12. Property Rates in Tanzania

[1] Role of Property Taxes within Tanzania

In Tanzania, property-related taxes and charges in 1998 yielded about Tsh 7.1 billion (US$8.875 million)—Tsh 3.8 billion (US$4.75 million) from national land rents and Tsh 3.3 billion (US$4.1 million) from the local building taxes. This represented 0.2 percent of GDP, 1.1 percent of total government taxes and about 18 percent of local government own source revenues.

The property tax itself is narrowly applied only to buildings in Tanzania. Land charges are collected through a system of annual land rents administered through the Ministry of Lands. The level of land rents is set by the central government, with the land rent sharing rate in 1999 giving 80 percent to the central government and 20 percent to the local government.

Under the property tax rural property is essentially not taxed. In fact, nonsurveyed rural land is not even required to pay land rent. This means that a large portion of rural wealth is left untapped by the government. Rural districts continue to rely on the agriculture cess as a means of taxing its agricultural base. The rating law only applies to urban areas, and there are only a few district governments that are applying a flat rating approach as allowed under the Local Government Finance Act of 1982.

Disaggregated national level information on local government revenues is not systematically maintained or published. Under the ongoing Local Government Reform Programme, it is expected that these data—along with local government expenditure data—will in time be collected and disseminated by local authority and by type of expenditure and revenue.

[2] Tax Base:

1 Prepared by Roy Kelly, Duke University.


3 The 20 percent share is allocated to local authorities by the Ministry of Lands based on the land rents actually collected by the LA(s)—not the amount collected within the local authority. This distinction is important since Dar Es Salaam does not receive any land rents since the actual collections is being done by the Ministry of Lands. This is significant since 70 percent of all land rents are collected in Dar Es Salaam.

4 This cess (essentially a tax paid on marketed sales of specified produce in a district) has long been more important in Tanzania than in neighboring countries. An early report (E.C. Lee, Local Taxation in Tanzania (Dar Es Salaam: Institute of Public Administration, University College, 1965) noted considerable variation in the rates, coverage, and administration of this cess from district to district. More current information was not available at the time of writing. [Note added by editors]
The Local Government Finance Act of 1982 authorizes all local authorities to impose a flat rate property tax through enacting local by-laws subject to central government approval. These flat rate property taxes can be levied on buildings, adjusted by such factors as size, location, and use. Tanzanian urban and township authorities also have the option to impose an ad valorem property tax on buildings through the Urban Authorities (Rating) Act of 1983. Since the Rating Act only applies to urban and township councils, district and village councils are only authorized to adopt the flat rate tax under the Local Government Finance Act of 1982. To date, very few districts are using the available by-law provisions to begin taxing buildings in the built up areas.

Under both Acts, the property tax base is narrowly limited to buildings, structures or similar developments. Land is not taxed under property rating since all land (rural and urban) belongs to the State and is therefore liable for land rent collected by the central government. These land rents are extremely low compared to market values—for example, rural land was typically paying a uniform land rent of less US$0.68 per acre up to FY 2000-2001.

Property tax base exemptions under the Rating Act are granted to property personally occupied by the President, properties used for public utilities or public worship, public libraries and museums, cemeteries and crematoria, civil and military aerodomes, sporting facilities, railway properties and any such property as the Minister responsible for Local Authorities shall prescribe.

In principle, the Rating Act provides power for the responsible Minister to authorize the Government to pay local authorities a payment in lieu of rates, “such amount as may be considered expedient”. In practice, however, the Central Government had never paid this property tax equivalent. In 1997, the Government issued a circular that explicitly exempted government buildings, government residential properties used exclusively by government officers and employees, property used by educational institutions, and property owned by religious institutions not used for commercial purposes. Then in 1999 the Urban Rating Act was modified to repeal the payment in lieu of rates provision.

The Rating Act stipulates that property should be valued based on the capital market value of the premise or, where the market value cannot be ascertained, the replacement cost of the buildings, structures and other developments, adjusted for depreciation. Although never used, the law does provide the Minister power to prescribe a system other than market value or the cost replacement approach for assessment purposes. The flat rate property tax system, as allowed under the Local Government Act, also provides for extreme flexibility in the factors used to adjust the rates applied to buildings if the Minister approves. In fact, the flat rate property tax system has been creatively used to implement a simple mass valuation system in Dar Es Salaam and other urban areas.

