Real Property Taxation in Tanzania

An investigation on implementation and taxpayer perceptions

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To the loving memory of my late daughter Chikulupi Kayuza and my late mother Mkamite Sadima

Abstract

Many urban local authorities in developing countries are failing to cope with the increasing demand for urban infrastructure and other social services resulting from urbanisation. Insufficient locally generated finance is one among the reasons accounting for this failure. Real property tax is often identified as a major source of local government finance that has the potential to contribute substantially to locally raised revenue. This thesis reports on results of a study whose aim was to map out and examine property taxation practice in Tanzania.

The thesis thus reports on the examination of property tax administration in Ilala, Kinondoni and Temeke Municipal Councils in Dar es Salaam. The study analyses the processes of property identification, valuation and the collection of property tax revenue. This is the better way to illustrate how property taxation is practiced. From the property taxpayer's point of view the study explores property owners perceptions of property tax. Property owners' views were collected from Magomeni, Sinza, Mbezi Beach, Manzese, Kimara and Makongo Juu settlements in Dar es Salaam.

Study findings reveal that property tax generate very low levels of revenue when measured against the potential. This is a result of inadequacies in administration of the tax. Property tax coverage is low as large proportions of the property tax base are not valued and less revenue is collected from rateable properties captured in the property tax database. The study further observes inadequacies of non-supportive relationship among the key actors in property taxation. Property taxpayers express resistance to paying their tax bills on account of receiving little benefit or none in return for the taxes they pay. The observed deficiencies with the property taxation practice call for the urgent attention of the relevant municipal authorities if the property tax is to achieve the full potential.

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Acronyms

ALAT	Association of Local Authorities in Tanzania
CAMA	Computer Assisted Mass Appraisal
CBD	Central Business District
CCM	Chama Cha Mapinduzi
CSL	City Service Levy
DAWASA	Dar es Salaam Water and Sewarage Authority
DAWASCO	Dar es Salaam Water and Sewarage Company
DCC	Dar es Salaam City Council
DRC	Depreciated Replacement Cost
DVO	Dar es Salaam Valuation Office
ESAP	Economic and Social Adjustment Programme
GDP	Gross Domestic Product
GOT	Government of Tanzania
IAAO	International Association of Assessing Officers
IRRV	Institute of revenue Rating Valuation
LGFA	Local Government Finance Act
LGRP	Local Government Reform Programme
LGSP	Local Government Support Programme
MRALG	Ministry of Regional Administration and Local Government
NCPS	National Council of Professional Surveyors
NHC	National Housing Corporation
OECD	Organisation for Economic Co-operation and Development
PEDP	Primary Education Development Programme
PO-RALG	President's Office Regional Administration and Local Government
PWGSC	Public Works and Government Services Canada
PSRC	Parastatal Sector Reform Commission
RICS	Royal Institution of Chartered Surveyors
TANESCO	Tanzania National Electricity Supplies Company
TANU	Tanganyika African National Union
TShs.	Tanzania Shillings
UARA	Urban Authorities Rating Act
UCLAS	University College of Lands and Architectural Studies
UNHCS	United Nations Centre for Human Settlements
URT	United Republic of Tanzania
USEP	Urban Sector engineering Project
USRP	Urban Sector Rehabilitation programme
UWSAs	Urban Water and Sanitation Authorities
VAT	Value Added Tax
WEO	Ward Executive Officer

Chapter One

INTRODUCTION

1.1 Background

Debate on property taxation is becoming increasingly important within the local government-financing spectrum as more and more responsibilities are being devolved from central to local governance units. This is because taxes on property[1] are the single most important source of locally raised revenue in many parts of the world and often seen as particularly well suited as reliable revenue for local governments (McGuire, 2001; Sullivan, et al, 1995; Dillinger, 1992). Traditionally property tax has been identified with local government for reasons of its visibility and the inability of the tax object to shift location as a result of the imposed tax. The tax is also considered a suitable local source of revenue due to the linkage between the type of services often provided by local government and the enhancement in property values. Expenditure of property tax revenue on such services as fire, police protection, roads, drainage, street lighting results in increased property values within the jurisdiction. In recent years McCluskey (2000) has observed an international trend of increasing demand for public services and specifically those provided by local governments. Subsequently the growing need for revenue to finance local services has resulted in an increase in the number of countries that levy taxes on real property (Sullivan, et al., 1995).

It is also argued that the increased interest in property tax is due to a growing interest in local autonomy (Sullivan, et al., 1995). Thus property tax has the potential to yield large sums that can promote efficient fiscal decision making (Oates, 2001), and subsequently enhance local autonomy. On the other hand the visibility nature of the property tax promoted accountability on the part of local government since for example it allows the opportunity for taxpayers to review and challenge the property assessments and also question the spending of the generated revenue.

In developing countries context property tax is of particular importance because more responsibilities are increasingly being devolved to local government, hence the need

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[1] Real property attracts a number of different forms of taxes. However, this study is focused on property tax imposed on the value of real estate.

for a major local government revenue source that can generate sufficient revenue to finance local expenditure (Aluko, 2005; Bahl, 1998). Property tax scores high in that regard. The tax is also an important source of locally raised revenue in developing countries because the lucrative sales and income tax bases are exploited by the central government, leaving local governments to rely on property tax (Bahl, 1979). Comparatively there is much less reliance on property tax for local governments in industrial countries because other productive revenue sources are assigned to sub national governments (Bahl, 1998).

While the demand for public service is on the increase, provision of such services has proved challenging to many local authorities in African countries. The expanding demand for public services in African countries is, among other reasons, a consequence of urbanisation. Prior to independence, most African countries were predominantly rural with only a negligible percentage of the local population living in urban areas to serve the colonial masters. Rapid urbanization in developing countries of Africa was experienced after the 1960s when most countries became independent (Kironde, 2000). It has also been noted that some countries in Africa have experienced urban population explosion from 9% to 50% of the total population over a period between 1950 and 1985, and is projected to exceed 75% by the year 2020 (Kombe & Kreibich, 2000). This is vividly illustrated for example, the urban population of Tanzania which, as a proportion of the national total, has been growing faster in the recent past than it was in earlier times as captured in the fact that it was growing at 2.5% by 948 but at 23% in 2002.

As mentioned earlier recent years have witnessed rapid urban population growth that has mounted pressure on urban infrastructure and services previously planned for a smaller population. As a result African cities have poor or altogether lack basic urban services such as fire protection, health care, police, water, sanitation, electricity and so on. With declining economies, African cities have experienced serious declines in public investment in infrastructure and services. Kyessi (2002) notes that investment by governments in urban services infrastructure in developing countries takes about 20% of the total national investments.

Taking Tanzania as an example, most urban infrastructure services developed during the colonial period and in the early years of independence have deteriorated due to lack of maintenance and to overloading. Moreover very little is being invested in basic services infrastructure and service provision in urban areas. In Dar es Salaam for example a decline in government expenditure on services of 8.5% per annum was recorded from

1978/9 through 1986/7, resulting in rapid decline of the urban infrastructure fabric (UNHCS-HABITAT, 1996). A similar situation was observed in Nairobi where on average there was an average annual decrease of approximately 28% in capital expenditure on infrastructure and services over a 6 years period between 1981 and 1987. However, deterioration of services and urban infrastructure in countries of sub Sahara Africa is not only a result of rapid urban growth but also economic stagnation insufficient resources, inefficient management, weak technical and institutional capacities to increase service coverage and poor governance (Njenga, 2002; Kironde, 2000).

Generally the provision of basic urban services has not matched the level of urbanization in Tanzania. As a consequence service delivery has deteriorated to the extent that even the most basic services such as roads, street lighting, drainage systems are not easily available in many urban areas. A study on urban infrastructure provision (Kyessi, 2002) points out that there is a high infrastructure service deficit in urban areas, citing critical water problems that necessitate a large proportion of urban residents relying on unsafe water, limited access to proper sanitation with high dependence on pit latrines, low capacity in handling solid waste as well as lacking roads and storm water drainage. The service deficit is also manifested in primary education and health services. This service situation has been a concern of the government in Tanzania and is among the priority issues to be addressed under its Local Government Reform Programme (LGRP). The said service deficit has also attracted the attention of multilateral development partners such as the World Bank who financed the Urban Sector Rehabilitation Programme (USRP) in Dar es Salaam City and other eight Municipalities. Another programme for improving systems for operation and maintenance of infrastructure in Dar es Salaam has been launched under the Local Government Support Programme (LGSP).

Tanzania like other developing and transition economies is currently implementing a decentralization programme[2] of its government system. As a result of decentralization more and more responsibilities are delegated downward to local governments. However one noticeable feature with decentralization in the Sub-Sahara African countries is transfer of responsibilities to local governments without commensurate fiscal capacity. The fiscal

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[2]According to the Policy Paper on Local Government Reform Programme (URT, 1998) Tanzania has adopted the Decentralisation by Devolution approach whereby responsibilities and functions are assigned to local governments. Therefore decentralisation in Tanzania includes devolution of powers for local authorities to set rules for the councils, powers to levy taxes and powers to recruit their own personnel. Decentralisation includes also the changed central – local government relations that are characterised by consultations and negotiations, supportive and regulation roles by ministries and legal supervision of local government political and administrative decisions by the central government.

transfers are inadequate to cover the desired expenditure while revenue from local sources is insufficient to fill the gap between budgets and grants from the central government. This is because although local governments in most of these countries in the region have the legal authority to impose taxes, the tax base is so weak and there is so much dependence on central government subsidies such that no attempt is made to exercise such authority (UN-HABITAT, 2002). Inevitably the fiscal constraints inhibit local authority performance of the functions assigned to them and the resultant negative impact is much pronounced in the social services delivery. In addition local governments in many African countries can rarely initiate any significant measures without some lengthy review by the central government. Furthermore there are often strict constitutional or legal limits on the revenue raising and service provision powers for local authorities that prevent them from operating effectively (Njenga, 2002).

As has happened in other African countries, uncontrolled urban population growth coupled with insufficient resources have significantly affected social services delivery in urban areas in Tanzania. Local authorities in Tanzania are responsible for the provision of infrastructure and municipal services to the local communities in their jurisdictions. In order for the local authorities to perform the assigned responsibilities they are empowered to generate revenue from local own sources. In this study the focus is on property tax. In the literature, it is indicated that property tax is an important source of revenue because a considerable share of revenue is used to finance local services that subsequently benefit property values. In Tanzania there are also indications that property tax is becoming an important source of revenue for local authorities. For instance, it is the case that from the 1990s resources have been directed to rating valuation so as to improve the property tax base and subsequently raising revenue collection for improvement and maintenance of infrastructure in the urban areas. Furthermore consultants have been commissioned to evaluate the outcome of the rating project (Franzsen et al., 2002) and to look into the results of measures undertaken for the purpose of enhancement of local revenue in the city of Dar es Salaam (Franzsen & Semboja, 2004). All this is geared to improving property tax revenue among other local revenue sources.

Recent years have witnessed local government authorities working toward improving property tax revenue performance. In Dar es Salaam for example, the need to improve property tax revenue came up in 1993, when the government was implementing the urban infrastructure programme and the need to strengthen the operational and financial viability of municipal councils became apparent. This was necessary in order to

ensure maintenance and sustainability of the infrastructure investment. In view of this, property tax was seen as potentially the largest source of untapped local revenue (URT-MRALG, 1999), which could help the local authorities to improve their financial strength. It is reasonable therefore to assume that the choice of property tax revenue for reasons of improving the local authorities financial strength was based on the potentiality of the property tax to generate revenue when compared with the other local sources of revenue.

Increasing property tax revenue was to be achieved by improving the tax base of the local authorities through valuation of all rateable properties. The donor funding for valuation of properties was directed at Dar es Salaam and eight other municipalities. The objective of undertaking property valuation was to create comprehensive valuation rolls in each of the selected municipalities.

The Phase I Rating Project for Dar es Salaam commenced in 1993 under the then Urban Sector Engineering Project. A valuation office was established to specifically oversee the property valuation process. The first valuation roll for Dar es Salaam, produced under the project was operationalised in 1996 with the property tax collection responsibility assigned to the Dar es Salaam City Commission that had replaced the City Council. The first four years of the valuation roll registered an enormous increase in property tax revenue. From Tanzania Shillings[3] 60 million collected in 1995, the collection rose to TShs. 560 m in 1996, 1 billion in 1997, 1.1 billion in 1998, and a bit odd 1.1 billion in 1999. The revenue collected was from 30,000 properties that had been registered on the valuation roll.

In 2000 Dar es Salaam City was split into three municipalities each with an independent local government authority. At this time the Phase II rating project had produced additional 17,500 properties on the roll. By 2004 rateable properties listed on the roll had increased to 69,957. The municipal authorities started also to levy property tax on properties that had not been valued on a flat rate basis. Total property tax revenue collection for the three municipalities in Dar es Salaam was TShs. 1.2 billion in 2000; 1.5 billion in 2001; 1.6 billion in 2002; and 1.2 billion in 2003[4].

