The overall view of Gulu municipal taxpayers is that after such a long war (1986–2006) they need relief, not taxation, so they can rehabilitate themselves and repay loans incurred to reconstruct their properties.

### 3.4 Kabale

#### 3.4.1 Property rates administration

Each of the three municipality divisions bills and assesses ratepayers manually. They send out revenue teams to serve the assessed properties. The revenue teams are temporary teams formed from among all staff of the respective division for a specific task. Whereas the municipality has six staff comprising three treasurers, two assistant treasurers and one senior accountant, these members of staff perform roles other than revenue generation.

Each division has a separate collection account for property rates and shares the collections with the municipality in a ratio of 1:1. Clients who pay receive a manual receipt. The information is also captured manually in a book that acts as a division ledger. Collections over the past four years are as per Table 4.

**Table 4. Kabale collections**

	2014/15	2015/16	2016/17	2017/18 (9 months)
<b>Budget</b>	UGX136,900,000	UGX138,400,000	UGX325,705,000	UGX624,402,927
<b>Actual</b>	UGX127,072,672	UGX99,597,192	UGX316,915,799	UGX422,856,434
<b>Percentage</b>	93%	72%	97%	67.7%

Whereas the collections against the budget were very good over the years, there is a significant reduction in 2017/18 of actual collections against the budget. This drop, which the Senior Accountant explained began in the year 2015/16, was caused by the refusal of many ratepayers to pay assessed values arising from the new roll because the increment was more than double. As a consequence, the council reduced the rates from 6 per cent to 4 per cent in 2017/18. Prior to the reduction, the council requested that 50 per cent of the assessments be paid as they awaited the council's final decision. Fortunately the targets were also lowered.

The municipality has adopted the Local Government Finance Commission database and is currently capturing details of the new valuation roll for all three divisions into it. The database has facilities for electronic billing, assessment, receipting, and reconciliation.

Enforcement is carried out by teams that are hired by the divisions. Using padlocks, they seal off defaulters' properties. Once the client pays, the padlock is removed.

#### 3.4.2 Valuation

The municipality has no valuation experts and, therefore, it procured the services of a consultant to conduct valuation of properties in 2015. In the previous roll (2005), all ratable buildings – including exempted ones – had been valued; however, the council guided the consultant to focus only on commercial properties. As a result, all owner-occupied properties were not valued. The divisions attached staff to the consultant's teams for purposes of verifying owner occupancy but no details on owner-occupied properties were captured.

Consequently, 1,685 commercial properties yielding a net rate of UGX624,402,927 were valued. The old roll number of commercial properties was 1,070 and yielded a net rate of UGX281,994,480. Thus there was a 121 per cent increase in the net rate. It must be appreciated, though, that in the old roll the number of owner-occupied properties was 4,664, representing 81 per cent of the entire roll.

When the valuation roll was published, ratepayers objected to the increase in rates and this forced the council to reduce the rate from 6 per cent to 4 per cent, effective FY 2017/18.

### **3.4.3 Contribution of property rates to service delivery**

In Kabale, the municipality and the divisions share the cost of providing services. The divisions contribute 50 per cent of their property rates collections to the municipality. The divisions incur the costs of hiring enforcement teams, fuel for the vehicles, managing the drainage system, and garbage collection, among others. The municipality is in charge of repairing the garbage collection trucks, maintaining streetlights, and managing the landfill.

Over 78 per cent of rates collected is spent on services as dictated by the Local Governments (Rating) Act, 2005. Table 5 indicates expenditure for the past three fiscal years.

**Table 5. Utilisation of property rates in Kabale municipality**

<b>Item</b>	<b>2014/15 (UGX)</b>	<b>2015/16 (UGX)</b>	<b>2016/17 (UGX)</b>
Garbage collection	51,187,693	50,127,390	187,483,152
Maintenance of composting site	29,681,000	27,558,420	35,418,000
Maintenance of streetlights	7,331,352		4,331,237
Maintenance of drainage system	18,541,045		26,300,251
<b>Total</b>	<b>106,741,045</b>	<b>77,685.810</b>	<b>253,532,640</b>

However, in common with other local governments, this linkage is not explained to the ratepayers. There is no ratepayers association in the municipality and there are no tax education programmes.

## **3.5 Tororo**

### **3.5.1 Administration of property rates**

Property rates, like all other local revenue sources and in other urban councils, are administered using the Local Governments (Rating) Act, 2005.

The process of property rate administration begins with contracting a certified valuer followed by registration of properties/owners within the municipality as potential taxpayers. This is followed by the formation of an assessment committee to value each property and set the ratable value on which the amount of tax to pay is set. The tax is supposed to be set at not more than 12 per cent of the ratable value of a property. At the time of interview with Municipal Officers in 2018, the rate was fixed at 6 per cent. The owner-occupied properties are isolated and zero-rated.

