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Assessment of The Impact of Institutional Reforms on Mobilization of Property Tax Revenue

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1 Introduction

1.1. Background

Property taxation in Tanzania is one among sources that the government can potentially and largely use to widen its tax base and increase revenue collection. Being directly visible to taxpayers, by design it is relatively easier from the taxpayers' perspective to easily link the collected revenue to improved provision of local services. Thus, property tax has a prospective to act as a basis for bargaining between taxpayers and governments over revenue collection and public spending, hence increasing the tax compliance rate (Ali, Fjeldstad and Katera, 2018).

Despite this revenue potential, the amount collected from it is far less than what could potentially be collected. Essentially, property tax in Tanzania is narrowly applied only to buildings. Land fees, for a small fraction of planned (and often urban based) plots, are collected through a system of annual land rents administered through the Ministry of Lands. Practically, rural property is not taxed under the Local Government Authorities (Rating) (Collection of Property Rates) Regulations of 2019, and further, non-surveyed rural land is not even required to pay land rent. This implies that a large portion of potential revenue from rural property is untapped by the government.

Another challenge related to its suboptimal collection rests on the inefficient enforcement and collection of the tax from the same narrow tax base. While addressing the informality challenge of most of the properties (both urban and rural) could take some time due to involved legal issues, it is important that we make the most use of the currently available property tax base to increase revenues. Only a small fraction of those who are supposed to pay the property tax actually pay.

Ongoing discourse that has triggered some of the changes in the country has been on "who collects the tax between the local government authorities (LGAs) and the Tanzania Revenue Authority (TRA), and whether the size of tax matters on efficiency and effectiveness of tax collection. Consequently, a number of reforms have taken place on both the tax rate and mandated institution for property tax collection in Tanzania. To what extent such changes have driven the country to a desired outcome remains empirically unknown.

Generally, reforms are instituted for the purpose of improving efficiency and performance of property tax systems. According to Slack (2001), efficiency and performance of property tax systems is judged based on traditional principles of taxation which include the following: i) Fairness based on benefits received and ability to pay, ii)Neutrality in the sense that the tax should not distort economic behaviour of individuals, iii) Accountability in a way that the tax is designed to be easily understandable and its structures allow the policy makers and tax authorities to be held accountable; and iv) Ease of administration: property tax systems need to be simple such that it is easy and cheap to collect and administer the tax. It is through adhering to these fundamental principles, among other factors, that the desired and sustained revenue increase will be achieved.

1.2. Statement of the problem

The institutional reforms of property tax have come in different forms and have been accepted with different views and perceptions. In addition to rationalizing central-local fiscal relations, the government has been placing attention on improving its financial management and revenue mobilization efforts. However, the implications of such reforms on anticipated benefits including increased property tax revenue collection and other forms of taxes have remained empirically unknown. This study seeks to examine the institutional processes for managing property tax reforms in the complex revenue policy network in Tanzania.

1.3. Objectives

The aim of the study is to analyse and assess the implication of institutional reforms on mobilization of property tax revenues. The specific objectives are:

- To examine the institutional processes for managing property tax reforms in Tanzania
- To analyse the implication of property tax institutional reforms on the collected property tax revenue
- To assess the effect of property tax institutional reforms to the municipalities.

1.4. Methodology

This study adopts a comparative case design of municipalities in Tanzania to seek a deeper understanding of the institutional processes in managing property taxation in the complex revenue policy network. It makes use of the TRA (2020) property tax revenue statistics for the period 2014/15 – 2018/9, nationally collected at the tax regional level. In as much as the ideal data set would be the one extending back to at least year 2005 to allow us make sense of the implication of the 2008 regime change, the current data set allows us to track what happens to the property tax revenues, both in absolute and the growth rate, before and after the 2016 regime change.

In addition to the already existing data, the study team also conducted extensive review of related existing literature and documents on revenue collections and institutional reforms. To complement the analysis with on ground and case specific details, the team collected additional primary data from key informants from selected LGAs in the country. Using an electronically circulated semi-structured questionnaire, the team was able to implement the survey with a total of 15 LGA senior officials from different LGAs in the country.

An additional data collection approach envisaged for this study was to implement a detailed key informants' interview from both TRA and representative LGA offices in Dar es Salaam. However, following the eruption of the COVID-19 pandemic in the country, the direct face to face interviews and focus group discussion were suspended. Instead, the team conducted a few telephone interviews with some key informants to gather any missing information and to obtain clarity related to the subject matter.

Appropriate quantitative methods are employed to estimate the effect of the changes on the amount of property tax revenue increase/decrease due to a given change[1]. Statistical data especially on revenue performance are summarized and presented in Tables and charts. To better understand the changes, the estimates go beyond the trends of absolute revenues over time but also, we estimate and explore the trajectories of growth rates over time. Indeed, while the increase in the absolute revenue from the property tax is a good measure of the effect, understanding the difference in the rate of increase before and after the reforms gives even a better picture.

1 *The original plan was to explore the implication of the reforms on one more outcome indicator namely, the number of registered properties in the country. However, due to data limitation this has become hard to execute and we leave that as an area for further study. It is indeed imperative to explore how such reforms, which were accompanied with the changes on the size of property taxes, eventually induced formalization of more properties as measured by the number of registered properties. This is an interim outcome indicator towards an increased revenue collection.*

2 Institutional Management of Property Tax in Tanzania

2.1. Laws governing Property tax in Tanzania

Property tax in Tanzania is governed by the Local Government Finance Act of 1982 and the Urban Authorities (Rating) Act of 1983. The Local Government Finance Act of 1982 authorized all local authorities to impose a (clustered) flat rate property tax though by-laws, subject to approval by the central government. According to the law, LGAs were thus allowed to make adjustments on the rate by taking into account attributes such as size, location, and type of use of the property. Rural districts and village councils, were therefore, only authorized to adopt the flat rate tax. Regardless, only a few rural districts utilized the available by-law provisions to collect the property tax which has always led to low revenue collections from this "window" (Kelly, 2004).