While there has been an increase of valued properties by more than 50 percent in 2000 and more than 100 percent by 2004, the change of actual revenue collected is not as high. Nonetheless, the valued properties in Dar es Salam City were about 21 % of the estimated 340,000 rateable properties in 2003. Considering the increase of valued

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[3] Note: 1995 – TShs. 592 = US$ 1; 2003 – TShs. 1055 = US$ 1 (Bank of Tanzania)
[4] The revenue amount for 2003 excludes the amount collected for Temeke municipal council

properties on the roll and the fact that non-valued properties are also taxed, the revenue collection levels ought to have increased considerably. Despite the increase in the number of the discovered rateable properties the Municipal Councils in Dar es Salaam have not registered a congruent increase in revenue collection. It is important to note that property tax contribution to total locally raised revenue is less than 20 percent. Table 1.1 is illustrative of the low contribution of property tax to the locally raised revenue for the three Municipal Councils in Dar es Salaam.

Table 1.1: Property tax as a share of total locally raised revenue (TShs. in "000")

Municipality	2000				2001			
	Other Sources.	**%**	**Property Tax**	**%**	**Other Sources**	**%**	**Property Tax**	**%**
Ilala	3,966,735	88	542,057	**12**	4,613,186	89	549,016	**11**
Kinondoni	1,958,471	80	494,365	**20**	2,224,564	79	588,154	**21**
Temeke	1,614,158	87.5	231,008	**12.5**	2,171,593	85	394,856	**15**

Municipality	2002				2003			
	Other Sources.	**%**	**Property Tax**	**%**	**Other Sources**	**%**	**Property Tax**	**%**
Ilala	5,299,701	88	690,828	**12**	5,947,838	90	640,286	**10**
Kinondoni	3,328,173	84	642,062	**16**	3,368,799	85	611,942	**15**
Temeke	2,381,776	88	330,400	**12**	NA		NA	

Source: Municipal Councils' Financial Reports
NA: Data not available.

1.2 The Research Problem

Attempts to improve property taxation for increased revenue have been through increasing numbers of rateable properties on the valuation roll, increasing numbers of non valued properties in the property tax register for flat rate taxation, computerising property tax records, and outsourcing the valuation and revenue collection functions. But the Municipal Councils in Dar es Salaam are yet to exploit the revenue potential in property tax. Data in Table 1.1 depicts a 20 percent average contribution of property tax revenue to the total locally generated revenue.

On the other end efforts to increase numbers of property on the valuation roll have had limited impact on the property tax revenue collected. Property tax collection levels during the City Commission administration with 30,000 properties on the roll are not that much different from those by the Municipal Councils with twice the number of properties on the roll plus the properties taxed on flat rate basis. Thus revenue from property tax continued to be smaller despite the increased number of properties registered on the roll, hence affecting the Council's capacity to perform their responsibilities. In line with this it

has been reported that the City Council and the three Municipal Councils which together constitute the four local authorities responsible for Dar es Salaam are in a position of reasonable fiscal and institutional stability but as a result of resource, capacity and other constraints they have very limited ability to deliver services widely (Franzsen & Semboja, 2004).

Existing data from previous studies on property taxation in Tanzania is not adequate to provide explanations for the Councils' poor performance in generating property tax revenue. For instance studies by McCluskey et al (2002) and Franzsen et al (2002) focused only on the Rating Valuation project for Dar es Salaam and eight project towns that had been undertaken as a sub-component of the USRP. The rating project was undertaken under the Dar es Salaam Valuation Office, a special unit that had been set up specifically to oversee the rating valuation for the designated jurisdictions. Another study report focused only on the Enhancement of Local Revenues in the city of Dar es Salaam (Franzsen & Semboja, 2004). Yet another study by Kironde (2001) only examined ways of financing the Sustainable Development of cities in Tanzania. In all these studies, property tax features prominently as one of the sources of revenue for local authorities. Property tax does also feature in a study on Implementing Property Tax Reform in Tanzania (Kelly & Masunu, 2000), the focus of which is on valuation as part of property tax reforms undertaken. All the same, even these other studies offer one big picture within which to assess the contribution of property taxation in local governance.

Given that projects constitute assignments undertaken over specified period of time, the rating projects had limited knowledge to offer. For example, while the earlier mentioned rating projects were fully funded by donor funds, Municipal Authorities had chronic resource constraints. Also the rating projects dealt with one aspect of valuation and the collection function was transferred to the rating jurisdictions. For the case of Dar es Salaam property tax collection out of the rating projects was handled by the City Commission and later the three Municipal Councils. As such little is known about how property tax is administered for attaining efficiency in revenue generation and fairness criteria. It is also not known if the property tax is acceptable by property owners. Thus little is known about taxpayers' perceptions of property taxation. Moreover it is not known how the agency relationships among the actors impact upon property tax collection.

Existing knowledge on international property tax practices provide limited data that can support the understanding of the property tax system of Tanzania. Lack of

detailed information about property tax practices and experiences in other countries makes it difficult to draw lessons that can be helpful in the analysis of property taxation in the case study country. Moreover, data available on international experiences have application limitations because of the varying characteristics of individual property tax systems. Variations in aspects linked to property tax such as land tenure systems, property market behaviour, property tax law, availability of land information and so forth, create limitations in analysing property tax practices given the different property tax systems. In the absence of knowledge with uniform attributes that can help in understanding property tax practices under different tax systems, exploring the emerging property tax regime in Tanzania becomes imperative in order to find explanation for the poor performance.

1.3 Research Objectives and Research Questions

In view of the poor performance by the Municipal Councils in raising revenue from property tax, this study explores the property taxation practice in Dar es Salaam. The aim is to gain an in depth understanding of how property tax is implemented. Consistent with this, the study is guided by the following specific objectives:

- To explore the property tax administration process in Tanzania so as to identify the constraints leading to weak revenue performance.
- To investigate the property taxpayers' perceptions of property taxation in Tanzania.
- To examine relationships among the key actors in property taxation practice in Tanzania.

Research Questions

- How is property tax administered?
- Is the property tax administration system facilitated in administering the tax?
- What are the taxpayers' responses to paying property tax?
- What are the implications of property tax administration practices on property tax revenue collection?
- Is there supportive relationship among the actors in property taxation?
- What measures can improve the current situation?

1.4 Significance of the Study

A number of reasons can be advanced for the importance of pursuing a study on real property taxation. One reason stems from the weak revenue performance that the

Municipal Councils in Tanzania are experiencing. There have been attempts to improve property tax performance in generating revenue but with minimal recorded success. Besides, local authorities are loaded with many responsibilities but with insufficient locally raised revenue. On the other hand central government grants are conditional such that the local authorities cannot spend the allocated funds on functions other than those ascribed to the grant. With decentralisation, local governments are granted with more administrative and fiscal discretion, which result in increased responsibilities. The demand for public services also keeps on increasing. To address these requirements, local authorities need to improve their financial strength. Consistent with this situation, several local sources of revenue have been abolished amid the increased financial needs by the Municipal Councils. Among the remaining local revenue sources, property tax is ranked high in terms of possible revenue performance. However, in the light of these circumstances it is important to examine the property taxation practices so as to inform the responsible parties of the factors impacting upon property tax revenue performance.

First, the study on real property taxation was expected to contribute towards an understanding of how property taxation is being implemented in Tanzania. Several strategies are being attempted to improve the property tax base. Given the premise that local authorities are loaded with many responsibilities although with inadequate finances, the need to increase financial strength should be a priority. Thus the understanding of the functioning of the property tax system was expected to reveal issues of concern that need to be addressed by local authorities for increased efficiency in levying property tax.

Second, the involvement of property owners through soliciting their views was expected to be an attempt to put into perspective the public acceptability of property tax. The property owners' opinions, which form part of the findings of this study, will therefore inform the taxing authority on the extent to which property tax is accepted by the taxpaying community. The property owners' views will also help the local authorities to identify issues that require attention for improved cooperation from the taxpayers. Positive responses to paying property tax are more likely where there are benefits accruing from the tax revenue. As argued by Makade (1995), if an individual ratepayer does not receive any tangible service, he/she will certainly question the logic of paying rates. In view of this assumption, then, the findings of this study will help local authorities to understand the taxpayers' perceptions with respect to property tax for they are important players on the other side of the property taxation equation. Thus property taxation creates an implicit contractual obligation between the taxing authority and the taxpayer that is

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effective where each part plays its role. This obligation regime is effective where each part plays its role. Hence knowledge about property taxpayers' attitudes is a valuable contribution to efforts by local authorities if they are to understand their partners in taxation for improved property tax collection.

Contribution to knowledge is yet another reason for undertaking this study. Through investigating the property tax administration process in Tanzania it was envisaged that the study will bring out issues concerning most of the aspects touching upon property taxation with a view to addressing all components of the property tax administration (property identification, valuation, collection and enforcement), which should be accorded the necessary priority in any evaluation of a property tax regime. This is because the components are closely linked and the others determine success of each stage. The study was expected to be able to make a contribution to knowledge, as it will benefit various stakeholders in property taxation including municipalities, revenue collectors, taxpayers, central government policy makers and researchers. All these aspects of the envisaged significance of the study are discussed as part of the findings of the study and in the concluding chapters of this dissertation.

1.5 Methodological Approach

This section presents the procedure used in conducting the research. Selection of a case study area and methods for gathering evidence are discussed.

1.5.1 Research Design

A research design represents a sequence of pragmatic aspects of the way the research was conducted. In a more elaborate way, a research design is "a programme that guides the investigator in the process of collecting, analysing and interpreting observations. It is a logical model that allows the researcher to draw inferences concerning causal relations among the variables under investigation". (Nachmias & Nachmias, 1992:97). The discussion in this section therefore presents the process of how the research was conducted.

The nature of the research problem desired an inquiry of the property taxation practice so as to answer the questions of "how" is property tax administered and "why" the municipal councils in Dar es Salaam have not been able to generate the desired revenue from property tax. A case study approach was considered appropriate in understanding the property taxation practice. Yin (2003) asserts that case studies are the preferred

strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon with some real life context. A case study has been defined as:

> "an inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulation fashion, and as another result benefits from prior development of theoretical propositions to guide data collection and analysis. (Yin 2003: 13-14).

The main purpose of the study was to investigate the property taxation practice in Dar es Salaam. Accordingly the property tax administration process was explored in order to understand how property taxation was being implemented. Consistent to the case study definition, the property taxation practice was viewed a phenomenon, taking place in real life context; hence it qualified to be explored using case study strategy.

Furthermore, the case study strategy was considered appropriate for this study for it allowed direct observation of the events being studied and interviews of the persons involved in the events. Through direct observation of the taxable objects and physical working conditions and facilities; and through interviewing property tax administrators, valuers and property owners it was possible to gain understanding of the picture of the property tax administration process.

Unlike the experiment, survey and history strategies, the case study was seen to have a unique strength that enables the investigator to use a variety of methods of data collection. According to Yin (2003), case studies need <u>not</u> be limited to a single source of evidence since most of the better case studies rely on a variety of sources. In this study of property taxation practice, documentary evidence, interviews, direct observations as well as a survey were used as methods of collecting evidence.

In the study, the property tax administration process constitutes a case, embedded with the processes of property identification, valuation and collection as subunits of analysis. Also property taxpayers are viewed as an embedded unit of analysis. While property tax administration process is the case study, Dar es Salaam city was selected a case study area. Thus evidence to inform the case study was collected from the three Municipal Councils and selected settlements in Dar es Salaam. Information about property tax administration was gathered from Ilala, Kinondoni and Temeke Municipal Councils. In addition, four valuation firms informed the study about rating valuation.

A structured questionnaire was administered to property owners who constitute property taxpayers so as to inform the study about how they perceived property taxation. The survey was conducted in six settlements namely Magomeni, Sinza, Mbezi Beach, Manzese, Kimara and Makongo Juu.

The choice of Dar es Salaam as a case study area was motivated by a number of reasons. First, Dar es Salaam is the largest urban centre as well as a commercial capital for Tanzania, factors that make the city assume strategic significance in the national economy and subsequently command high influence on the possible effectiveness of a number of policy measures. Moreover its unique metropolitan features and complexity offers opportunities for learning important lessons that could be applicable elsewhere in Tanzania. As put by Kironde (2002), whatever happens in the City of Dar es Salaam has an impact on the whole direction of governance in the Republic.

Second, the first rating project that was envisaged to improve the property tax base took place in Dar es Salaam. As such property taxation practice in Dar es Salaam, after the rating valuation project, is a good example for the other eight municipalities that were included in the subsequent phases of the project. In terms of property valuation professional practice, a large population of valuers is stationed in the City. Subsequently most of the valuation firms are established in Dar es Salaam. It follows therefore that valuation firms picked for rating valuation both in Dar es Salaam and the other eight municipalities have their offices established in the City.

Third, after the first valuation roll for Dar es Salaam was in place, a remarkable increase in property tax revenue was noticeable. This provided an avenue for understanding the impact of property valuation on property tax revenue. Also a number of previous studies and reports (Franzsen and Semboja, 2004; Faber, 2004; McCluskey et al, 2003; Franzsen et al, 2002; Kironde, 2001; Kelly and Masunu, 2000) related to property tax were conducted in Dar es Salaam. Therefore Dar es Salaam can give rich information that was of relevance to the study. Given these factors the City was found more appropriate for the study as there was quite a substantial amount of insights to learn about property taxation practice. Like other urban centres in Tanzania, Dar es Salaam City is composed of planned and unplanned (informal) settlements albeit with little differences in terms of what local authorities can offer to people in these settlements. On the other hand property tax is levied on property across all settlement categories. Hence settlements as sources of data for the study were identified with the view to representing property owners' views from both planned and unplanned areas.