To date, due to the perceived lack of market information, all valuation for rating is being done on a cost replacement approach. The rating law provides for a maximum allowable depreciation rate of 25 percent and stipulates that the property tax roll is to be valued every five years or for such longer period as the responsible Minister may approve.

The property tax law provides for an Appeals Tribunal which is centralized and which can only be appointed by the Minister responsible for local authorities. It is reported that the high level of
this Tribunal has often caused considerable delay in the hearing of appeal cases and therefore postponing the use of the valuation rolls for taxation.

Property valuations until recently in Tanzania were conducted on a sporadic basis funded by the central government—usually without proper maps and without a systematic property ID system. 5 The property tax roll preparation (including the valuation) is the responsibility of the local authority. However, due to the lack of in-house valuation expertise, valuations were traditionally carried out by the Ardhi Institute on behalf of the local authorities. 6

As with all Sub-Saharan African countries, property valuations under the rating act are carried out through single parcel appraisals where each property must be visited by a registered valuer. Mass appraisal techniques are not utilized except under the simple flat rating system being implemented under the Local Government Finance Act. To date, no empirical studies have been undertaken to estimate the level or the accuracy of property valuations in Tanzania.

[3] Property Tax Rates:

The flat rate property tax system enacted through local by-laws used to be levied as a uniform flat amount per building. However, local authorities are now increasingly making adjustments for size, use, and location in an attempt to improve equity and revenues. For example, Dar Es Salaam reinstated the property tax in 1987 based on a simple flat rate system which applied a flat amount per building according to location. Under this initial system, Dar Es Salaam divided the city into 8 distinct zones with a specific unit amount applied to each building located within a particular zone. In 1996, Dar Es Salaam modified this flat rate system by expanding the number of flat rates categories from 8 to 52, with adjustments made for size and building use. Other municipalities, such as Tanga and Tabora also use a similar 52 category flat rating system in their jurisdictions. This flat rate property tax system is still used on all buildings not yet taxed through the ad valorem system provided under the Rating Act.

For those properties that are valued, local councils are entitled to use any tax rate passed by a council resolution supported by a two-thirds majority and approved by the responsible Minister. Local governments can choose either a uniform or a classified rate structure. For example, Mwanza, Arusha, Morogoro, and Dar Es Salaam use a uniform tax rate structure for their buildings, while other towns such as Iringa and Mbeya tax commercial property at a higher rate than residential. Dar Es Salaam initially used a 0.1 percent rate in 1996 for valued properties, raising the rate to 0.15 percent in 1998. Mwanza used a rate of 0.4 percent from 1992-1995. Iringa and Mbeya, on the other hand, used differential rates of 0.30 percent for residential and 0.60-0.70 percent for commercial buildings. In 1996, these two towns switched to a uniform rate system applying 0.70 and 0.60 percent, respectively.

5 It should be remembered that Tanzania abolished all local authorities in 1972 only to reinstate them in 1982.

6 The Ardhi Institute was an educational institute offering advanced Diploma in Land Management and Valuation that served as the training ground for valuers throughout East Africa. In 1996, this Institute became the University College of Land and Architectural Studies (UCLAS) within the University of Dar Es Salaam system.
In addition to the general rate, councils (with the responsible Minister’s approval) may levy a special rate to cover the costs of special capital works schemes which only benefit the owners of a portion of the rateable area. To date, this special betterment assessment (known as a “special rate”) option has not been used in Tanzania.

[4] Property Tax Administration:

Property tax administration is the responsibility of the local authority. The local authority is responsible for the construction and maintenance of the fiscal cadastre, billing and revenue collection, enforcement and taxpayer service. The central government is responsible for the establishment of the Valuation Tribunal.

Within the local authorities, the responsibility for the property tax cadastre and property valuation is with the valuation department (or valuer), while revenue collection and enforcement is under the local treasurer’s department. Historically the property valuation rolls were often outsourced to the Ardhi Institute and are now being outsourced to the private sector under the World Bank funded property tax reform (see section 5 below).