For the case of urban and township authorities the Urban Authorities (Rating) Act of 1983 provides for the option to impose property tax based on the value of buildings. According to the Rating Act, the value of the property should be based on the capital market value of the premise or, in case the market value cannot be ascertained, the replacement cost of the buildings, structures and other developments, adjusted for depreciation should be used. The Act also provides the responsible minister with power to prescribe a system other than market value or the cost replacement approach for assessment purposes.

The Act grants exemptions from taxation to the following: Property in the personal occupation of the President; Property used for public utility undertakings; Premises used primarily for public worship but excluding property used for residential or social purposes in connection with places of public worship; Public libraries and public museums; Cemeteries and crematoria; Civil and military aerodromes; Property appropriated for sporting purposes and that used solely for educational purposes; Railway infrastructure; and Other property as may be prescribed by the concerned urban local authority.

The Urban Authorities (Rating) Exemption from Liability of Rates Order 1997 explicitly exempted Property owned and used exclusively as office accommodation, laboratories and godowns by the government and its departments; government residential property used exclusively by government officers and employees; Property used by or reserved for use by a Local Authority; Property used exclusively by educational institutions; and Property owned by a religious institution not used in any way for commercial purposes.

Prior to the current setting, administration of Property tax was the responsibility of the local government authority. The local authority was responsible for the development and maintenance of the property catalogue, invoicing and collecting revenue, conducting enforcement and providing taxpayer services. The central government was left with the responsibility to provide arbitration in valuation cases.

The implementation of the flat rate property tax system started by local authorities through by-laws, charging a uniform flat amount per building and then increasingly making adjustments for size, use, and location in an attempt to improve fairness and revenues. In 1987, for example, Dar es Salaam imposed a property tax system which applied a flat amount per building according to location, with the city divided into 8 distinct zones (see table 2.1); with zones expanded to 52 in 1996 and adjustments made for size and building use (Kelly and Musunu, 2000). The system was adopted by other municipalities, such as Tanga and Tabora.

Table 2.1 Flat Rates for Property Taxation in Dar Es Salaam (1988-1996)

Area/ Unit	Description	Annual rate (TZS) in 1988	Annual rate (TZS) *2018 value
1	Residential Unsurveyed Areas	200	11,249
2a	High Density Residential Surveyed Area	300	16,873
2b	High Density Residential Surveyed Area in City Centre	10,000	562,446
3	Medium Density Area	1,000	56,245
4	Low Density Area	2,000	112,489
5	Industrial Area	10,000-50,000	562,446-2,812,230
6	Unsurveyed Commercial Area	500	28,122
7	Surveyed Commercial Area outside City Centre	1,000	56,245

Source: Kelly and Musunu (2000)

*Estimation of the equivalent value has used the data for GDP deflator from the World Bank; https://data.worldbank.org/indicator/NY.GDP.DEFL.ZS?locations=TZ

2.2. Institutional Reforms in Property tax in Tanzania

Reforms in property tax in Tanzania commenced in 1993 under by then Urban Sector Engineering Project (Kayuza 2006). Under Phase I, which was completed in 1996, a property tax reform strategy was developed by the Government that introduced a valuation-based property tax system in Dar Es Salaam to replace the flat rating system which had been used previously (Kelly 2004). A valuation office was established to specifically oversee the property valuation process and the property tax collection responsibility was assigned to the Dar es Salaam City Commission that had replaced the City Council (Kayuza 2006). This reform was a 'valuation-pushed' strategy which prioritized a narrow segment of improving property valuation instead of a comprehensive systems approach starting with collection (Kelly 2004).

A valuation roll of about 30,000 properties in Dar es Salaam was produced the government, with an estimated total value of about TZS 800 billion in 1995 (Kelly, 2004). A property tax potential of TZS 800 million was generated from the valuation after Dar es Salaam adopted a 0.1 percent property tax rate in 1996. The buildings which were not valued remained under the flat rate system with a total revenue potential of over TZS 400 million (Kelly, 2004). In the first four years of Phase I of the project, the reforms registered huge increase in property tax revenue collection in Dar es Salaam. Property tax revenue increased from TZS. 60 million in 1995 to TZS 560 million in 1996 and further to1.1 billion in 1999 (Kayuza 2006).

Phase II commenced in 1999 and followed the same basic reform model (Kelly 2004). There were additional 17,500 properties on the roll in Dar es Salaam and 24,000 properties in other eight municipalities. By 2004, there were 69,957 properties listed and Dar es Salaam city was split into three municipalities each with independent local government (Kayuza 2006). The municipal authorities started to levy property tax on properties that had not been valued on a flat rate basis and collected TZS. 1.2 billion in 2000; 1.5 billion in 2001; 1.6 billion in 2002; and 1.2 billion in 2003.

Phase III started in 2001 to complete the valuation roll for Dar es Salaam and expand to other localities (Kelly 2004). In two years, there were 340,000 ratable properties in which 21% were from Dar es Salaam (Kayuza 2006). However, the pace of the increase in registered properties did not match the increase of tax revenue collected over the subsequent years. For example, the property tax contribution to total locally raised revenue was less than 20 percent.

Effective property tax collection was still a major challenge in Tanzania because priority was narrowly focused on improving property valuation instead of a comprehensive systems approach including the administration of the tax. So further reforms were implemented by the government to enhance property tax collection. In the year 2008 a new property tax collection system was developed in Dar es Salaam, Tanzania. This reform involved changing the administration and tax collection responsibilities from the municipal councils to the Tanzania Revenue Authority (TRA). The government expected an increase in revenue after this measure. But this did not materialize very well because of coordination and cooperation problem between TRA and municipalities (Fjeldstad, Ali and Goodfellow 2017). These challenges include unclear division of functions and responsibilities of the TRA and LGAs such as who is responsible for registration of properties, valuation, maintenance of property registers and revenue data; and how the collecting institution will compensate the other for the additional tasks.