1.5.2 Data Collection

The study was informed by both qualitative and quantitative data. A sample survey was used to produce quantitative data as part of the evidence required for the study. Apparently the survey produced also qualitative data. Qualitative evidence on the other hand was gathered through interviews and direct observations. Also analysis of documentary information provided data for the study.

1.5.2.1 Interviews

Interviews provide one of the most important sources of information for case studies. Interviews may be conducted in three different ways. An open-ended interview is one such type in which respondents can be asked about the facts of a matter and to provide their opinions about the events. A focused interview is another type that involves interviewing a respondent for a short period following a certain set of questions prepared for the interview. A third type of interview is in form of structured questions like those for a survey. This is similar to the interview that was used for collecting evidence from property owners. In this study focused interviews were deployed in collecting data from Municipal Valuers and Consultant Valuers with the valuation firms. The focused type of interview was considered appropriate because a number of valuers were interviewed. Hence in order to gain information that focused on the same topics it was crucial to prepare questions, which ensured that each interviewee provided data within the required context.

Interviews are important since they provide opportunity for a researcher to gather detailed information from the respondents involved in the events or the phenomenon being studied. Yin (2003), views interviews as an essential source of case study evidence in that most case studies are about human affairs. These human affairs need to be reported and interpreted through the eyes of those interviewed, and well-informed respondents can provide important insights on the phenomenon being studied. Moreover, the qualitative research interview attempts to understand the world from the subjects' points of view, to unfold the meaning of people's experiences, to uncover the lived world prior to scientific explanations (Kvale, 1996).

In this study focused interviews were conducted to gather empirical information from the interviewees. There were two groups of interviewees. The first group involved Municipal valuers working with Ilala, Kinondoni and Temeke Municipal Councils in Dar es Salaam. These were interviewed to gain an understanding of the property tax

administration practice as they are entrusted with the whole process of administering property tax. Interviews were conducted with the Municipal Valuers as key persons in the valuation office of each municipal council. Given their tight work schedules three interviews were conducted with each Municipal Valuer.

The other group of interviewees constituted valuers working with private valuation firms. One interview was conducted with one key representative of each valuation firm. The interview subject was the same for all firms, related to what was involved in the supervision of the rating valuation contracted to each firm. Private Valuers informed the study of their practical experiences with rating valuation. Some of the information they provided was used to crosscheck the information obtained from Municipal Valuers. Four valuation firms namely Property Market Consult Limited, Thomas Kironde Associates, TRACE Associates, and Proper Consult Limited were selected for the interviews. The firms were selected because they had been engaged in rating valuation for the Municipal Councils.

An interview guide containing questions on specific issues was prepared for each group of of interviewees. Questions in the interview guide for the Municipal Valuers were designed to capture information on broad issues of the entire property tax administration process. On the other end, the interview guide for the valuation firms focused on the practical issues of rating valuation based on their experiences. The interview questions are appended as appendices two and three respectively. To ensure validity the principal researcher conducted all interviews with the valuers. The information arising from the discussion was recorded as the interview was in progress. Since more than one interview was conducted with the Municipal Valuers, the same set of questions in the interview guide were used and next interview continued from where the previous had ended. Also the same interview subject continued with the interview.

In the course of conducting interviews some problems were encountered. The most critical problem was related to time wasted in waiting for the interviews to take place. In most cases the interviews could not start as scheduled because interviewees especially the Municipal Valuers were busy attending to various issues. Sometimes the interview appointments had to be cancelled and rescheduled.

1.5.2.2 The Survey

A survey was adopted for collecting the quantitative evidence from property owners. However, substantial qualitative information was also gathered from the respondents using

the same survey instrument, which contained both "closed- ended" and "open- ended" questions.

A questionnaire was administered on individual property owners. This took the form of a personal interview (schedule-structured interview) in which a researcher was asking questions and recording answers from the respondents. The questionnaire was structured to capture factual information on the social economic status plus numerical information with respect to service costs, property values, tax liability and so forth. The open-ended questions were intended to elicit answers that reflected the property owners' opinions on property taxation including their relationship with the taxing authority.

The schedule-structured interview was considered appropriate for this study as it enabled one to obtain elaborate answers to open ended questions from the respondents. It also helped to obtain responses from property owners who had modest school education. Besides, the personal interview enabled the study to avoid the pitfalls of mail questionnaire and telephone interviews, which are the other types of data gathering instruments in the survey method. The survey was conducted with the assistance of two research assistants at any given time. The research assistants are degree holders from UCLAS.

Respondents for the questionnaire were selected using convenience sampling. According to Nachmias and Nachmias (1992), a convenience sample is obtained when a researcher selects whatever sampling units are conveniently available. In this case the nature of the data required made it necessary to administer the questionnaire at the respondents' property. The intent was to ensure that the property owner who is automatically liable to property tax responds to the questionnaire. As such a tentative list of property owners to be interviewed in a selected settlement was drawn from the respective sub-ward office. But alternative names were included when in the field whenever the earmarked property owner was not found at the house. The convenience sampling was possible with assistance from sub-ward leaders who accompanied the researcher to the field throughout. An elaborate account of the selection of respondents is given in Chapter Nine.

Problems of delays to start work were experienced when administering the questionnaire. While the research assistants arrived at ward and sub-ward offices early considerable time was lost in waiting for the local leaders to accompany them to the field. On some days the field visits had to be called off. There were also situations in which

some respondent would prolong the interviews as they assumed it was an opportunity to air their grievances with respect to lack of services.

1.5.2.3 Direct Observations

Direct observation was another method that was adopted for collecting evidence that could be captured without necessarily asking a respondent. This was made possible by visiting each property whose owner was a participant to the survey. However it is important to note that direct observation is different from participant observation in which a researcher is not only a passive observer but may assume roles and participate in the events being studied. Observations were also used to compliment or confirm some of the respondent's responses on certain aspects. For instance a question on property characteristics required information on the buildings. Many respondents were not able to provide technical information, but the researcher could obtain such information through observation. Given that the questionnaire was administered at the respondent's property, it provided an opportunity for the researcher to observe the type and characteristics of the building(s) as well as environmental conditions surrounding the property. In addition, moving from one property to another provided another opportunity for the data collectors to observe the situation of the basic infrastructure and services within the neighbourhood.

By direct observation method it was also possible to observe the physical work conditions at the Municipal Valuation Offices and Sub-ward Offices. Even though the interviewees had mentioned the work conditions, the researchers could also observe the situation that was being referred to. At the time of conducting the interviews with the Municipal Valuers the researcher could observe the space size, furnishings and tools availed for the valuation office. Likewise observations were made on the condition of the Sub-ward Offices where property records for properties that have not been valued are generated and maintained. This was done when the research team visited the sub-ward office for the preliminary selection of the respondents for the survey. The researchers recorded the observations while administering the survey.

1.5.2.4 Analysis of Documentary Evidence

The study benefited substantially from information contained in various forms of documents including pieces of legislation, policy documents, various government reports and newspapers. Some specific information necessary for the study was obtained from documents like valuation rolls and financial reports. The researcher had to spend

considerable time at the Municipal Valuation offices and treasurer's office to extract information from documents and files. The study also gained considerable information from features in newspapers. The information mostly represented people's views and concerns about the way the Municipal Councils have not been responsive to people's demands for urban services. Thus the newspaper information corroborated part of the evidence obtained from interviews and observation. According to Yin (2003), among the documentary evidence, newspaper accounts are excellent sources for covering certain topics.

1.5.3 Validity and Reliability

Internal validity relates to establishing causal relationships whereby certain conditions are shown to lead to other conditions. The study addressed the issue of internal validity by use of multiple sources of evidence in trying to establish the causal relationship between the phenomena being studied and the identified factors. The case study data were collected from three Municipal Councils, four valuation firms, and six settlements categorised as planned and unplanned. In addition, four methods were deployed in data collection.

External validity on the other hand is concerned with the problem of knowing whether findings from the study are generalisable beyond the immediate case study area. Generalisation is automatic with survey research in which samples are generalised to a large population. In contrast with case study research a case is not a representative sample because if for example multiple cases are involved in a study the same research process has to be undertaken for each case. Instead of statistical generalisations involved in survey research, case studies rely on analytical generalisations in which particular set of results are generalisable to some broader theory (Yin, 2003). Thus for case study results to provide support for the theory, it entails that the theory is tested by replicating the findings in a number of case studies.

The findings of a given case study can be used as a basis for analysing other cases characterised by more or less traits similar situations as those found in the case study area. In the current case, the findings provide a basis for analysing property taxation practice in a local authority under a similar property tax system. Given that evidence for the study was obtained from respondents involved in the events of the studied phenomena, it leaves no doubt as to the validity of the information so provided. The respondent valuers representing the taxing authority and the taxpayers were deemed to have less incentive to

cheat as they could not stand to gain by so doing and given the case study data gathering instrument used in the study.

As regards reliability, is related to the need to ensure that same findings and conclusions would be arrived at if the same study were replicated following the same procedures as those adopted in the earlier study. To aim at reliability is to seek to minimise errors and biases in a study. A case study protocol was provided so as to address the issue of reliability. Procedures for data collection were documented for every member of the research team to follow while conducting the research. A questionnaire containing the same questions was administered in six settlements. Although three interviewers were involved in administering the questionnaire, all these interviews were guided by the questions in the data-gathering instrument. As for the interviews, these were guided by the two sets of interview guides each specifying themes within the subject being studied.

Furthermore, in order to ensure the quality of collected data, only research assistants with degree level of education were deployed and trained to administer the questionnaire. To gauge their understanding of the survey instrument, research assistants were made to administer the questionnaire to the principal researcher. This was also meant to establish a common understanding of the questions in the instrument, which had been translated from English to Kiswahili language. The translation was found compelling because the majority of the respondents use Kiswahili for communication. Also the principal researcher handled the interviews with the Valuers because these were fewer and it was the best in which the relevant practical and professional issues could be captured by the interviewer. The ultimate goal was to enhance the quality of the data emerging from the Valuers' narratives.

1.5.4 Data Analysis

Analysis of data covered both quantitative and qualitative evidence obtained from the field. For the survey data, preparations for analysis involved checking all questionnaires to see whether they contained the required information and coding the answers to the open ended questions which were not pre-coded. Before coding the answers to the open ended questions, these answers were sorted and categorised according to their meanings. The categorised answers were then coded after which all data in the questionnaires were entered in the computer. Subsequently the data were processed and analysed using the SPSS for Windows computer programme. Data analysis output in the form of descriptive statistics and cross tabulation was interpreted so as to establish the context of the meanings

of the responses and their implications to the study objectives and questions. Also statistical tests were carried out to find significant differences between the studied groups.

Unlike quantitative data analysis, which is guided by standardised procedures, well spelt out techniques for the analysing qualitative evidence are lacking. As noted by Creswell (1994), few writers agree on a precise procedure for data collection, analysis, and reporting of qualitative research. On the other hand Yin (2003) points out that the analysis of case study evidence (which is basically qualitative) is especially difficult because the strategies and techniques have not been well defined.

According to Yin (2003:109), data analysis consists examining, categorising, tabulating, testing, or otherwise combining both quantitative and qualitative evidence to address the initial propositions of the study. In line with this, analysis of qualitative data in this study was based on the examination and categorisation of the collected evidence in accordance with the structured themes of the phenomenon being studied.

The recorded interviews in the form of notes were first examined, and then sorted out so as to put together information from each interviewee according to the theme categories. The categorised data were interpreted so as to provide explanations for the themes identified in the interview guide. The explanations were helpful in understanding property taxation as practised in Dar es Salaam.

1.6 Structure of the Thesis

In summary this thesis is presented in Ten Chapters. Chapter one provides the background to the research problem, objectives of the study, research questions as well as the significance of the study. The chapter also discusses the research methodology aspect of the study whose findings are presented in this thesis. Chapter Two provides a theoretical framework within which the property tax system in Tanzania is analysed. The basic principles of taxation, criteria for evaluating property tax structures and theories reflecting on the various factors and relationships in the property tax environment are discussed.

Chapter Three reviews the property tax practices in some selected countries around the world. It outlines the features of property tax systems in both developed countries, and developing and transitional countries. Chapter Four reviews the local government system since its introduction in Tanzania and outlines the local financing opportunities available for local government authorities. Chapter Five presents the features of a property tax

system in Tanzania as structured in a given legal framework. Chapter Six then provides an overview of the Dar es Salaam City in Tanzania as a case study area.

Chapter Seven presents the analysis of the empirical results of the study. It covers property identification and registration, and property valuation for rating purposes. This is followed by Chapter Eight, which presents a continuation of the analysis of the empirical results on property tax collection. Chapter Nine provides the property taxpayers' perspective. Finally, Chapter Ten presents the discussion of the findings, conclusion and possible policy options. Also samples of property tax flat rates schedule, interview guide, and questionnaire are appended.

Chapter Two

THEORETICAL FRAMEWORK

This Chapter provides theoretical foundations within which property tax practice in Dar es Salaam is analysed. A theory is a collection of concepts, which together provide an understanding of how a phenomenon is built up; and how it can be classified and used (Lundequist 1999). It follows that concepts central to the study were reviewed. These essentially consisted of standard principles of taxation. The intent was to provide a theoretical framework for analysing the property tax system under investigation. In addition the Principal-Agent and Game theories were reviewed and all of these are discussed with a view to providing a perspective for the analysis of the relations holding among the key players in the property taxation process.