Buildings are identified through periodic field surveys. The tax roll coverage historically has been incomplete. Up until recently, property tax base identification was done mostly on an ad hoc basis. Property cards were created and updated periodically, with considerable lag in the building market information especially in the fast growing unplanned areas. There was a lack of systematic administrative procedures, proper tax maps or a consistent property identification numbering system. All this led to tax roll information that was usually incomplete and out-of-date. There was no use of computerization, further complicating the maintenance of the property tax rolls.

To begin addressing some of these deficiencies, the Government, with funding assistance from the Norwegian Agency for Development (NORAD), undertook an aerial photographic survey of the major urban centers in 1992. Base maps were generated from this survey and were used to update the property tax rolls in Dar Es Salaam (DSM) from 1993-1998 and are now being used to update the property tax rolls in the 8 other major urban centers.

Billing, collection and enforcement are the responsibility of the Town Treasurer’s office. With the exception of Dar Es Salaam (DSM), which introduced computerized billing for about 30,000 parcels in 1996, all tax demand notices are produced manually, creating problems of delay and transcription errors. Demand notices are delivered either manually or through the postal system—often with difficulty due to incomplete or out of date addresses and names. In Dar Es Salaam, for example, 15.7 % of the demand notices were returned as undelivered in 1996.

The rating law is silent on the due dates and the number of installments for the property taxes, leaving these to the by-laws of each local authority. Under the by-laws issued by Dar Es Salaam, for example, the tax deadline is defined as 30 days “after receipt of the property tax bill.”

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7 Dar Es Salaam is the only municipality that uses computers in its tax administration, having a property tax billing system introduced in 1995/96 as part of the World Bank project.
practice, tax payments in DSM are made in one installment, although large taxpayers are allowed more than one installment.

For those taxpayers that do not pay the tax, the DSM By-Laws provide for a 25 percent penalty per year or imprisonment for a term not to exceed one month, or both fine and imprisonment, or any other penalty as contained in Urban Rating Act. The Urban Rating Act itself provides for a 1 percent per month interest penalty on all outstanding amounts.

The Law also provides for a warrant to be issued to seize the personal goods and chattels of defaulters up to the value of the outstanding rates. The Rating Authority may, at its discretion, recover any amount due by civil action without further notice or demand. In addition, all outstanding rates are to be a charge on the premise, having priority over other claims and the law allows for the premise to be auctioned to recover the rates outstanding.

Despite the various legal provisions to enforce payment, collection rates appear to be quite low (e.g., less than 30-50% in Dar Es Salaam). There are a variety of possible explanations to explain this low collection rate ranging from a lack of taxpayer education/understanding to outright resistance, due to lack of local services. Some attribute the low collections largely to lack of political will and administrative efficiency. Improvement in the application of the legal provisions available for improving the collection ratio would improve revenue, equity and efficiency.

[5] The Property Tax Reform Experience:

Tanzania began its property tax reform in 1993. Under Phase One, completed in 1996, the Government developed a property tax reform strategy that introduced a valuation-based property tax system in Dar Es Salaam to replace the flat rating system which had been used previously. Under Phase One, the government produced a valuation roll of about 30,000 properties in Dar Es Salaam, established a valuation office in Dar Es Salaam, and commenced preparatory work on the property tax in eight other municipalities. The property tax reform was essentially a “valuation-pushed” strategy in which priority was narrowly placed on improving property valuation rather than on a broader comprehensive systems approach beginning with collection.

Phase Two, which commenced in January 1999, followed the same basic reform model. Private sector valuation companies were hired to value an additional 17,000 properties in Dar Es Salaam and 24,000 properties in the eight other municipalities. Phase Three (2001-onwards) is to complete the valuation roll for DSM and further expand the valuation rolls in other localities. In

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2002, the Government—with World Bank funding—intends to fund an independent evaluation of the property tax reform.