In February 2014, the government returned the property tax collection responsibilities to the municipalities with immediate effect. This occurred after massive lobbying by the municipalities supported by the Association of Local Government Authorities in Tanzania (ALAT). But this lasted for two years only, in July 2016 the property tax collection duties were once again centralized and given back to the TRA. According to the study by Fjeldstad, Ali and Katera (2017) before the centralization was done in 2008 there was a flat and low tax collection in Ilala and Temeke and a declining trend in Kinondoni; after the centralization in 2008 there was a slight increase in revenue in all three municipalities in the first year and then remained fairly stable; after decentralization in 2014 there was a sharp increase in revenue collection for all the municipalities in particular from 2014/15. It however remains empirically unknown on what has happened so far with regard to the collected revenue following the recent 2016 changes.

Following the Presidents' concern on efficiency in tax revenue collection, in December 2018 he gave a directive to revise property tax system, proposing a flat rate of TZS 10,000 for normal buildings, and TZS 50,000 and TZS 20,000 for each floor of a multi-storey building in urban and rural areas respectively. From the financial year 2019/20 the following are the levied property taxes;

(a) **In city councils, municipal councils and town councils**

- A plot with a single building, a building which is in actual occupation – Rate is TZS 10,000/=
- A plot with more than one building, all buildings in actual occupation – Rate is TZS10,000/= each building
- TZS 50,000 for each storey in a multi-storey building

(b) **For District council areas**

- TZS 10,000 for ordinary buildings. If a plot has more than one building, only the most valuable building will be charged the TZS 10,000
- TZS 20,000 for storey building
- For a fraction of a building belonging to one or several co-owners in accordance with the Unit Title Act shall be treated as a separate building.

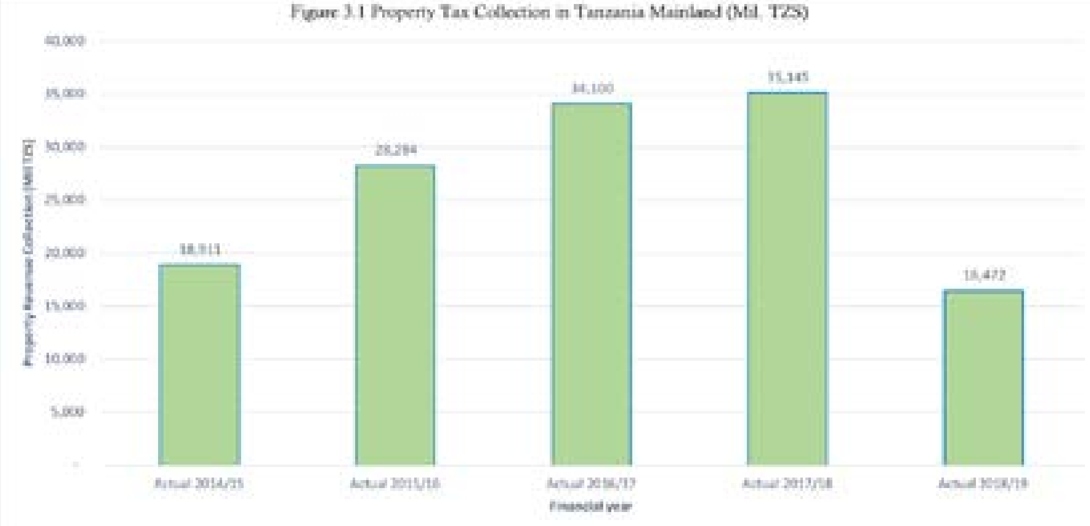
To what extent these reforms have translated to increased tax revenue from the properties has remained an empirical question that this study attempts to explore, among others.

3 The Effect of Property tax Institutional Reforms on Property Tax Revenue

Data from TRA spanning 2014/15 to 2018/19 is used to analyse effect of property tax institutional reforms on property tax revenue. Due to data limitation, only two institutional reforms can be analysed: the first is the shift of property tax collection from the LGAs to TRA in July 2016 and the second is change from property tax charged on the value of the property to a flat tax charge following the President's directive in December 2018.

The first part of assessment focuses on the effect of the reforms on total property tax revenue collection in Tanzania Mainland. Figure 3.1 shows the amount of property tax revenue collected form all tax region in mainland Tanzania from 2014/15 to 2018/19. The figure shows that there has been an increase in revenue collection from property tax since 2014/15 to 2017/18. However, a big slump is observed in 2018/19. This is after the reform which shifted property tax from being rated based on the value of the property to a flat tax amount.

Figure 3.1 Property Tax Collection in Tanzania Mainland (Mil. TZS)

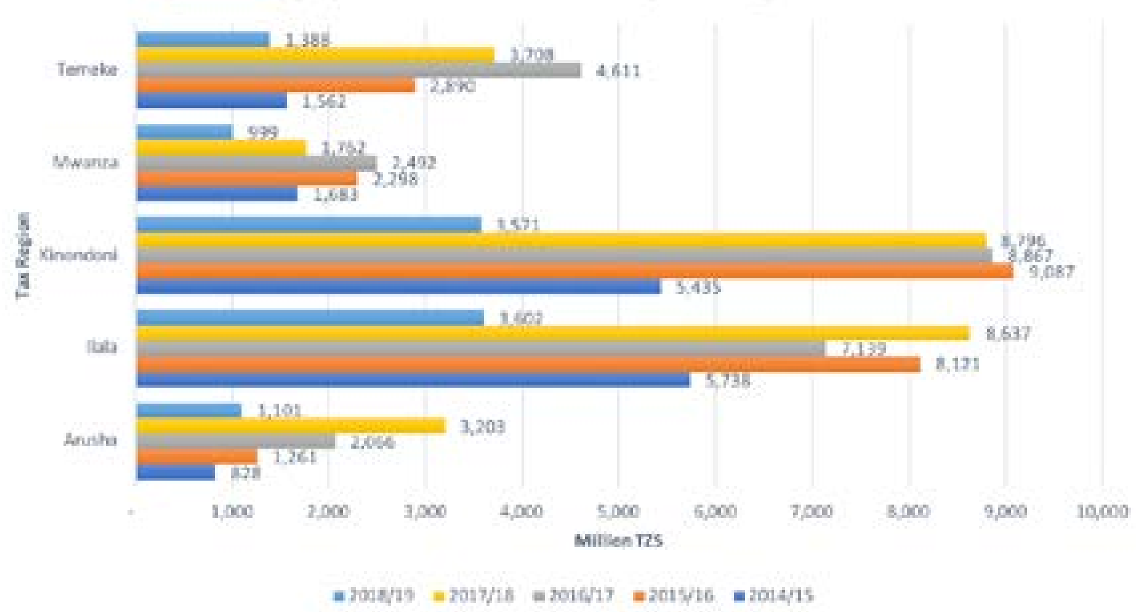


Source: Data from TRA

While the aim of the property tax reform in 2018 was to reduce nuisance related to the valuation of properties, to eliminate the cost of property valuation, to make the tax more affordable, to increase compliance, and to raise revenue collection, the objective to raise revenue does not seem to be met. The revenue collected in 2018/19, which is immediately after the reform, is about 47% of the amount collected in the previous year.