2.1 Characteristics of a good tax system

Taxation involves transfers of money from individuals to governments. The transfers are not voluntary but compulsory. Governments impose taxes on citizens as a means of addressing a variety of objectives that may be fiscal or regulatory. The major purposes of taxation (Lymer & Hancock, 2002; Stiglitz, 2000, James & Nobes, 2000) are:

    i) generating revenue for public expenditure

    ii) redistribution of income and wealth in ways considered just and equitable.

    iii) correcting market system inefficiencies in the allocation of resources.

    iv) control of money in circulation in order to stabilise the economy.

Since governments have varying objectives, different forms of taxes become necessary for the achievement of such objectives. Taxes may be categorised into those levied by the national governments and local taxes, which are levied and administered by local governments. Local taxes assigned to local government are to a large degree influenced by the central – local government fiscal relations. Nonetheless the discussion in this study focuses on real property tax as a local tax.

A number of considerations need be taken into account in designing or scrutinising a tax proposal. Economists have categorised economic concepts that can be used in evaluation of a tax system in different ways. However, most of the criteria used in

evaluating a tax system are founded on the traditional Adam Smiths' (1776) four canons of taxation. The traditional four canons of taxation are:

i)   equity, i.e fairness with respect to the tax contributions of different individuals;

ii) certainty, i.e. a lack of arbitrariness or uncertainty about tax liabilities;

iii) convenience, i.e. with respect to the timing and manner of payment;

iv) efficiency, i.e. a small cost of collection as a proportion of revenue raised, and the avoidance of distortionary effects on the behaviour of taxpayers (i.e. the principle of neutrality).

Overtime, varying criteria for scrutinising a tax system have come up. For instance James & Nobes (2000) consider efficiency, incentives, equity, and macroeconomic considerations as important criteria, but argue that not all may be relevant in every situation. Nonetheless the criteria do provide a framework within which various tax system proposals may be considered and can also be used as a checklist for important aspects that ought to be included. Stiglitz (2000) formulates five desirable characteristics for any tax system namely economic efficiency, administrative simplicity, flexibility, political responsibility and fairness. Along the same line fairness, promotion of economic prosperity, simplicity and enforceability are considered as important features for a good tax system by Slemrod & Bakija (2001). However, the importance of the criteria for consideration may vary with different circumstances depending on the tax objectives. In the following section requirements for consideration for a tax system are reviewed in the context of the concepts of economic efficiency, incidence and fairness, legitimacy, and administrative simplicity. These are considered as more important for the tax structure to satisfy.

2.1.1 Economic efficiency

A tax system is regarded as efficient if it causes little or no interference in the functioning of an economy. The assumed starting point is then a competitive economy where resource allocation is pareto-efficient. Allocation of resources is considered to be pareto-optimal if no rearrangement of resources could make one person better off without making someone else worse off. Apparently, the transfer of money to the government in form of taxes leaves a taxpayer with lower purchasing power and subsequently affecting his economic behaviour in various ways Stiglitz (2000). As a result of taxation individuals may either have to adjust the amount of work so as to earn more and sustain their consumption

pattern, or are compelled to cut down consumption to match the after tax income. Taxation results in what is termed as income effects and substitution effects.

When a commodity tax is imposed the relative cost of goods and services change, motivating consumers to switch from one product or activity to another. The act of switching from one product to another as a result of a tax, given a certain income level, leads to substitution effect. The substitution effect interferes with consumer choice and subsequently leads to economic inefficiency. Taxes that affect relative prices and influence consumers to substituting consumption of the taxed commodity for another are also termed distortionary taxes and the substitution changes the consumer's tax liability. The distortionary effects are not limited to commodity tax alone but are also associated with tax on income as an individual may decide to reduce his tax liability by working less.

However, in some cases the distortionary effect may be intended by the government in order to encourage the economy to move to a more desirable allocation of resources than the prevailing one. For instance a government may encourage people to invest in pension funds. Conversely consumption of certain commodities may be taxed higher than others in order to discourage consumption of such goods. Apart from effect on individual taxpayers, taxation affects also business companies. The effect of taxation can for example motivate a company to abandon investing in business and use the money in some other ways. Subsequently the shareholders will suffer a loss, individual members may lose jobs, production of goods and services will be lost and in the end the government will lose tax revenue that may have originated from the abandoned investment.

Given that taxes impact upon taxpayers' spending power negatively, individuals attempt to lower their tax liability. The subsequent effect is a distortion in taxation since less revenue would be raised as a result of taxpayers' attempts to reduce their tax liability. Distortionary taxes therefore result in economic inefficiencies in that resources are not used in a pareto-optimal way. It follows that by imposing distortionary taxes the economic loss to the community is greater than the revenue raised by the tax (Lymer and Hancock, 2002). An alternative to distortionary taxes would be to impose non - distortionary (which are also called fiscal neutral or lump-sum) taxes. Lump-sum taxes are fixed and taxpayers can do nothing to alter the tax liability. A lump-sum tax raises additional revenue leaving the taxpayer at the same utility level as for distortionary tax. Hence more revenue would be raised by a lump-sum tax without additionally affecting the taxpayer's welfare.

An ideal situation for governments would be to impose lump-sum taxes in order to avoid the inefficiencies resulting from distortionary taxes. However, in practice it is difficult to institute (a fair) lump-sum tax system because governments lack perfect information about the characteristics of each individual, which would be a requirement for lump-sum taxes (Stiglitz, 2000). Thus where individuals can only be observed imperfectly distortionary taxes are inevitable. With imperfect information about individuals taxes can only be based on observable variables such as income and expenditure, which in turn produce distortionary taxes.

While it is important for a government to institute a tax system that is efficient, requirements for such a system are hard to achieve. As noted by James & Nobes (2000), the conditions required for economic efficiency are unlikely to be found in what is referred to as the 'real world'

In the light of the effects of a tax system on the economy, and that economic growth often has a high priority, it is often looked upon as especially important that the proposed tax structure should not provide incentives for people to work less. Likewise the tax should not be such that it will inhibit the growth of productive investment and savings.

2.1.2 Incidence and Fairness

Incidence

'Incidence of taxation' is a term used by economists to describe the effects of taxation on individual taxpayers. As previously noted, taxes are compulsory payments to the government and when imposed, individuals will find a way to avoid or shift it to others. The concern then is on who finally bears the tax burden. The tax burden represents the difference between real incomes before and after the tax is imposed. Practically the burden of taxes is not necessarily borne by those upon whom they are levied. Lymer, & Hancook, (2002) categorise formal incidence of a tax as the one that falls on those who must actually pay the tax while the effective incidence is that which falls on those whose wealth is reduced by the tax. The formal incidence of tax is not difficult to identify but the effective incidence is many times difficult to identify. The effective incidence of taxation results from the taxpayer on whom the tax is imposed, shifting the burden of tax to another person, who becomes the ultimate bearer of the true economic weight of a tax. For instance a corporation tax imposed on a firm may be shifted backwards to workers resulting in falling wages, or may be shifted forward to consumers causing increase in prices. Similarly, with property tax the incidence may be shifted to consumers of the

capital investment. Tax incidence is a critical aspect that require due attention when considering different tax instruments in order to reveal their effects on taxpayers.

Tax incidence is closely linked to fairness in taxation. According to Stigltz (2000) fairness is an aspect that should not be considered on the basis of whom the tax is imposed on, but on who actually pays the tax.

Fairness

The fairness of a tax system is in many cases seen as a simple phenomenon that can be achieved by a tax structure that differentiates tax burden according to chosen criteria in an economy. Nevertheless, less effort is often devoted in trying to understand what fairness means. The concept of fairness is complex and in many cases it poses difficulties in defining precisely what a fair tax is and what it is not. Illustrating how complex the concept of fairness is, Slemrod and Bakija (2001) point to situations where a progressive tax system is regarded as fair while a flat rate tax system is considered not fair because middle class people would bear more of the tax burden than the rich compared to what they would pay under the progressive tax system. Others perceive a tax system to be fair if the poor pay nothing, the middle class pay something and the rich pay the highest percentage. On the other hand others claim that a system that imposes a single flat percentage tax rate on every one's labour income would be truly fair because it treats everyone the same. Inventors of the flat tax rate (Hall& Rabushaka1995) share this view as they assert that:

> ….the meanings of even, just and equal in keeping with rules and logic, better fit a flat rate of taxation than any multiple rate system that discriminates among different classes of taxpayers. (cited in Slemrod & Bakija, 2001: 52).

The varying perceptions about what constitutes a fair tax system are a clear indication that fairness in taxation is an elusive concept. However, the common approach used by economists is to describe fairness of a tax system in terms of vertical equity and horizontal equity.

Vertical Equity

The principle of vertical equity requires that the appropriate tax burden be assigned according to different levels of the well being of the taxpayers. That is, individuals with a higher level of economic well being should pay higher taxes than others should do. But

the problem shifts to determining who actually should pay tax at a higher rate and how much more should the rich pay than others.

In determining who should pay at the higher rate, income is a most widely used basis of taxation as it provides a good measure of ability to pay. The higher income an individual earns is translated as a greater ability to pay and therefore justifying higher taxes. Then the problem remains on how much more should those individuals with higher incomes pay. A widely accepted view is for the rich to pay a higher fraction of their incomes in taxes, leading to a progressive tax system. However critics argue that income is not a fair basis of taxation because it corresponds to the individual's economic output that he or she contributes to the society (Slemrod & Bakija, 2001). An alternative would be to tax individuals on the basis of consumption. But with consumption as a basis of taxation, there emerges the problem of whether savings should be exempt from taxation. Because if savings are not taxed then the tax is unfair to the individual who has had all his income spent as he or she is highly taxed than the individual who saves part of his income (Stiglitz, 2000).

Further attempts to determine the most equitable way of taxing individuals brings about the view that lifetime income should be the appropriate basis of taxation. That is the discounted lifetime income of an individual should be taxed than the annual income. But where does the lifetime income lead to; should individuals of the same lifetime income pay the same tax regardless of the pattern of income over their lifetime?

It can be clearly observed that none of the alternative bases of taxation under the principle of vertical equity has a precise answer to the difficulties associated with determining an equitable tax. Income or consumption is widely used as bases of taxation despite the problems explained above.

Horizontal Equity

Fairness in taxation is also considered under the principle of horizontal equity, which demands equal treatment of individuals who are equal in all relevant aspects. Thus the tax liability should be the same for taxpayers with equal taxable capacity. Although equal treatment may appear as simple to achieve, the problem with the principle of horizontal equity is defining the meaning of two individuals being identical in all relevant aspects and what equal treatment means.

Many questions do arise in attempting to set a basis for equal treatment. How are equal individuals in all relevant aspects identified? Should the equal relevant aspects be judged in terms of age, sex, marital status, employment, expenditure, income and many others? As a consequence the principle of horizontal equity provokes more questions for which answers may be difficult to obtain practically.

Income is one aspect that provides a tax base operating on the presumption that individuals earning the same income pay the same tax. But if one examines the tax burden of two individuals considered as treated equally, one may find that the tax burden is not the same. For instance home mortgage interest deduction favours owner-occupiers and penalizes those who prefer rented accommodation. On similar account, it can be concluded that individuals receive equal treatment if one receives deductions related to health care expenditures from his or her taxable income while the other person does not. The incomes may look the same but the tax burden is likely to be different depending on what considerations the tax system takes into account. The difficulty to define equal treatment can also be seen with taxes on consumption of goods and services. For example taxes on selected goods discriminate against certain members of the society who consume such taxed goods.

There are numerous examples that can be seen to complicate the question of equal treatment of individual taxpayers. In attempts to improve horizontal equity tax systems introduce tax benefits and penalties among individuals. Nevertheless no two individuals are ever identical (Stiglitz, 2000); hence the principle of horizontal equity becomes difficult to apply in real life situations.

Who should pay tax?

From the foregoing discussion it is clearly evident that the aspect of fairness is central in taxation but difficult to realise, and it gets more complex the further one continues to analyse it. Attempts to define the fair distribution of tax burden across income classes have lead to the benefit principle and ability to pay principle as proposed by economists. The benefit approach is based on the premise that individual's tax burden should be in proportion to the benefits they receive from the government (Slemrod and Bakija, 2001, Stiglitz, 2000; Musgrave & Musgrave, 1976). On the other hand, with the ability to pay principle, the tax burden ought to be related to the taxpayer's level of economic well being (Slemrod & Bakija, 2001)

The benefit principle essentially requires those who benefit most from the public services provided by the government should be the ones who should pay the most tax. Practically the approach is adopted in few cases where it is possible to identify the benefits achieved by the individual taxpayers. Fees charged for the use of bridges and road tolls are examples of taxes based on the benefit principle. User charges for the use of water and sewage facilities are also considered as tax under the benefit principle since individual users pay for the actual amount of services they consumed. However the benefit approach fails to guide how the tax burden should be fairly distributed because it is difficult to determine exactly the benefits received by different individuals from services provided by the government. Members of a society receive important government services such as defence, justice, fire services or police but it is difficult to determine the magnitude of the benefits received by different individuals.