The assessed rates are publicly displayed for not less than two weeks so that taxpayers can give feedback on/complain regarding their assessments. A tax tribunal is then set up to deal with complaints resulting from the valuations, for consideration and resolution. Normally, complaints are either about high rates or a high estimation of expected income to which the rate selected by the council is applied. At this stage, the owner-occupied property owners can also submit their returns for exemption. The returns are then verified and this helps to exclude those properties from billing.

The final data is then compiled into a hard copy taxpayers' register for record purposes, after which it is computerised into a database provided by the Local Government Finance Commission.

The database can be used for billing the taxpayer and receipting payments made. In Tororo Municipal Council the billing is still done manually with demand notes for each of the ratepayers being distributed door to door using a collection agent.

When the ratepayers do not pay within the required period, the agent accompanied by an enforcement team consisting of parish chiefs, officers from the divisions and from the municipal council head office move door to door demanding payment (and exacting threats of retribution). During the visits, the property owners are reminded of their obligation to pay and sometimes some tax education is delivered, which usually yields better results.

When the exercise does not yield the desired results, as is the case with some large taxpayers such as the Uganda Land Commission or Uganda Railways, then more intense negotiation is applied. With regard to Tororo Cement Industries (TCI), a legal action was instituted which the municipality won, but the court ruling was appealed in the High Court. TCI argues that its residential properties are owner-occupied since its workers live in them. The municipality is of the view that workers are not owners. Consequently, the municipal council should pay based on the value of the housing benefit that accrues to the worker.

In most cases, the actions of enforcement teams yield some payments. However, for those who refuse to pay even after enforcement teams have visited the property owner, not much was being done.

The option of court action is a costly and lengthy process, and therefore is rarely used. This is one of the reasons why the municipality has engaged the services of a debt collector to visit taxpayers on a regular basis. The agent's role is to distribute demand notes and to follow them up to ensure payment into the municipal bank account. The agent is paid 10 per cent of the proceeds on making returns, which are first verified by the revenue staff before payment is made.

### **3.5.2 Valuation and assessment of properties**

The municipality contracts an approved/certified valuer of properties through a competitive bidding process. Properties in the municipality were last valued in 2016. The municipality would have preferred using government valuers but they are difficult to access and so there is no alternative but to use private valuers, who are expensive. The last evaluation cost over UGX100m.

A tribunal is then set up to deal with any objections. The exemptions are also considered at this stage. The valuation list is then tabled before the municipal council for approval, publication, and use. The final roll can then be gazetted as a tax register for the municipality for a given period of time.

With regard to assessment, the income approach is used. The municipal councils set estimated income from each property on various streets in accordance with size and type of business being conducted there. But a more reliable source of such income is from the property owner declaration of his/her actual earnings, which would be used after discounting overheads/administration costs and income tax. However, most property owners tend to

under-declare or refuse to reveal their actual income. So the valuer ends up using other sources of information to estimate the income, thus forcing the owner to provide the actual income if the latter is higher.

Where the property has a dual purpose of owner-occupied and commercial section, the valuer sets rates of possible income from both, but records them separately in the valuation roll. The income from the commercial part is the one used to determine the ratable value of the property. From the gross rate, an allowance of 22 per cent for costs is deducted to leave the balance as the ratable value on which 6 per cent is being levied as property tax.

### **3.5.3 Methods of revenue collection**

Property rates management and utilisation in Tororo municipality is centralised. The Local Governments (Rating) Act, 2005 requires that all taxes are paid into a single municipal collection bank account. The taxpayer pays in the amount due to the bank and then presents the paying-in slip to the municipal council offices as evidence of payment and is then issued with a municipal receipt and entered into the database to update his/her tax liability status. The payments are then verified by the revenue office before being used. There is no sharing of revenue with the divisions in accordance with the law. Instead, the division leaders are invited for a planning session where their plans for drainage, garbage collection, and street lighting are presented and agreed upon with the council for funding. The disbursement of funding for their implementation is similarly centralised.

Tororo municipality uses the database provided by the Local Government Finance Commission to maintain and update the tax register. Each division has a copy of the tax register, which is used to mobilise payment for local revenue from various sources including from properties. The databases from the two divisions are consolidated at the municipal headquarters into one register.

### **3.5.4 Performance of property rates relative to the urban authority budget<sup>18</sup>**

The budget estimate for property rates in FY 2015/16 was UGX750,500,000, revised to 742,180,482 as actual expected amount, but the actual yield was UGX277,285,535. During FY 2016/17, the budgeted estimate for property rates was UGX934,918,621, and was later revised to UGX841,426,759; the actual yield was only UGX273,000,000 (32 per cent).

Property rates revenues contribute over 42 per cent of the local revenue yields.<sup>19</sup>

Currently, the valuation roll comprises all properties, including the exempted owner-occupied properties, but data was not readily available on the actual number of properties from which the collections are being made.

Municipal revenue staff interviewed were optimistic that they would experience increased performance in FY 2017/18 following the hiring of a collection agent.