Break down of analysis to assess whether the effects of the reforms were different across the tax regions with high property revenue collections is done. These tax regions are Kinondoni, Ilala, Temeke, Mwanza and Arusha as presented in Figure 3.2. It is observed that a similar trend of increasing property revenue collection after the shift from collection by LGAs to TRA (from 2016/17) is evidenced for Temeke, Mwanza and Arusha. However, for the two biggest tax regions in Tanzania, Kinondoni and Ilala, the situation is different. In these tax regions, property tax revenue declined after the reform in July 2016. This may be explained by probably the target setting style by TRA which sets targets at aggregate level, therefore, for these tax regions with the greatest number of business it is easier to meet tax targets from other sources compared to exerting more efforts on property tax. While collections from Ilala improved in 2017/18, in Kinondoni property revenue collection continued dwindling. It is further observed that for all the major tax regions, the reform in 2018 led to decline in property tax revenue collections.

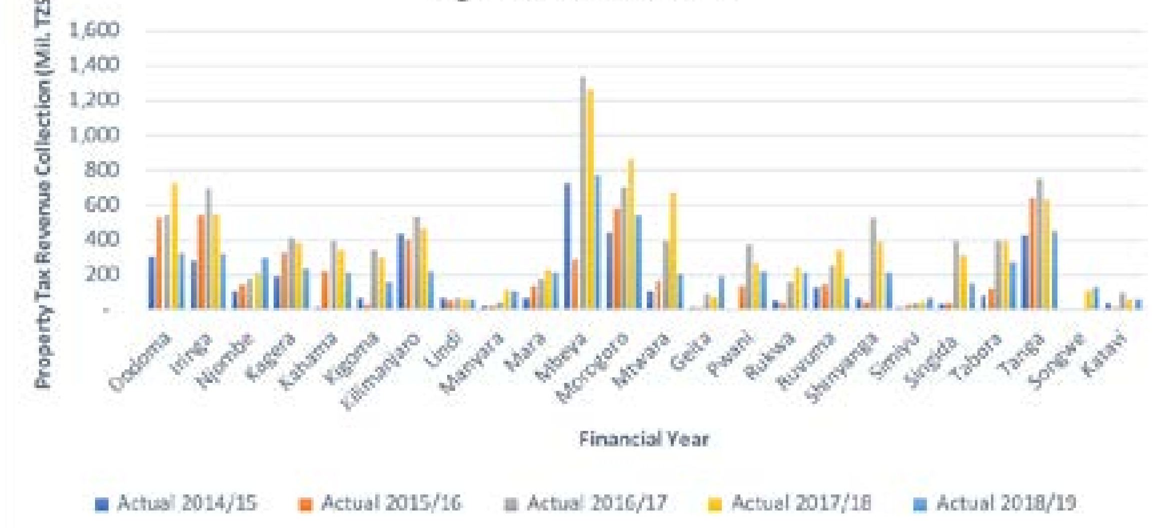
Figure 3.2: Property Tax Revenue Collection in Major Tax Regions 2014/15-2018/19



Source: Data from TRA

The trend of property revenue collection for the rest of the tax regions is similar to the trend we observe at the aggregate collections. There are increases in property tax revenue collection after the reform in July 2016 but sharp drops after the reform in 2018 for all regions except for Njombe, Simiyu and Songwe as shown in Figure 3.3. This is because the flat rate significantly reduced the amount paid based on property values especially for commercial buildings. *Figure 2.1* shows that in 1988, a property in industrial area would pay up to TZS 2.8 million at the current equivalent value. This is far above the flat rate charged currently. So even with high compliance, collection would remain low.

Figure 3.3 Property Tax Revenue Collection for the Medium and Small Tax regions 2014/15-2018/19



Source: Data from TRA

Year after year more properties are erected, and new properties tend to be more modern and of higher values. This implies that potential amount of property tax revenue is expected to increase over years should other things such as the rated property tax or the method of computing property tax remain the same. Therefore, it makes more sense if the rate of growth of property tax revenue is also analysed. Figure 3.4 presents the annual growth rate of property tax revenue collection in mainland Tanzania.

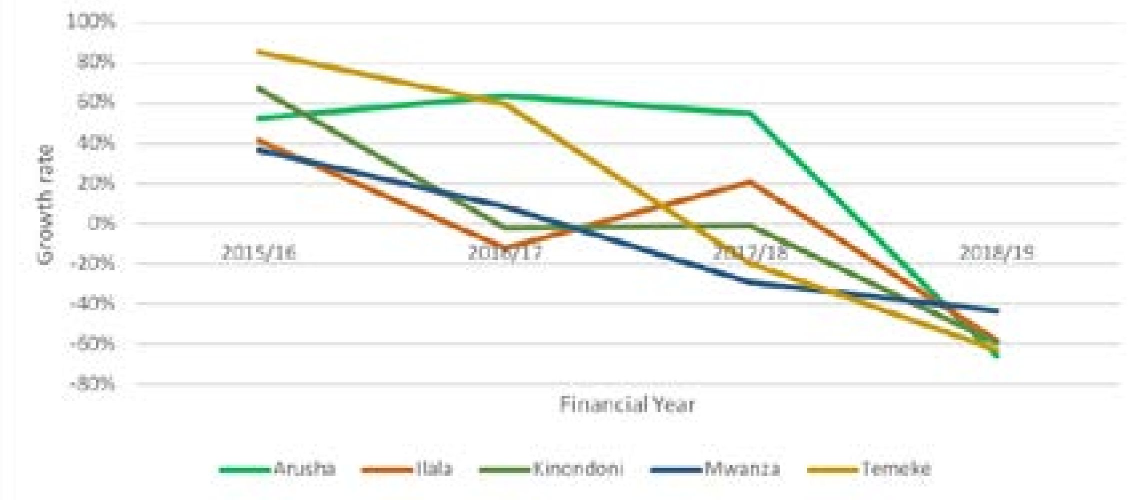
Figure 3.4: Property Tax Revenue Collection Growth in mainland Tanzania 2014