Another criticism against the benefit principle is that it limits governments from using the tax instrument in distribution of income. If individual's tax liability was set at exactly equal value to the benefit received then each society member would be compelled to pay his or her full bill regardless of her level of income. As such there would be no room for exempting the poor and subsidizing them. The subsequent result would be the effect on the social welfare of the low income people who would have to go without the basic necessities such as education, police protection, defence and so on.

The ability to pay principle relates the tax burden to the individual's ability to bear the tax burden rather than the benefits that one receives from public services. Thus the tax burden should be based on the level of tolerance of the sacrifice made through the paid tax. The implication being that taking a dollar from a poor person has more negative impact than taking the same dollar from a well-to-do person (Stiglitz, 2000). But the problem remains on how to measure the effect of the sacrifice to each taxpayer. Again it is difficult to measure the relationship between income and the tax burden that falls upon an individual.

2.1.3 Legitimacy

One apparent reason for any government to impose tax on its citizens is generating revenue that supports government functions. Supply of public goods is among the most important functions for which individuals must be made to contribute through paying taxes. Among the public goods there are those whose benefits can be directly observed by the individual taxpayers such as construction of civil works, national health programmes,

parks and so on. But in some cases of public goods like defence, the benefits may not be direct for the tax paying citizens to appreciate. Nonetheless, all public goods are necessary for a community and a government has to provide with the support of individual taxpayers.

While individuals have the obligation to pay taxes to the government, they similarly have entitlement to being informed about their tax burden and other relevant aspects related to the taxes they pay. In view of this it is important that a taxing authority operates in a transparent manner in that it is clear who is benefiting and who is paying (Stiglitz, 2000). Moreover it would be ideal for a tax system if the taxpayers were made to see the relationship between their contributions to the support of public goods and the supply of the same. Walker (1970) is of the view that:

> It is probably most desirable to make clear in people's minds the association between the taxes that they pay and the benefits they receive from the government expenditure. The more apparent this link is, the greater the likelihood that people will be willing to pay taxes (pg. 208).

Walker's argument is in line with the need for transparency for a tax system because if people are clearly informed about the paying of taxes and what these taxes can do for them, they are likely to cooperate more. On the other hand the taxing authority is likely to be accountable as their actions will be observable by the informed taxpayers.

Even though the legitimacy of levying taxes is usually supported by legislation and that a government can force people to pay taxes, response to the taxpayer's needs for public services has a role to play in taxation. It is important therefore that the amount and quality of the supply of public goods is also considered as an aspect that justifies the imposition of taxes to the citizens for a more efficient tax system. If a tax system is not seen as legitimate, then this can also lead to direct economic costs, for example higher administrative costs in enforcing compliance.

2.1.4 Administrative Simplicity

A tax system needs to be simple so that the taxpayers can understand it. Likewise it is important that the administrative and compliance costs are kept as low as possible.

Administrative costs constitute costs involved in running a tax system. These include costs of determining tax liability, as well as costs for auditing and enforcement functions. Conversely compliance costs are indirect costs borne by the taxpayer. The

costs of complying with the tax requirements can be in form of time spent on completing tax forms, costs of record keeping plus payment to accountants and lawyers for tax guide. Administrative and compliance costs tend to be higher with a complex tax system. Under a complex tax system more resources would be required for administering special provisions, differential tax rates and deterrent instruments (James & Nobes, 2000). Similarly the taxpayer would spend more on understanding the tax structure and subsequently on attempts at tax avoidance and evasion. The complexity of the tax system increases the costs to both the tax authority and the taxpayer. For instance the costs borne by the taxpayer in attempts to avoid and evade tax would create corresponding administrative cost to the taxing authority in trying to hinder the process (James & Nobes, 2000). Consistent with this Kaplow (1999) points out that the enormous complexity of the tax system is responsible for large compliance costs. Given the increased administrative and compliance costs resulting from a complex tax system, it is vital that a simple tax system is in place so as to minimise the tax administration costs.

As earlier pointed out, a tax structure can be evaluated from different angles depending on the objective of the tax in question. However the concepts of efficiency, fairness, legitimacy and administrative simplicity are fundamental for any tax structure. Any tax structure need be designed with the objective of satisfying the requirements of the standard principles of taxation. This should also be the condition for property tax despite the fact that the tax is different from other taxes in terms of variation in tax basis for the same tax and many lengthy administration procedures. Unlike other taxes the complexity and costly administrative procedures in property taxation renders the tax unable to achieve all the fundamental criteria for taxation. For instance Sullivan et al (1995), argue that the property tax has failed to satisfy both horizontal and vertical equity criteria, the failure that is sometimes due to difficulties in administering the tax. Hence the unique features of the property tax are to a considerable degree responsible for the failure to satisfy the criteria of a good tax. In the following sections the discussion is focused on requirements for property taxation.

2.2 Framework for the analysis of a property tax system

2.2.1 The history of taxing real property

Originally in history, taxation of wealth covered both immovable and movable property. Wealth taxes may be imposed on the holding of assets that are included in a person's

wealth or may be imposed on transfer of such assets. As a result various taxes on different types of property have developed from time to time. For example in Britain during the thirteenth century a tax was imposed on movables such as coin plate, household goods and debts owed to an individual (less debts owed by him or her). The tax on movable items was levied on individuals who had fluctuating incomes. Among the various taxes on wealth, real property tax has over time become important in fiscal systems of many countries especially local governments.

Literature on taxation indicates that a tax on real property was first introduced in Rome during the earliest times. According to James & Nobes (2000), the magistrate undertook the tax assessment and kept a register in which the property of each citizen was recorded. The tax was known as *tributum.* The tax rates were between 0.1 and 0.3 per cent of an individual's property value. The *tributum* was abolished in 167 BC and later on replaced with a 5 per cent inheritance tax, introduced in Rome in AD 6 on the estate of the deceased person. A local rate was introduced in Britain in 1601 following the enactment of the Elizabethan Poor Relief Act (James & Nobes, 2000; McCluskey et al, 1998). Under this Act individuals owning property had to contribute in form of tax based on the value of this property to the poor within the community (McCluskey et al, 1998).

A wealth tax continued to spread in several European countries in the nineteenth and twentieth centuries. For instance a wealth tax was introduced in the Netherlands in 1892, in Denmark in 1904, in Sweden in 1910 and in Norway in 1911; and also in Germany in 1922 (James & Nobes, 2000). The colonial governments introduced property taxation in developing countries, for example in Africa during the twentieth century.

2.2.2 Arguments for taxation of real property

Taxation on wealth is supported by both benefit and ability-to-pay considerations. Within the tax literature it is argued that the tax burden needs to be apportioned according to the benefits that the individuals gain from the government expenditures, which are funded by the taxation (Slemrod & Bakija, 2001; James & Nobes, 2000; Musgrave & Musgrave, 1976). In agreement with this, James & Nobes (2000), and Musgrave & Musgrave (1976) make reference to Locke's theory of the state as a protector of property, which suggests that property owners whose property is protected by the state should pay more in tax for the state expenses than those who do not receive such protection. Tax on real property is also justified in that public services increase the value of real properties and therefore the owners should pay for the services. But there is little consensus for the benefit approach

as some theorists argue that there is hardly a trace of individual properties benefiting directly, and not all real property benefit equally from the public services (Musgrave & Musgrave, 1976). The benefits may at least not be proportional to the tax base, for example the properties' market value.

Even though the benefit approach is challenged on account of the benefits not being traceable to individual property ownership and the fact that the bulk of property tax revenue is spent on provision of general public services such as education, property owners view property taxes and public services as closely linked. There is likely to be more willingness to pay where property tax revenue is spent on public services. Thus besides the criticisms, the benefit approach is seen to gain some support. For instance commentators (McCluskey, et al, 1998; Musgrave & Musgrave, 1976) point out that in the long run the majority of people in a democratic society will not be willing to tolerate a fiscal system from which they did not benefit directly. In this regard a tax that did not support the provision of public services will be subjected to limited taxpayer acceptance.

On the other hand the ability-to-pay approach is based on the situation of the earliest taxation times when real estate and other personal property were the most convenient index of ability to pay (Musgrave & Musgrave, 1976). Subsequently the holding or ownership of land presented a good index of ability to pay. The Poor Relief Act passed in 1601 in England is illustrative of the ability-to-pay concept. According to McCluskey, et al (1998), the Poor Relief Act was in essence a redistributive tax, whereby those owning property had to contribute in the form of a tax based on the value of the property to those less fortunate within the community, that is, for the relief of the poor. In this regard a person owning real property is seen to be in better economic situation than the one not owning.

2.2.3 Requirements for a property tax system

The basic principles of taxation enumerated in literature provide a standard guide for the efficient operation of a tax system. But landed property tax is different from other taxes in terms of methods of assessment (annual value, unit or area based, value based), varied basis of taxation (land only, land and improvements, improvements only), appeals approach, tax collection and enforcement, and administration procedures as a whole. In general, the administration of property tax is more involving than any other tax, with a series of procedures.

Unlike for other taxes, property taxpayers tend to be more aware of the taxes they pay and what to expect in return from the taxing authority. Traditionally, property tax was levied to finance services that are visible such as roads, street lighting and cleaning, garbage collection, neighbourhood parks and so on. The visibility of the tax renders both the tax and the tax authority vulnerable to scrutiny and criticisms. In the light of the attributes that are different from other taxes, a range of criteria is considered to be vital for a successful tax structure. According to Slack (2001) the standard principles for judging property tax based on the traditional principles of taxation include the following:

i) **Fairness based on benefits received:** property taxes should reflect the benefits received from government expenditures.

ii) **Fairness based on ability to pay:** the tax levels should be related to individual's ability to pay in terms of both horizontal and vertical equity. Thus property owners with similar value properties should pay similar levels of taxes, whereas taxpayers with high value properties should pay relatively higher taxes.

iii) **Neutrality:** property tax should not distort economic behaviour of individuals. For instance the tax should not affect decisions about where to live and work, and also the type of improvements to make to one's property.

iv) **Accountability:** property taxes need to be designed in ways that are easily understandable. Clear tax structures provide room for policy makers and tax authorities to be held accountable.

v) **Ease of administration:** property tax systems need to be simple such that it is easy to administer the tax and cheap to collect.

Even though the above standard principles are essential for any property tax system, McCluskey, et al (1998) view public acceptability of the tax structure as an important element that should be taken into account but it is often omitted from consideration. In addition, they consider a tax base to be a critical element for property taxation and therefore suggest that political credibility, administrative feasibility, and public acceptability, rather than more abstract economic arguments, should be the overriding considerations in choosing a property tax base. On the basis of this argument McCluskey et al (1998) propose a number of criteria as summarised in Table 2.1 for consideration in selecting the appropriate tax base.

Table 2.1: Relevant criteria for deciding on appropriate tax base

Tenure and Transaction Data:	Choice of property tax base should be linked to the land tenure system and most common form of land holding
Quality of Data	Quality of data is important for functional assessment process
Defensibility of Assessment	Sufficient data are vital for objective defence of assessment before the appeal tribunal
Horizontal Equity	Assessment of property value should ensure that equals are treated equally
Vertical Equity	Property owners with property of different values should pay different levels of tax
Taxpayer Perceptions	Importance of taxpayer understanding is essential for encouraging taxpayer acceptance
Valuation Administration	Introduction of mass appraisal approach would address the administration workload of the annual value and capital value systems
Taxation Equity and Fairness	While fairness relates to legal treatment of different types of property, equity is a measure of how well the property tax is administered and assessed. Important therefore that the principles of both horizontal and vertical equity are accorded due weight for social acceptability
Taxpayer Acceptance	Property tax systems should take account of taxpayer's concerns.

Source: Summarised from McCluskey, et al (1998)

Further contributions to the delimitation of the essentials of a property tax system include guidelines recommended by the leading professional bodies such as International Association of Assessing Officers (IAAO, 1997) and Institute of Revenue Rating Valuation (IRRV, 1997). Some of the recommended guidelines are as shown in Table 2.2.

Table 2.2: Guiding Precepts for Property Tax Systems

Criteria for evaluating property tax systems	Principles of local government finance
International Association of Assessing Officers	**Institute of Revenues Rating and Valuation**
Uniformity	Local taxes should be related to ability to pay
Neutrality	Local taxes should be easily understood
Harmony with social and economic policies	Local taxes should be administratively efficient
Public acceptance	Local taxes should be difficult to evade
Business and investment climate	Local taxes should be impartial between one person and another
Openness or transparency Cost effectiveness	The "benefit" principle – those who benefit from locally provided services should make some contribution towards their cost and those who contribute towards the cost of locally provided services should benefit in some way from them
Buoyancy Balanced revenue system	Local authorities should be accountable, that is, locally determined expenditure should be funded by locally determined taxation
Dedicated source of revenue Local government autonomy and accountability	Local government functions should be determined within a clear constitutional framework. This should include a definition of the rights responsibilities of each tier of government
Administrative practicality	Central government grants should be used to narrow the gap between authorities with different resources and needs
Valuable fund of land information	Central government grants should be general rather than specific

Source: McCluskey, et al (1998)

A noticeable feature with the requirements for a property tax structure presented in different ways is that they are all structured on the basis of the standard principles of taxation that are essential for a good tax system. However, a wide range of factors considered essential for a good property tax system, clearly demonstrates the difficulties in instituting a structure that can satisfy all or most of the prescribed conditions at the same time. This is suggestive that choices have to be made of the aspects that can be applied to accomplish certain objectives of a property tax system at certain times. Furthermore it is important that the choice should provide a balance of the principles since complete omission of some of the factors may adversely affect the tax system's performance. For instance where assessment of property values is not accorded the right priority, the taxation process stands to be affected considerably because values are important determinants of the tax burden assigned to each individual taxpayer and subsequently the potential revenue accruing to a taxing authority.