### **3.5.5 Utilisation of property rates revenue and awareness and involvement of ratepayers**

In Tororo municipality, under the Local Governments (Rating) Act, 2005 the revenue is supposed to be used for street lighting, garbage collection, and drainage maintenance. The Treasurer/Chief Finance Officer indicated that they have strictly used the property rates revenues for this purpose. Taxpayers are aware of this provision but at times do not link what has been paid to the services provided because of a mismatch between collected revenue and the cost of the services required.

Tororo municipality has not formed a taxpayers association to bridge its relationship with the taxpayer. No reason was given for this failure. Tororo municipality is being funded to rehabilitate its road infrastructure under the World Bank USMID programme, which has

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<sup>18</sup> Property rates performance relative to the 2015/16 budget.

<sup>19</sup> Municipal Final Accounts 2016/17, provided by the senior accountant in charge of revenue.

introduced the innovative Municipal Development Forum (MDF) to bridge the gap between the municipalities and the various interest groups living and/or working within the municipality.

This is intended, in part, to engage municipal dwellers in matters of infrastructure maintenance when the USMID programme is over. It is a forum to ensure that people are engaged in the planning, development, and sustainability of their municipal infrastructure using locally generated revenue. The Local Government Finance Commission has conducted capacity building programmes for MDFs in the areas of cost-benefit analysis, public relations, and customer care and community mobilisation.

Despite the gains of this forum, there has been no attempt to concretely link the property rates collection to the services offered despite evidence of provision of these services.

## 4. Summary of lessons learned

The analysis of the administration, enforcement, and collection of property rates in KCCA and the four municipalities of Arua, Gulu, Kabale, and Tororo reveals the following. First, there is a need to create specialised revenue collection units in each of the four municipalities similar to the Directorate of Revenue Collection (DRC) in KCCA. Second, the municipalities should invest in ICT to optimise revenue management processes similar to the Revenue Management System (RMS) and eCitie platform used by KCCA (Prichard and Fish 2017). Third, as a motivation to property ratepayers to pay rates, it is essential to link the rates paid to the public services rendered, including street lighting, garbage collection, and drainage maintenance. Fourth is the need for regular valuation of property to avoid loss of revenue. KCCA, Central and Nakawa divisions and Tororo municipality had the most recent valuations, done in 2016–17; for Gulu and Kabale, it was in 2015; and for Arua, it was in 2013. Fifth, each of the municipalities considered should set up a valuation court similar to the practice of KCCA and as is required by the Local Governments (Rating) Act, 2005, Part IV. Sixth, setting up a ratepayers association in each municipality would enhance the engagement of ratepayers with the urban authorities, along the lines of the Municipal Development Forum (MDF) introduced in Gulu. Seventh, arising from the additional support given to KCCA from the Uganda Road Fund, KIIDP, non-tax revenue, etc., it is logical to suggest that municipalities should also be extended support from central government to enable them to transform their property rates capacity. Eighth, at a legislative level, consideration should be made to reversing the exemption from property rates for owner-occupied premises, introduced by the Local Governments (Rating) (Amendment) Act, 2006. As pointed out, this practically led to an immediate 50 per cent loss in property rates revenue in Kampala (Goodfellow 2012). Finally, the law could be amended to impose property rates on vacant urban land aimed at revenue enhancement (Haas and Kopanyi 2018).

## 5. Conclusion and recommendations

Property rates revenue has the potential to fill the current local revenue gap, partly attributed to the abolition of graduated tax (Bakibinga, Kangave and Ngabirano 2018), and boost the capacity of urban local authorities to deliver a broad spectrum of public goods and services. In Tororo municipality, based on the 2015/16 and 2016/17 revenue collection statistics, the potential collections from property rates are 25–32 per cent of total local revenue collection. The corresponding contribution for KCCA is 20–25 per cent.

To achieve this potential, the following strategies should be pursued. First, taxpayer education on the importance of paying property rates and resultant benefits should be emphasised by setting up taxpayers associations at the local level aimed at engaging with

the local authorities on various issues affecting the administration of property rates. These would be similar to the Municipal Development Forum (MDF) set up under the Uganda Support for Municipal Infrastructure Development (USMID) programme in Gulu. Second, municipalities should set up dedicated revenue collection units, similar to the KCCA Directorate of Revenue Collection, comprising revenue officers, accountants, a valuer, and field collection staff to monitor and enforce collection of the property rates. Third, a regularly updated property valuation list should be maintained at intervals of three to five years instead of the current ten years. Fourth, local urban authorities should also consider adopting a simple valuation method based on localised mass valuation to enhance both equity in collection and compliance. Fifth, each authority should employ ICT in billing, collection, and enforcement of property rates similar to the Revenue Management System (RMS) of KCCA. Sixth, consideration should be made to reversing the exemption on owner-occupied property introduced by the Local Governments (Rating) (Amendment) Act, 2006, aimed at boosting revenue generation. Finally, amendment to the law to impose property rates on vacant urban land should also be considered.

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