Source: Data from TRA

The growth rate of property tax revenue was 50% in 2015/16 when LGAs were collecting the tax. However, after the collection shifted to TRA growth declined to 21% and then 3% in 2016/17 and 2017/18 respectively. After the reform to change property tax rate based on value of properties to flat tax amount, revenue dropped by 53%. While it will be hasty to draw conclusions from the few data points observed from the data available, the picture we get is that both reforms have not been as effective in terms of increasing property tax revenue as the arguments used to institute them. However, the reform could have reduced the cost of collection; made it easier for property owners to pay the tax; and increased compliance (that is, the number of property owners paying the tax). All these could technically be considered an initial success as they lay a foundation for possible increases in revenues collected if the government decides to raise the current flat tax rates. Unfortunately, due to data limitation, these aspects could not be analysed.

The declining trend of property tax revenue growth rate is also observed when disaggregated by tax regions. Figure 3.5 which presents the growth rate of property tax revenue for major tax regions shows that, with the exception of Arusha, the other major tax regions register lower rates of growth after reforms. All the major tax regions had a negative growth in 2018/19. In addition, Kinondoni has had a negative growth since 2016 whereas Ilala and Mwanza experienced negative growth rates in 2016/17 and 2017/18 respectively.

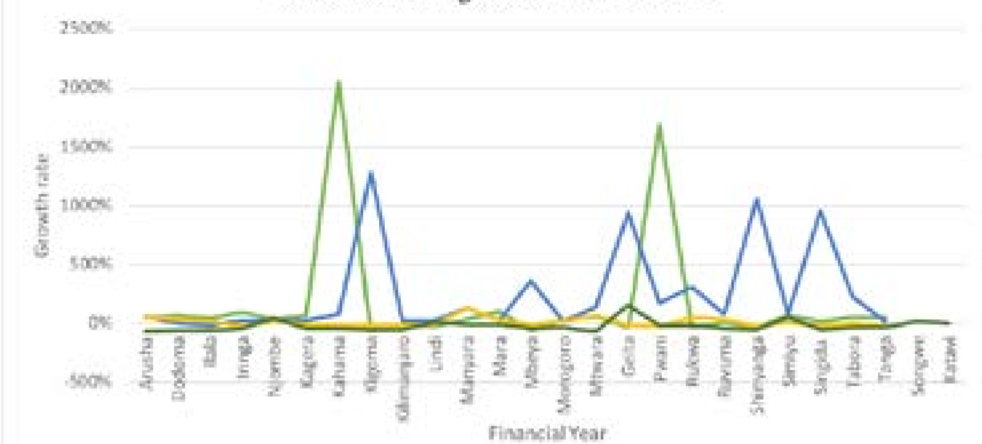
Figure 3.5: Property Tax Revenue Collection Growth in major Tax Regions 2015/16-2018/19



Source: Data from TRA

A similar trend of decreasing growth is observed for other tax regions where most of them experienced relatively higher growth rates in 2015/16 and 2016/17 and low but positive growth in 2017/18 (see Figure 3.6). On average, other tax regions also experienced negative growth in 2018/19. These observation point to ineffectiveness of the property tax reform in increasing revenue collection.

Figure 3.6 Property Tax Revenue Collection Growth for the Medium and Small Tax regions 2014/15-2018/19



Source: Data from TRA

4 The Effect of Property Tax Institutional Reforms to the Municipalities

The property tax institutional reforms imply changes in the activities performed as well as the revenue structure and collections by the LGAs. So, the study conducted key informant interviews with LGAs' officials to get their views on collection of property tax when it was under the mandate of LGA's, the challenges they faced, the use of property tax, the effect of the shift of property tax collection from LGAs to TRA and their opinions on the administration of property tax. The interviews involved officials who were working with LGAs at the time the mandate of property tax collection was under LGAs, they were involved in tax administration activities such as collection, enforcement or the revenue management.

Table 4.1: The number interviews by their Local Government Authority

	Frequency	Percent
Bagamoyo	1	6.7%
Chato	1	6.7%
Kigamboni	7	46.7%
Kisarawe	1	6.7%
Lushoto	2	13.3%
Temeke	1	6.7%
Ubungo	1	6.7%
Geita	1	6.7%
Total	15	100

Source: Data from key informant interviews with LGA officials

The information was collected from 15 officials from 8 different LGAs (see table 4.1). This involved 3 municipalities in Dar es Salaam (Kigamboni, Ubungo and Temeke); Kisarawe and Bagamoyo in the periphery of Dar es salaam and 3 more municipalities from 3 different other regions. Kigamboni municipality was over sampled to get opinions from officials in different cadres and for the purpose of comparison of responses within the same municipality. Due to a small sample size, results discussed here should be interpreted with caution without generalizability. They should be used to provide just a sense of the direction of views from LGAs.