Although the guiding principles for property tax practice exist in literature, little is said about their practical application. Detailed information about how different property tax systems function around the world is scanty for one to see clearly the application of the guiding criteria to landed property tax. A few studies on property tax practices with international coverage have been conducted including those by Bird & Slack (2002), Franzsen (2001), McCluskey & Franzsen (2001), Vlassenko (2001) and Youngman & Malme (1994). Nonetheless the studies had varying objectives that did not demonstrate an evaluation character that could provide sufficient data for comparison of different tax systems in terms of their performance.

The limitation in obtaining adequate data of property tax systems is echoed by Vlassenko (2001) and Franzsen (2001) who experienced data scarcity for some of the countries studied and subsequently affecting the analysis of the property tax systems studied. Scarcity of data on various aspects of property taxation is also experienced in Tanzania and other countries in East and Southern Africa (Franzsen, 2001). On the other hand it is reasonable to presume that property tax systems are designed with features of a good tax structure but to what extent the different systems satisfy the conditions of the principles, remains an issue that demands research.

Even though there are numerous factors by which the operation of a property tax system can be measured, experience shows that more interest is directed on efficiency in terms of raising sufficient revenue. In line with this, a property tax system in many instances is regarded efficient where it is able to record higher revenue yields even if other

criteria were not achieved. As an example a property tax system can be generating high revenue levels but lacking fairness and equity in its taxation practice. Other factors are not accorded equal priority probably because revenue generation happens to be a primary objective for any tax system. Supporting this, Doherty (1999) argues that, there are many economic and political reasons for property taxation but it should be recognised that the levying of a property tax is, first and foremost, a revenue raising exercise.

In recognition of the importance of fairness in property taxation there are indications of a growing interest among researchers to study issues of fairness and equity in property tax systems. Studies by Plimmer, et al (2000); De Cesare, et al (1998); De Cesare & Ruddock (1998), McCluskey, et al (1998), and Vlassenko (2001) are illustrative of the increasing interest in issues of equity and fairness in property taxation. While the studies on fairness and equity in property taxation depict examples of property tax systems in developed countries, little is known about property tax systems in developing countries especially African countries. Problems of fairness and equity in property taxes are to a large degree related to failure to institute regular property valuations. In view of this it can be argued that lack of fairness and equity is more apparent in property tax systems in African countries where frequent revaluation of properties for taxation is rare due to resource and technical capacity constraints. . For example many sub Sahara African countries lack capacity to value all taxable properties apart from conducting revaluations (Franzsen, 2001).

Absence of equity and fairness in property tax systems has been reported in Plimmer et al (2000) and Vlassenko (2001). Plimmer, et al (2000) demonstrated absence of equity and fairness optimisation in property tax systems of Ireland, and England and Wales as a result of failure to institute regular and frequent revaluations. On the other side, Vlassenko used the criteria of efficiency and fairness to evaluate the British, French and Swedish property tax systems. Findings of her study indicated property tax revenue collection levels of 95 – 97% for the British system, 90% for the French system and 99-100% for the Swedish system. However, despite the high efficiency levels in property tax revenue collection the level of satisfying the fairness criteria was relatively low for all the three property tax systems.

The various principles that are considered essential for the operation of a property tax system and the fact that all can rarely be achieved at the same time present a difficult situation for evaluating a tax structure. As also noted by Vlassenko (2001), evaluating a complex matter such as property tax is not an easy task. Apart from the varied criteria, the

relative importance of each criterion at different times and with different systems complicates further the evaluation process. Thus it makes it difficult to measure the operation of one property tax system on the basis of factors applied by another to accomplish tax objectives. It follows therefore that choices have to be made of the factors that can facilitate a property tax system to achieve the varying tax objectives from time to time.

2.2.4 Concluding comments on principles of taxation

An optimal tax structure presupposes that a tax structure accomplishes the efficiency and equity criteria. Alm (1999) asserts that an appropriate tax system should be one that allows taxes to be raised in a way that treats individuals fairly, that minimises interference in economic decisions, and that does not impose undue costs on taxpayers or administrators. But, from debates on taxation it is evident that tax structures that can satisfy all conditions desirable for an appropriate tax are uncommon. Taking property taxes as an example, factors that lead to a functional tax structure are so many and it is not easy for a tax system to achieve all of them at the same time. As such it is quite common for example to find a property tax system that scores high on efficiency criteria but the reverse with respect to fairness. The British property tax system is illustrative of this in that it, records high revenue collection levels (Vlassenko, 2001) but there are equity deficiencies inherent in the system (Plimmer, et al, 2000). In the light of the foregoing discussion it can be reasonably argued that little can be expected for the property tax system in Tanzania to satisfy all the standard criteria for property tax.

Given the hitches in fulfilling the conditions for optimal taxation, it follows that a tax system may achieve one goal, for instance, efficiency and sacrifice equity. This indicates difficulties in accomplishing a certain tax objective without affecting the other among the various intentions of a tax system. This can be addressed through choosing criteria that are important at a given time so as to accomplish the tax objective on priority. In line with this, Walker (1970) claims that there is no such a thing as an ideal tax or an ideal tax system because objectionable features are found in all taxes.

While the performance of a property tax system is judged on the basis of satisfying numerous criteria, other factors are also important for consideration. In this study the principal-agent theory and the game theory have been used to analyse relationships between levels of governments, and also how their relationship with taxpayers influence property taxation. The theories are discussed in the following sections.

2.3 Relationships under Agency and Game theories

2.3.1 Principal-Agent theory

Agency theory explains social relations involving a delegation of authority (by a principal to an agent), and starts from the observation that the relationship generally results in problems of control. The most important problem emanates from difficulties in motivating an individual or organisation to act on behalf of another. Moreover the problem of motivation is a result of difficulties associated with the inability of the principal to observe and control the actions of the agent. Milgrom and Roberts (1992) assert that:

> "Principal-agent problems are situations in which one party (the principal) relies on another (the agent) to do work or provide services on his or her behalf. When agent's actions cannot be easily monitored and their reports easily verified, the agents have greater scope to pursue their interests rather than the principal's. Then, to provide incentives for the agents to behave in the principal's interests, it is necessary to arrange for them to bear some responsibility for the outcomes of their actions and therefore to bear more risk than would otherwise be desirable" (p. 240)

The principal-agent approach has wide application in analysing hierarchical relationships in organisations or relationships under contracts. Relating to taxation the approach has been used in theoretical tax compliance studies. One example is a study by Sanchez and Sobel (1993) in which a model was designed to demonstrate the conflict between the government, which has the responsibility of selecting a tax policy, and the auditor, who has the job of enforcing the policy. One of the conflicts shown from the study is the auditor's divergent incentive from those of the government. The government would want to control the budget so that less is spent on auditing and more on social welfare, but the auditor's interest would be to spend more on auditing. Although the example is relevant for this study the application is slightly different.

The agent's behaviour under the principal-agent relationship represents what is called a moral hazard problem. A moral hazard is described as a misbehaviour that arises because actions that have efficiency consequences are not freely observable such that the person taking them may choose to pursue his or her private interests at the other's expense (Milgrom & Roberts, 1992:167). For instance employees may shirk their responsibilities at the expense of the employer, or managers may opt to advance their interests in place of the organisation's owners interests.

Monitoring and incentive contracts are ways suggested to address the problem of moral hazard. The monitoring approach involves monitoring behaviour of employees through increasing resources devoted to monitoring strategies and verification of their actions. The results of monitoring are then used as a basis for rewarding good behaviour and instituting penalties for inappropriate behaviour. With incentive contracts the employer needs to observe outcomes and to provide incentives for good behaviour through rewarding good outcomes. Rewards may be in form of pay tied to output or bonus schemes. However, it is worth noting that under certain situations increasing resources alone may not be effective in motivating behaviour. Hence incentives may also be required to compliment the monitoring strategy to motivating behaviour change.

Unlike in the theoretical study, in this study the principal-agent theory was used to help the understanding of relationships among the key actors in property taxation. The property tax practice presents relationships of central government, local authority, tax administration system and taxpayers at different levels. Given the situation of property tax in this study how can the current situation be changed under a principal-agent framework? The principal-agent framework is not only of interest for understanding the relation between various administrative levels within the taxing authority but is also useful for the understanding the relation between citizens (property owners) and the political leaders. . How can the citizens create incentives so the leaders act in accordance with the wishes of the citizen? In this study political leaders at the grass root play an important role in property taxation.

2.3.2 Game Theory

Game theory is a decision making tool that has wide application in making decisions in various complex situations that confront legal persons and organisations as well as natural persons. A game represents a situation involving players with at least partly opposing interests and where each player is assumed to act from their own interests. According to Davis (1983):

> "In a game there are others present who are making decisions in accordance with their own wishes, and they must be taken into account.........In a game each player must assess the extent to which his or her goals match or clash with the goals of others and decide whether to cooperate or compete with all or some of them" (p. xiv)

Thus on the basis of these views any decision made in a conflict environment must take into account the position and the likely behaviour of the opposing side.

In a tax environment there are distinct set of goals representing the tax authority on one side and the taxpayer on the other. In this study tax compliance was partly viewed as a game involving interactions of a tax authority and a taxpayer, each selecting strategies with the view of winning as rounds are played. Putting principle-agent problems aside, in a tax game the tax authority is assumed to seek to maximise net tax revenue while a taxpayer seeks to minimise expected tax payments and therefore maximise his net income. Each of the players adopts different strategies in accomplishing the intended motive. The taxpayer takes advantage of the information he possesses about his income and might evade taxes at the declaration stage.

On the other hand the tax authority uses the taxpayer's tax return to get acquainted with the taxable income. Since the tax authority happens not to know the taxpayer's true income it adopts an audit system to verify the taxable income. Out of auditing the tax return, the tax authority learns the true income of the taxpayer. Where cheating is detected tax evasion penalties are instituted to the taxpayer. Thus if evasion is not detected the outcome is a gain to the taxpayer because his expected tax payments will be lower, associated with high net income. Conversely the outcome is a loss to the taxpayer if he is found guilty of evasion and is punished as his expected tax payments increases plus penalties and subsequently receives lower net income. This reflects one feature of payoffs in a game where a player gains when the opponent loses and vice versa. In this case the taxpayer gains when he cheats and is not caught, but the tax authority loses. On the other hand if cheating is detected and punished the tax administration gains in form of the payable taxes plus penalties and the taxpayer loses.

Tax compliance can be viewed as a repeated game because tax returns are filled each year. Where cheating has been detected and taxpayer convicted of evasion, the taxpayer's decision about tax evasion in future is likely to take into account the consequences of the previous evasion. It is presumed that taxpayers who have been convicted of evasion will become more compliant in the subsequent periods of the game due to the threat of being detected and punished.

Another look into a tax compliance game indicates existence of both competitive and cooperative elements. According to Davis (1983), this kind of a game portrays a situation where the interests of the players are opposed in some respects and complementary in others. The interests are opposed in the sense that the tax agency play strategies intended to generate more revenue while the taxpayers employ strategies aimed at seeking to pay less than required. Conversely the interests are considered

complementary because they all focus on revenue that the government spends for the benefit of the citizens in form of public goods and services. While each player employs different strategies in realising her own interests the opposing interests may indicate that parties have no common interest but in reality they do.

The primary objective of any tax authority in imposing tax to individuals is assumed to be to raise revenue intended for the provision of public goods and payment of other government expenses. Subsequently, if taxpayers choose not to pay the designated taxes the probability of the government providing the envisaged public goods becomes low. Based on the 'Prisoner's Dilemma' example if all citizens paid taxes the taxpayer's expected utility would be high because the government would be able to provide public goods. In contrast the government would not be able to provide services if no taxes were paid. On the other hand, the best for the individual can be that all other pay their taxes and finance the services, while the specific individual free-rides by not paying the tax.

In this study the game theory was used for understanding both the relation between the tax-authority and the taxpayers, and the relation among different taxpayers. Especially if there are views about fairness the probability that a certain individual will pay his or her tax might depend upon what the individual believes about the probability that other people will pay their taxes. In the following section the conceptualised relationship among the key actors in property tax system in Dar es Salaam is presented.