An important priority for the property tax reform was the development of a systematic procedure for conducting both the property tax base identification as well as providing building valuations. Thus, the Government, using the maps produced in 1992, developed a system to identify the buildings, enumerate them, assign a property identification number and collect the relevant physical information on each building. In addition, the Government developed a consistent set of rating assessment guidelines to establish a uniform valuation basis for the revaluation process. Due to the lack of perceived market values, the Government decided to use the cost replacement approach as provided for in law. These guidelines categorized all buildings into four basic groups (residential, commercial, industrial and hotels). Within each of these categories, there were three sub-categories of building types, each with an established range of values per square meter. In addition, a separate category was established for site works, with a percentage adjustment to be applied to the basic cost figure. There were three percentage adjustments, namely 0, 5 and 10 percent depending on the quality of the site works. Finally, four categories for depreciation adjustment were established, depending on the physical condition, functional obsolescence, and remaining economic life of the property.

Using these fieldwork and valuation guidelines, the government’s reform strategy was to outsource the valuation work to private valuation companies due to the lack of in-house valuation capacity within the local governments. Six valuation firms were contracted under Phase One to value approximately 30,000 buildings at a total cost of about US $1 million (approximately $33 per property).

This exercise produced a valuation roll in 1995 of 30,000 buildings, with a total estimated value of Tsh 800,686,920,000 (roughly US$ 100 million). In 1996, Dar Es Salaam adopted a 0.1 percent tax rate which generated a tax potential of Tsh 800 million. This tax revenue potential combined with the potential for buildings under the flat rate system (i.e., Tshs 400 million) produced a revenue potential of over Tsh 1.2 billion (US$1.5 million).

In 1996, the new tax roll was used for tax purposes. In addition, due to city financial mismanagement, the central government appointed a new City Commission to replace the DSM City Council in 1996. Together these actions contributed to a major increase in local revenues. As Table 1 indicates, Dar Es Salaam local own-source revenues rose by an average annual rate of 81 percent over the three year period from 1993-1996, with above average increase in property rates, development levy, the industrial cess, and taxi/bus park fees. Although part of the revenue improvement in the property tax may have been due to the production of the new property tax roll, the major cause for the overall revenue increase was the strong political will.
and improved revenue mobilization efficiency brought about by the change in city administration.¹⁰

Table 1: Revenue Collection in Dar Es Salaam (1993-1996) (Tsh. Millions)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Property Rates</td>
<td>128.1</td>
<td>111.9</td>
<td>60.1</td>
<td>559.7</td>
<td>112%</td>
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<tr>
<td>Development Levy</td>
<td>143.8</td>
<td>116.8</td>
<td>140.5</td>
<td>506.9</td>
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<td>Hotel Levy</td>
<td>76.5</td>
<td>68.7</td>
<td>80.5</td>
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<td>Industrial Cess</td>
<td>28.0</td>
<td>78.6</td>
<td>191.4</td>
<td>304.2</td>
<td>329%</td>
</tr>
<tr>
<td>Taxi Fees</td>
<td>22.9</td>
<td>9.0</td>
<td>27.7</td>
<td>82.7</td>
<td>87%</td>
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<td>Licenses</td>
<td>167.9</td>
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<td>137.5</td>
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</tr>
<tr>
<td>Market Dues</td>
<td>36.8</td>
<td>29.8</td>
<td>26.2</td>
<td>37.3</td>
<td>0%</td>
</tr>
<tr>
<td>TOTAL Revenue</td>
<td>604</td>
<td>522.3</td>
<td>663.9</td>
<td>2023.1</td>
<td>78%</td>
</tr>
</tbody>
</table>

Source: USRP, 1999

Note: The exchange rate is approximately Tsh 800/US$1.

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¹⁰ As Table 1 indicates, the average annual increase for all DSM own-source revenues between 1993-1996 was 78%. There was substantial above average increases in industrial cess (329%) and property rates (112%), close to average increases in development levy and taxi parks, and less than average growth in licenses and hotel levies. Table 1 shows a general decline from 1993-1996 in all revenue sources except the industrial cess. The sharpest decline was in 1995, just prior to the replacement of the city council with a city commission. A portion of the revenue increase in 1996 was no doubt from arrears—not current liabilities. For example, it is estimated that approximately 40 percent of the property tax collections in 1996 were from arrears from previous years.