Table 4.2. Properties from which LGA collected property tax

	Property tax collected	
Property	YES	NO
Residential buildings	93%	7%
Commercial Buildings	100%	0%
Industrial buildings	93%	7%
Vacant Buildings	57%	43%
Land	57%	43%

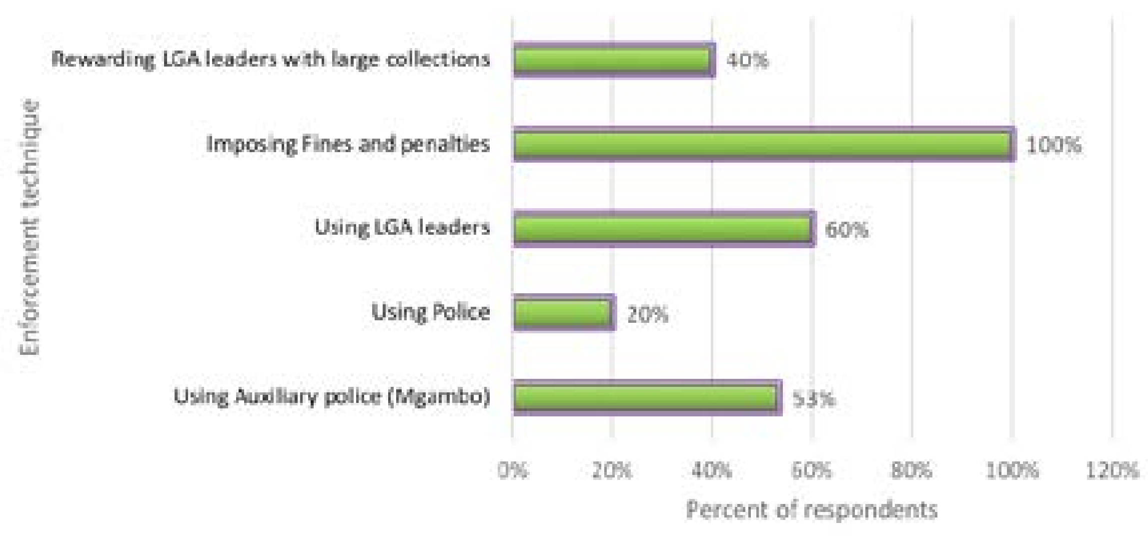
Source: Data from key informant interviews with LGA officials

Table 4.2 shows that commonly LGAs collected property tax from residential, commercial and industrial buildings. But some collected property from vacant builds and land while others did not. While this could be due to different by-laws enacted by LGAs, there is a possibility that the understanding of property tax also differs across LGA officials. This is observed by the difference in responses from the officials in the same LGA (in this case Kigamboni).

Collection of the property tax by LGAs did not meet the potential revenue collection as mentioned by all officials interviewed. About 50% of the respondents claimed to have met about 75%. The main challenge mentioned being lack of database of existing properties; difficulty in property valuation and lack of professional property valuers; shortage of transport means to facilitate property tax collection and enforcement; resistance from and unwillingness of property owners to pay the tax; and lack of enough manpower are mentioned as.

LGAs used various techniques of enforcement in collection of property tax. Fines and penalties was the most popular approach used to enforce property tax collection, used by all sampled LGAs (see Fig. 4.1). The use of LGA leaders and auxiliary police were also popular whereas the use of police officers and rewards to well performing LGAs were rarely used.

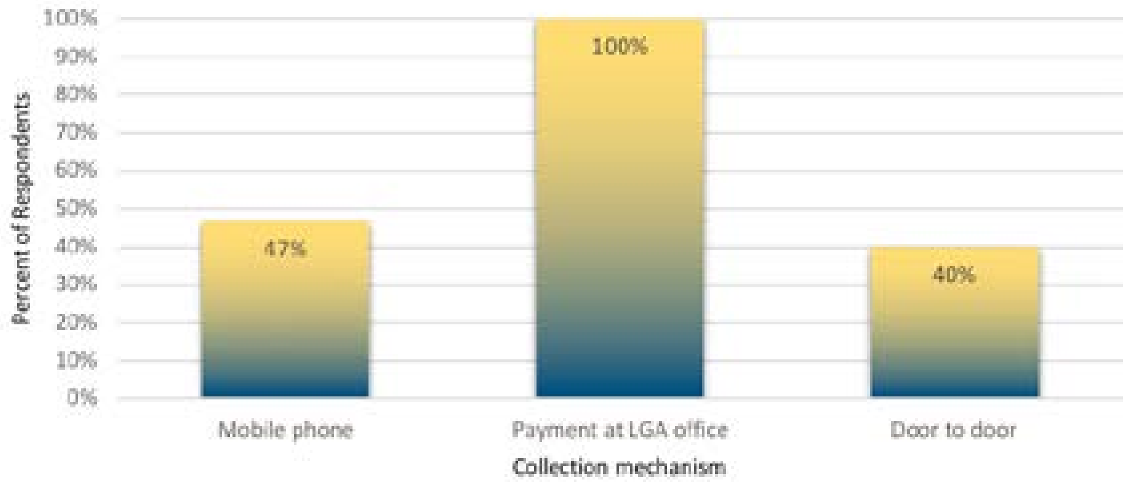
Fig 4.1 Property tax enforcement techniques



Source: Data from key informant interviews with LGA officials

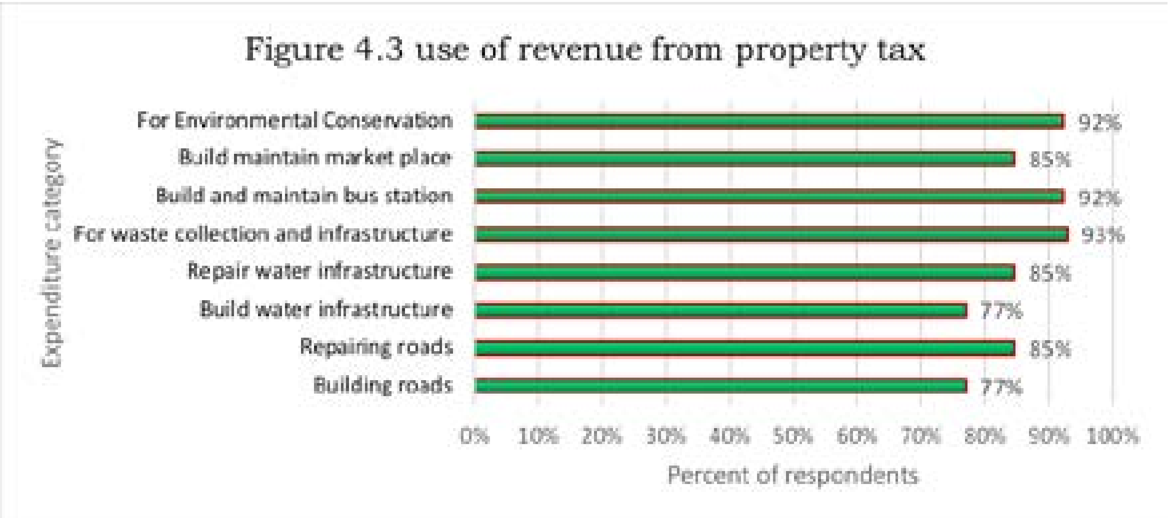
Property tax collection was primarily collected at LGA offices as shown in figure 4.2, where all LGA mentioned that mechanism. Mobile phones and door to door collection were not widely used. In addition to these mechanisms, respondents mention the use of point of sales (POS) as another vehicle for collecting property tax.