2.3.3 Relationships in property taxation

While the standard principles of taxation assume an important role in enabling the operation of a property tax system, consideration of relationships among the key players in property taxation is also vital. Decisions by the main actors from the principal-agent and game theories perspective are likely to have considerable impact on the operation of a property tax system. In this study the interaction of the actors was conceptualised as a key element for an effective property tax system. Thus, apart from the standard principles of taxation, the property tax system of Dar es Salaam is also analysed in the context of the relationships framework representing the central government, municipal council (tax authority) tax administration system and taxpayer as shown in figure 2.1 below.
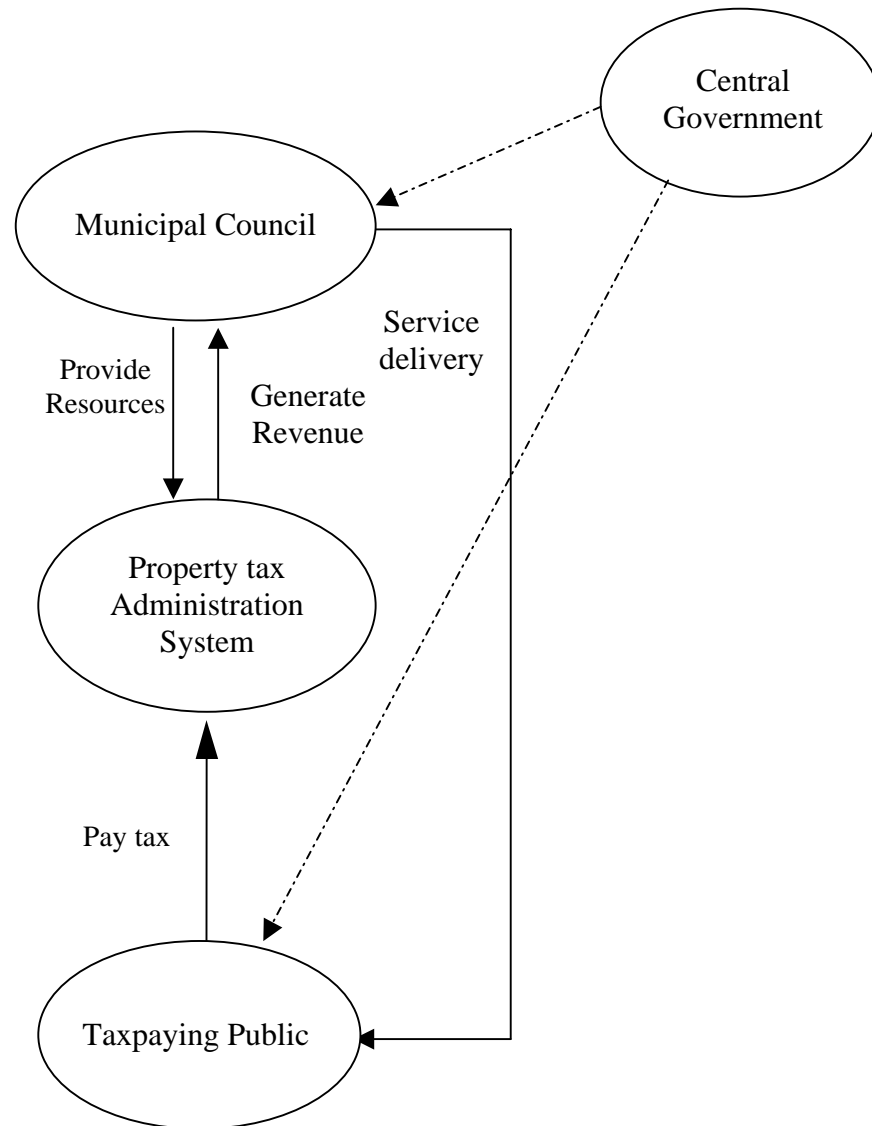
Figure 2.1: *Central government - tax authority – tax administration system – taxpayer relationship*

The assumption in this study is that performance of a property tax system depends upon a supportive relationship of the components of the relationship framework. The framework represents the interaction of i) central government (ii) municipal council as a taxing authority, iii) property tax administration system and iv) the taxpaying public.

i) Central government

The central government makes policies that guide property taxation. Thus the local government finance and rating pieces of legislation, tax base, assessment procedures, tax rates, exemption from tax liability and enforcement procedures are all prescribed by the central government for the local authorities to implement. The policies have influence on the functioning of the property tax system and also on responses of the taxpayers.

ii) Municipal Council

The municipal council as the taxing authority generates property tax revenue through the property tax administration system. Of interest here is how the two components relate. Does the taxing authority facilitate the property tax system so as to generate the desired property tax revenue? The ability to generate property tax revenue is largely influenced by resources and incentives available to the property tax administration system. Unlike with other taxes property tax administration involves several functions that demand considerable amounts of resources. Property identification, valuation, tax collection and enforcement are crucial processes in levying property tax. It follows therefore that the tax authority must make available sufficient resources for the tax administrative system to perform such functions to the desired efficiency.

iii) Property tax administration system

The property tax administration system is charged with various functions of property tax administration. However efficiency in performing such functions is largely influenced by facilitation from the municipal authority. On the other, side cooperation from the taxpaying public impacts upon the revenue collection function. While the property tax administration system interacts with taxpayers in the processes of identification and valuation of rateable properties; and collection of property tax, it has no authority to influence on service delivery to the taxpayer. This is because it is not involved in making decisions concerning the generated property tax revenue.

iv) The taxpaying public

Taxpayers are an important component for the functioning of the property tax system. The taxpayers' acceptance of the tax enhances revenue generation on the part of the property tax system but this is considerably influenced by the flow of revenue back to the taxpaying community in form of services.

The relationship framework is intended to show relations among the key actors in property taxation and how their relationship together with their decisions impact upon revenue performance of the property tax system under investigation. The framework is used in Chapter Ten to explain the relations among the key actors of the property tax system of Dar es Salaam.

2.4 Study focus and theoretical perspective

The foregoing discussion demonstrated that a property tax system could be evaluated on the basis of various theoretical facets. The standard principles of taxation provide a

foundation upon which a property tax system can be examined. The focus in this study was thus revenue generation of the property tax system in Tanzania taking Dar es Salaam as a case study area. It follows that in examining the property taxation practice emphasis was to be directed on cost-effectiveness in raising revenue, the principal of fairness and the taxpayer perceptions of the property tax. In this regard the theoretical framework provided the perspective for the understanding of the weak performance of the property tax and identifying possible policy options.

Furthermore the principal-agent theory was brought in to facilitate the understanding of the relationships among the key players within the property tax administration system. What are the goals of the 'Principal', and the situation and incentives of 'Agents' at various levels? On similar account the game theory is deployed with a view to reflecting a situation where the taxpayers might see what is rational for them depends on what they believe others (both tax authority and other taxpayers) would do.

REAL PROPERTY TAX PRACTICES IN SELECTED COUNTRIES

3.1 Taxation of Real Property

Property tax is primarily a fiscal instrument that local governments use to generate revenue for the provision of an array of public services such as fire protection, ambulance, police, waste disposal, street lighting, parks plus other aspects of community infrastructure. Besides, the tax can be used as a regulatory instrument to influence land use patterns (Paugam, 1999).

Property tax is an attractive source of revenue because of the many advantages it offers and throughout the world it considered the largest source of local government revenue. Traditionally and universally property tax is the most important own tax instrument available to local governments. It is generally argued that revenue from property tax contributes significantly to the financing of public services (McCluskey, 2000). Nonetheless the extent of reliance on this source of revenue varies in different countries depending on the level of intergovernmental transfers, user fees, and other revenues as well as on changes in the expenditure responsibilities assigned to local governments.

There are merits attributed to property tax and these render the tax appropriate for financing local services. First the tax is imposed on real property, which is fixed in location hence unable to shift geographically as a result of taxation. This characteristic makes property tax difficult to evade and easy to collect. Second, the property tax is considered a benefit tax for the reason that the local services funded by the tax enhance property values. The tax also provides some opportunity for involvement of citizens in deciding the tradeoffs between level of taxes and benefits from government spending thus increasing level of accountability on the part of the taxing authorities. In addition the property tax is visible since taxpayers pay the taxes to local governments and the revenue finances visible services such as local roads, garbage collection, street lighting and cleaning, parks and so on. Consequently the visibility attribute makes local governments accountable to the taxpayer.

In many countries of the world property tax is prevalent on the local governments. One reason is the premise that revenue from property tax is essentially intended for

financing services, which is a responsibility that rests on local governments. In this respect property tax provides incentives for local governments to provide basic amenities, which in turn raise property values and subsequently raise tax revenue (Glaeser, 1995). That is efficient property taxation increases revenue, enabling a local government authority to spend on local services. On the other hand local services enhance property values, which result in increased taxable values and therefore more revenue. Subsequently increased spending on local services provides incentives for the taxpayer to pay property tax

It has been argued that the need to entrust local governments with property tax results partly from its comparative simplicity in its administration and in part from the inability of real property to shift location in response to the imposition of a tax (Youngman & Malme, 1994). The case for associating property tax with local government stems also from the fundamental link between tax and expenditure decisions. A local government can only make the right fiscal decisions where the benefits of the proposed public programmes are measured against its costs, and this can only be possible where finance comes from own sources. Where financing comes from external sources for example higher government it is unlikely that the choice of public expenditure would be based on true cost and will be subjected to negotiations between the local and high-level governments. However, local own sources of revenue are essential if local governments are to preserve autonomy and efficiency in making fiscal as well as other decisions (Oates, 2001; Sullivan, 1995). Experience in developing countries show that fiscal transfers to local governments are conditional and to a large extent national governments dictate the expenditure of such finances.

While property tax is praised for the various advantages it offers, the tax is also noted to have some significant shortcomings. Since the tax is direct in nature and easily understood, in many instances taxpayers find grounds for objecting. On the other hand property tax can create an uneven distribution of services to citizens especially for some jurisdictions that have a narrow tax base and therefore is unable to collect sufficient revenue for the provision of local services. Furthermore the property tax is an inelastic source of revenue because it hardly increases with the growth of the economy. Thus property tax revenue is unable to match the needs for local infrastructure resulting from both economic and population growth. The tax is also difficult and modestly expensive to implement and administer (Glaeser, 1995). In addition property tax can impact negatively upon land use and urban development as the gains from improving and developing land

are reduced. Property tax is highly criticized for being unfair as it is unrelated to ability to pay and unrelated to benefits received, unsuitable because it supports services unrelated to property, and inadequate because it does not generate sufficient revenues (Slack, 2001). However, despite all the criticisms, the tax continues to be the most common revenue source for local governments throughout the world (Slack, 2001).

In most countries property taxation and provision of local public services are both the responsibility of local government authorities. Property tax administration at local level is considered appropriate because local government authorities are better informed of the service needs of the local community. Hence they are capable of determining the expenditure requirement for service delivery and the subsequent revenue requirement for financing such expenditure. As such it is assumed that property tax administered at local level is potentially capable of generating revenue on the basis of local government authority's expenditure requirement.

Despite the advantages and the potential to generate revenue of the property tax many countries especially those in the developing world are unable to adequately exploit this source. For example while the immobility of the taxable property is considered to make tax collection easier, practically property tax has proved difficult to collect in most developing countries due to reasons such as inability to identify the taxable property and also failure to motivate property owners to pay their taxes.

Other Property Related Taxes

Apart from property tax or 'rates', which is primarily a local tax, various other taxes are levied on immovable property. One of such taxes is known as transfer taxes levied in many developed countries including the Netherlands, Australia, Japan, Sweden, Denmark, and the United Kingdom where it is known as Stamp Duty (Youngman & Malme, 1994).

Other countries impose taxes for public infrastructure development improvements. For example infrastructure betterment taxes are quite common in the Netherlands and the US. Gains from the sale of property attract a levy known as Capital Gains Tax. Also in some cases income taxes may be imposed on imputed rent.

This chapter provides a brief overview of property taxation practices in various selected countries of the world, based on the limited data available.

3.2 Property Tax Features in the Developed World

Property taxes appear to be minor revenue sources when measured in terms of their share of a country's GDP and total national tax revenues. For example in developed countries the property taxes was a bit more than 1% of GDP and about 4% of all tax revenue (Bird, and Slack, 2002). Despite this insignificant contribution to revenue at national level property tax represents an important source of sub national or local revenue in many countries. There are countries where property tax represents an important and often the only tax available to local government. Like in Australia local authorities rely almost exclusively on property tax as an own source of revenue (McCluskey & Franzsen, 2001). On the other hand property taxes stand as much more important in rich countries than in developing and transition countries with for example the highest property tax to GDP ratio (1995 data) recorded in Canada – 4.1%, US – 2.9% and Australia 2.5% [5]. In contrast however, developing countries tend to generate significantly less property tax revenue typically at a maximum of 40 percent of local government revenue, 2 percent of total government revenue and 0.5 percent of GDP (Kelly & Montes, 2001; Kelly, 2000).

Property tax or land tax as variably referred to in different countries, is basically the same in terms of taxation objectives but there is variation in terms of the base on which the tax is levied. The practice adopted by any country has no relation to the level of development (whether developed, transition or developing) of a country. As such some countries levy property taxes while others levy land taxes, but the motives behind the tax remain the same.

In the following sections the basic features of any property tax system are highlighted with a view to providing an overview of property tax practices.

3.2.1 The Tax Base

The basic taxable object in all countries levying property tax is immovable or real property, which includes land, improvements to land and buildings. However, what is taxed among the components of real property depends on the choice by the respective country government as established in the law that governs property taxation. Some countries tax only land and others tax both land and buildings (or "improvement"). Some countries have other assets such as industrial machinery, business equipment and so on

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[5] 1995 data as cited in Bird and Slack (2002)

included in the tax base (Bird and Slack, 2002; Youngman and Malme, 1994). However, reports of previous studies on most of the developed countries indicate that property tax is levied on land and buildings (Bird and Slack, 2002; Youngman and Malme 1994).