Fig 4.2: Property tax collection mechanism



Source: Data from key informant interviews with LGA officials

Figure 4.3 shows the proportion of respondents who mentioned using property tax revenue from different expenditure categories. More than 90% of the respondents mentioned that the revenue collected was used to perform a range of activities by the LGAs including environment conservation, construction and maintenance of bus stations, and waste collection. Before the collection role was transferred to TRA, the property tax revenue was also used for building markets, constructing and repairing road and water infrastructure as stated by 75-85 % of the respondents. In addition, it was also mentioned that the property tax revenue was used for construction of education and health facilities.



Source: Data from key informant interviews with LGA officials

The shift of property tax collection from LGAs to TRA has shifted away a source of revenue from the LGAs. This has had consequences on the LGAs as mentioned by the respondents, the main one being failure of the LGAs to implement some development projects which they used to implement using the revenue collected from property tax.

> *"The shift (of property tax collection from LGAs to TRA) affects LGAs so much because, property tax was one of the important own source revenue in LGAs. And when the shift occurred, property tax revenue was already budgeted in MTEF which made it necessary to find other sources to replace property tax which are very difficult."*

Moreover, some respondents feel that the shift demotivated revenue collection by LGAs probably fearing that even those other sources they have, which are performing better, might be shifted to TRA. Some respondents also believe that the government loses more revenue after shifting the collection of property tax away from LGAs.

All respondents from the LGA were in favour of the collection of property tax being returned to the LGAs' mandate. The majority of respondents propose the use of rates based on the categories of buildings for easy understanding and implementation. The majority of respondents also advocate the use of simpler but more effective methods of property valuation such as mass valuation using professional valuers in case the rate based on value is to be used. Most of the respondents still find the use of fines and penalties as the most effective technique to be used for enforcement, but also follow-ups by LGA leaders and rewards to well performers as additional means. The majority of the respondents from the LGAs believe that smooth cooperation among various institutions is important to improve property tax collection. Sharing of experience, capacity building and joint efforts between TRA and LGAs can provide better results.

5 Conclusions and Recommendations

The Government of Tanzania has been making efforts to widen the tax base and increase tax revenue collection. To be able to increase tax revenue collection without concentrating the burden to few categories of taxpayers, the government has tried to identify other non-traditional sources of tax revenue that are not yet tapped or have not been effectively utilised. In addition, the government has tried to make tax collection more effective, by identifying techniques that will reduce tax administration costs, reach a wider base, reduce nuisance and make it more affordable to tax payers and invoke voluntary tax compliance. Property tax is one of the tax sources that have not been exploited to its full potential in Tanzania. It has also not been able to attract voluntary tax compliance as it is desired. Thus, the government has, over time, introduced institutional reforms to exploit the potentials of property tax. These reforms have mainly explored two angles; the property tax rate determination and the administration of the tax. The recent reforms includes the one in July 2016 which shifted the mandate of property tax collection from LGAs to TRA, and the other in December 2018 following the president's directive to charge a flat amount of TZS 10,000 for single-storey buildings and TZS 50,000 for each level of multi-storey buildings. This report has presented .the assessment of the effect of those property tax institutional reforms

Using data from TRA for the period 2014/15 to 2018/19, the assessment shows that the property tax revenue collection continued to increase after the shift of collection from LGAs to TRA. However, the rate of growth of property tax revenue collection declined after the reform. Notably, the largest property tax revenue collecting tax region of Ilala and Kinondoni experienced a fall in property tax revenue collections immediately after the reform. The aim of the reform was to address the low ability of LGAs in collecting property tax revenue. So, if the trajectory of growth of property tax revenue collection was expected to remain the same, the implication is that the shift of property tax collection from LGAs to TRA was ineffective. This observation may be explained by the priorities LGAs and TRA would put in collecting this tax. While the contribution of property tax to LGAs' revenues may be significant thus make it a priority in their targets, the same may not be the case for TRA. The reform which introduced a flat amount of property tax had negative effect on the absolute revenue collection in most of the regions. The overall collection fell by 53% immediately after the reform. The aim of this reform was to make it easier for tax payers to understand the tax rate and increase voluntary compliance for even those whose buildings are not yet valued. This however does not turn out to be the case, which may be attributed to low level of awareness creation and enforcement. Another factor explaining the fall could be the fact that the flat tax amount lowered the amount for most of high value properties in strategic position such as hotels and large commercial buildings.

However, increasing revenue is not the only motive for the reform. There is possibility that the cost of property tax collection could have been reduced; made it easier and affordable for more property owners to pay the tax; and increase the number of property owners paying the tax. Achieving these motives could technically be considered as baseline success, laying ground for possible increases in revenues collected when the government decides to raise the flat property tax rates. The data limitation has made it challenging to explorer the success of these other motives.

The responses from LGA officials show that despite the challenges LGAs faced in collecting property tax, the revenue collected was very important in financing development projects. The property tax revenue increased financial independence of the LGAs too. LGAs still believe and wish to be a key and visible part in administration of property tax.

From the findings of the study, the following recommendations are put forward:

First, making property tax collection a priority and setting specific targets for it. To meet the desire to widen and diversify the tax base, each tax source including property tax should have specific targets and regional managers should be evaluated based on specific targets for each type of tax source instead of aggregate collection.

Second, making property tax reforms comprehensive. The change of reforms should also go hand in hand with strategies for executing collection and enforcement or behaviour change interventions that will foster voluntary compliance. For example, formalisation of properties, the use of mobile phones and point of sales for making payments; and reminder messages can be emphasised. There should also be a clear division of responsibilities among the implementing institutions involving registration of properties, valuation, maintenance of property registers and revenue data.

Third, allow for variation in tax rate determination. The determination of property tax rate should not focus on just one aspect. A room for variation should be allowed without compromising the simplicity of the tax. For example, there could be designed area-based flat tax amounts which adjust for location or for different types of buildings and their purposes such as residential, commercial, industrial or vacant properties. Mauritius, which is among few African countries which have successfully managed to raise significant revenue from property tax has a law which empowers the city and municipal town councils to determine their own tax rates based on use, whether residential, business, commercial, or industrial.

Fourth, strengthening coordination and improving capacity for LGAs to collect or assist in collection of property tax. While LGAs may not have enough resources compared to TRA in collecting property tax, they may provide a good support in collection of the tax because they are more aware of the location and use of properties in their area of jurisdiction.

Fifth, education to tax payers. it is important that tax payers are made aware of the rate, the procedures for paying property tax and consequent fines for not paying property tax. Behavioral intervention such as reminders at the appropriate time or moral motivations to taxpayers may also increase the rate of compliance. It is also important that enforcement is done, and action taken for those who evade.

Sixth, make the use of property tax visible to tax payers. Tax payers are likely to be motivated to pay property taxes if the benefit of the tax becomes visible to them. For example, part of the revenue collected could be directed towards improving services which the tax payers need, such as infrastructure improvements, and be made aware that the services are provided out of the property tax paid. Visibility could also be extended to include publication of property tax revenue collected within an LGA as well as its wards and sub wards. Publication of such information could serve as a platform for enhanced collaboration between LGAs and the TRA. This information could also be used as a benchmark for LGAs to verify payments against the number of eligible properties in their areas of jurisdiction.

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A1. Key Informants Interview guide with LGA's Respondents

Introduction

In February 2014, the government returned the property tax collection responsibilities to the municipalities with immediate effect. This occurred after the massive lobbying by the municipalities supported by the Association of Local Government Authorities in Tanzania (ALAT). But this lasted for two years only, in July 2016 the property tax collection duties were once again centralized and given back to the TRA.

Following the Presidents' concern on efficiency in tax revenue collection, in December 2018 he gave a directive to revise property tax system, proposing a flat rate of TZS 10,000 for normal buildings, and TZS 50,000 and TZS 20,000 for each floor of a multi-storey building in urban and rural areas respectively.

Research for Poverty Alleviation (REPOA) is conducting a study to obtain previous and current information about reforms, administration and collection of Property Tax to assess the impact of these institutional reforms.

Your Institution has been selected for this interview. Your participation is voluntary and the information that you give will be confidential. The information will be used for research purpose only and will not include any specific names. There will be no way to identify that you gave this information.

Kindly spare some time (around 15 minutes) for the interview.

Section 1: Identification Particulars

1.1 Respondent's job position: ______________________________

1.2 Respondent's mobile phone number(s): __________________________

1.3 Date of interview, dd/mm/yy: _____/_____/_______

1.4 Region/District/LGA authority: ______________________________

When LGAs were collecting Property Tax

1	For what type of properties were you collecting	A: Residential buildings	1.Yes	0.No	
		B: Commercial Buildings	1.Yes	0.No	
		C: Industrial buildings	1.Yes	0.No	
		D: Vacant Buildings	1.Yes	0.No	
		E: Land	1.Yes	0.No	

2	Were you collecting to the full potential you could?	1. Yes (Go to Qsn 5)	0.No	

3	What proportion of the potential amount were you collecting?	1. 10% 2. 25% (quarter) 3. 33% (one-third) 4. 50% (half) 5. 66% (two-thirds) 6. 75% (three quarters) 7. 90%	

4. To what extent were the following a challenge to meet the potential collection of Property tax

A. **Lack of professional valuers of properties or difficulty in valuation of properties**

Very Challenging	Challenging	A little challenging	Not challenge at all
1	2	3	4

B. **Resistance from property owners**

Very Challenging	Challenging	A little challenging	Not challenge at all
1	2	3	4

C. **Man power from LGAs**

Very Challenging	Challenging	A little challenging	Not challenge at all
1	2	3	4

D. **Lack of proper database of properties**

Very Challenging	Challenging	A little challenging	Not challenge at all
1	2	3	4

E. **Any other challenges to reaching potential collection of Property tax**

5. Apart from challenges to reach potential collection of Property tax, are there any other challenges related to the administration of Property tax? **If YES, Can you list the major three**

.A
.B
.C

6.	What was collected Property tax mainly used for	A: Building roads	1.Yes	0.No	
		B: Repairing roads	1.Yes	0.No	
		C: Build water infrastructure	1.Yes	0.No	
		D: Repair water infrastructure	1.Yes	0.No	
		E: For waste collection and infrastructure	1.Yes	0.No	
		F: Build and maintain bus station	1.Yes	0.No	
		G: Build maintain market place	1.Yes	0.No	
		H: For Environmental Conservation	1.Yes	0.No	
		I: Others			

7	What enforcement mechanisms were you using?	A: Using Mgambo	1.Yes	0.No	
		B: Using Police	1.Yes	0.No	
		C: Using LGA leaders	1.Yes	0.No	
		D: Imposing Fines and penalties	1.Yes	0.No	
		E: Rewarding LGA leaders with large collections	1.Yes	0.No	
		F: Others			

8.	What Revenue Collection Mechanism were you using?	A: Mobile phone	1.Yes	0.No	
		B: Payment at LGA office	1.Yes	0.No	
		C: Door to door	1.Yes	0.No	
		D: Others			

9. How has the shift of Property tax collection from LGS to TRA affected LGAs?

....
....
....
....

10. Do you have any suggestion on improving the administration of Property tax

A: Who should collect...

B: The rate charged..

C: Valuation methods..

D: Enforcement mechanism: ....

E: Collection Mechanism: ....

F: Interplay between institution (eg TRA, LGAs etc.

....
....

G: others

....
....

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