Apart from the legal provisions regarding what is taxed (land versus land and improvements), the environment in which the tax is levied provides guidance on choice of a suitable option. Commentators (McCluskey & Franzsen, 2001) of property taxation argue that land tax or site value taxation performs well where the objective is to ensure efficient use of land, as a land tax will not affect the profitability of making investment on the land. But when site value taxation is considered in revenue generation perspective, it is argued that the tax can only produce comparable revenues at very high rates of tax than the tax on land and buildings. This is so because with the land tax, the base is smaller as compared to the value of land and improvements treated together. Furthermore the problem with site value taxation relates to the difficulty in land valuation especially for urban real estate where most transactions are based on the combination of the value of land and buildings. Conversely others argue that valuation of land alone is probably easier than valuation of property (Bahl, 1998), in that the value of land together with improvements is first established, then the value of land alone is ascertained by subtracting the value of improvements from the combined value.

3.2.2 Exemptions

Exempting some properties from the property tax base is a common practice in every country. Exemption may be granted by the national or sub national government and in some countries exemptions are granted at local level. There are also cases where exemptions are granted at both government levels. Exemptions or reduction of taxes on certain properties may be based on ownership (such as properties used for charitable purposes), or may be based on personal circumstances of the owner or occupier (such as age or disability), (Bird & Slack 2002; Young and Malme 1994).

Property tax exemptions vary in different countries and jurisdictions but the common property types that are often exempted from property taxation include educational buildings, churches and cemeteries, government buildings, public hospitals, public roads, libraries, foreign embassies and property owned by international organizations. According Youngman & Malme, (1994) some countries such as the Netherlands, Sweden and the United Kingdom extend exemption to agricultural land, whereas forestlands are exempted from property tax in some provinces of Canada, France,

The Netherlands, and Sweden and in some states in the USA. In some countries exempted institutions make payments in lieu of taxes at a cost of public services provided by local governments. This is practised in the United States, while in Canada, Japan and the United Kingdom; central governments reimburse local governments only for government property exempted from property taxation.

3.2.3 Basis of Taxing Property

Ad valorem property tax is based on the value of the taxable object. Generally the tax rate as fixed by law or determined in accordance with the agreed method is to be applied on the established capital (or market) or rental (or annual) value of the property being taxed. The market value is assessed using the sales comparison approach or the cost approach or the income approach whereas the rental value is determined according to estimated rental value based on the prevailing market rents.

Some countries levy property tax on the basis of land area assessment or usable space with a charge per square metre or unit area (Bird & Slack, 2002)). This is commonly referred to as area based assessment. Self assessment is another basis of taxing property which requires property owners to declare self assessed value of their property. Market value basis is used in most developed countries while rental value is used in the United Kingdom and France.

3.2.4 Tax Rates

The tax rate charged on property value may be fixed by law or determined on the basis of the budgetary needs of the taxing authority. In countries where property taxes are levied by national and state governments, such as Australia, Sweden and the United Kingdom, the property tax prescribes the tax rates to charge on property value. Some countries like Denmark, France and Japan, the national governments dictate fixed limits or ceiling level of rates that local governments are allowed to levy on property value.

Where local governments set tax rates (for example Australia, Canada and some parts of the US) the expenditure or budgetary requirements are first determined. Revenues from non-property tax such as intergovernmental transfers, user fees and others are subtracted from the jurisdiction expenditure requirements in order to determine the amount to be raised from property tax revenue. The amount of revenue required from property tax is then divided by the total taxable value of property to determine the tax rate to be imposed on such taxable property. Many local taxing authorities levy different tax rates on

different classes of property such as residential, commercial and industrial. In most countries non-residential properties are subjected to higher tax rates than residential. For example, as noted by Bird & Slack (2002), single family owner-occupied and farm properties are often favoured by paying lower property taxes. This is associated with a belief that that politicians favour these groups as it is presumed that they are much more likely to vote in local elections than are tenants in both residential and non-residential properties.

3.3 Property Tax Administration

Efficient property tax administration relies upon the efficiency of each of the key steps involved in the process of taxing real property. Property identification, valuation and assessment, and tax collection are the key components of any property tax administration system.

3.3.1 Property Tax Identification

The ability to determine the existence of each parcel of taxable property is fundamental for proper functioning of any property tax system. In many developed countries identification of taxable property is facilitated with highly organized land regulatory systems. Cadastral systems in industrialised countries are well developed, enabling the obtaining of information on property ownership from the land registry offices. For example in Denmark, Sweden and the Netherlands the land related information is integrated into computerized national cadastre. There is extensive coordination between land and property tax agencies providing for full tax coverage of all properties (Youngman and Malme, 1994). Likewise cadastral maps are used for property tax administration in the United States although the assessing office is responsible for the development of parcel maps for property taxation purposes (IAAO, 1990).

Information on physical existence of the property being taxed is in many cases obtained through field surveys although in some cases reliance may be upon information provided by the owner or occupant of the property. Collection of property information through field surveys is practiced in Canada, The Netherlands, Switzerland, Australia, Japan and The United Kingdom. In Australia each Local Council and State Government is supplied with information required for local rates and land tax from the Valuer General's office, which has the responsibility of collecting such information. For the purpose of land taxation, landowners have to supply additional information in the annual statement of

land holdings. In Denmark, for example municipal Councils provide information on building characteristics and land use regulations, which is maintained in the national cadastre.

3.3.2 Valuation and Assessment

In many countries property tax is based on market value of a property determined using the traditional methods of valuation and other developed appraisal techniques. Sales comparison approach is the most common method employed in estimating market value while depreciated replacement cost and income approaches are used in some cases.

The Depreciated Replacement Cost (DRC) method is usually employed to value buildings where no property market exists or the market is not active. For instance respective property tax law prescribes the DRC method for the valuation of all buildings in 2 provinces of Canada, in South Korea and for some types of buildings in the Netherlands and Sweden (Youngman and Malme, 1994). On the other hand the DRC method is used to support the sales comparison approach in Denmark, some cantons of Switzerland and in many states of the United States. In the UK the annual rental value of business properties (on which to base the tax) estimate is based on the open market information while values of domestic properties are determined on the basis of classified bands[6]. Computer assisted mass appraisal (CAMA) Techniques have recently become common in the valuation for property taxation in many developed countries.

It is quite common in many countries for the rating law to prescribe the valuation cycles. Nevertheless it has been observed that in many countries the legal deadline for revaluation is often postponed. For example, in Denmark the valuation cycle is four years but the last revaluation was done in 1997; France in 1980 and subsequent valuations postponed; and in Italy no revaluation had taken place since 1993, (Brown and Hepworth 2000). The revaluation cycles foe example (see Table 3.1) range between 3 to 6 years in Japan, 5 years in the Netherlands, 6 years in Sweden and 5 years in the UK. Whereas in Australia, Canada, Switzerland and the US the revaluation cycles vary in accordance with the provisions of the canton, state or provincial law.

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[6] It is important to note that the banding approach (in rating valuation) does not involve valuing each individual property but rather property is ascribed to various value bands.

Table 3.1: Revaluation Cycles in Selected Developed Countries

Country	Frequency of Reassessment
Australia	Ranges from 4 to 7 years
Canada	Variable according to state or provincial law
Germany	Every 6 years (but not actually assessed since 1964)
Japan	Every 3 years, annually for business assets
Sweden	Every 6years
Switzerland	Variable according to canton
The Netherlands	Every 5years
United Kingdom	Every 6 years
United States of America	Variable according to state or provincial law

Source: Author construct, based on Bird & Slack, (2002); Brown & Hepworth (2000)

The duty to carry out valuation for taxation is entrusted to civil servants employed by rating jurisdictions in Australia, Denmark, France, Sweden and the UK. Valuers to perform the valuation functions must possess acceptable education as well as professional qualification as per requirements prescribed by country's professional regulatory authorities. Nonetheless there are considerable education and professional qualifications variation in different countries.

A study by Youngman and Malme (1994) indicates that all countries included in their survey have provisions for appeals against valuation and assessment, which must be fixed within a specified period of time. The most common time frame provided for appeals ranges from one to two months. Nonetheless the challenge of valuation or the assessment will not lead to postponing the payment of the tax.

3.3.3 Property Tax Collection

In many countries the collection of property taxes is a local government function but in France and Sweden the Central Government assumes the collection responsibility (Youngman & Malme, 1994). The practice is often to mail or deliver by hand tax bills to the person responsible for the payment of taxes, whether the property owner or occupier. For instance, in France, Israel, The Netherlands and the United Kingdom the payment obligation rests with the occupier. Taxing authorities levy property taxes annually although payment in instalments is a common practice. In France and in most Canadian jurisdictions property taxes are payable in single instalment. While in countries such as Denmark, Japan and Australia (State of New South Wales) the tax collection is in four instalments. Property tax is payable in six instalments in Israel, two instalments in The Netherlands, ten instalments or by agreement in the UK and one to two or four instalments in the US (Youngman and Malme, 1994).

Implementing enforcement procedures as established by law ensures tax compliance in most countries. Delayed payments are subjected to interest charges or penalties. In some cases, long-term delinquency may compel the taxing jurisdictions to seize and auction properties to recover the unpaid property taxes. Other measures may be leasing the property or collecting rent from tenants as practised in Australia, while in The Netherlands rent accruing from the property or wages may also be attached. Besides punitive enforcement procedures, some countries allow elderly taxpayers to defer tax payments with interests until the death of the owner or the sale of the property (Youngman & Malme, 1994).

Tax collection is not a problem in most developed countries as tax arrears are generally low. High collection ratios are evident with most countries recording a collection level above 90 percent of the billed taxes. Countries such as Denmark, Israel, Japan, The Netherlands, Sweden, the UK and many US states have a collection ratio close to 100 percent (Youngman and Malme, 1994; Vlassenko, 2001).

3.4 Property Taxation in the Transition and Developing Countries

The history of property tax is relatively recent in countries identified as "Transition Economies" (Bird & Slack 2002; Paugam, 1999) or "Emerging Democracies (Brown & Hepworth, 2000). Land tax, for example was introduced in 1993 in Estonia, Moldova and Slovak Republic; in 1994 in Albania, where Real Estate Tax was also provided for under Act 338/1992 amendments (Brown & Hepworth, 2000). Unlike the transition economies, the history of property tax in developing countries that were colonised is rooted in the colonial heritage. For example property tax was introduced in the former southern Africa British colonies during the early 20th century, spreading from South Africa to the three British East African Colonies of Kenya, Uganda and Tanganyika (Tanzania), (McCluskey & Franzsen, 2001).

Although property tax is commonly a local tax, in most transition economies and developing countries, central governments in these countries exercise extensive control over property tax systems. Paugam (1999) notes that the current property taxes of the less reformed countries of the transition economies have all or most key elements of the tax typically under the control of the central government. In many developing and transition countries, the functions of defining tax base, assessment, determining exemptions and rates, and sometimes, even collection is essentially under the control of high-level government (Bird & Slack 2002; Paugam, 1999). However where property tax is levied

and collected by local authorities national governments exercise some controls on aspects such as policy formulation and determining the legal requirements as well as sanctioning decisions made at local government levels.

The property tax potential to contribute significantly to local revenues is undermined by a number of varying factors in both transition economies and developing countries. Consequently in most of these countries property tax systems generate limited revenues from a narrow base; a situation, which is likely to prevail for a considerable period of time. While property tax is generally considered a major source of local government revenue in many parts of the world it will take a long time before the tax attains the same status in the transition economies and developing countries (Bahl, 1998). Furthermore Bahl (1998) views this phenomenon as a result of lacking property tax machinery coupled with the absence of well-developed land markets due to the historical practice under which most land was state owned with land use rights assigned rather than purchased.

In the absence of well-developed land markets in the transition economies, property tax was based on a measure of the area of the property (i.e. area-based assessment) and on self-declaration and assessment leading to incomplete information of properties. Likewise property tax performance in developing countries is generally poor due to factors such as under-valuation of the tax base, excessively low statutory rates, poor collection efforts as manifested by high tax arrears ratio or very large exemptions and poor or discriminatory enforcement mechanisms (Bird & Slack, 2002; Bahl, 1998; Dillinger, 1992). Although there are also such examples of difficulties affecting property taxation in some of the developed countries (Paugam, 1999) the intensity of the effect is higher in developing countries, where lower than expected revenues are generated and the tax lacks buoyancy. Examples show that revenues generated from property tax in the 1990s accounted for 8.8% of local revenue in Transition Countries (Bird & Slack, 2002; Paugam 1999); and 19.1% in developing countries (Bird & Slack, 2002).

3.4.1 Tax Base

The approach to taxing real property in transition and developing countries varies with the influence of colonial heritage in some cases and cultural practices in other cases; or both. Most transition and developing countries levy property tax on value of land and buildings (or improvements) with minor variations in the classification of type of property such as 'agricultural and non-agricultural', 'urban and rural property', residential, commercial and

industrial. A few countries, for example Estonia, Ukraine, Kenya, Jamaica only tax land, while for example in Tanzania only buildings or improvements are subject to taxation (Bird & Slack, 2002; McCluskey & Franzsen, 2001; Brown & Hepworth, 2000).

A notable feature with property tax systems in developing countries is small coverage ratio. Number of properties captured in the property tax base and those taxed constitute a smaller proportion of the total number of taxable properties in a tax jurisdiction. In addition considerable share of the potential taxable property is exempted from property tax.

3.4.2 Exemptions

Classes of property to be exempted from property taxation are in most countries stated in the law governing property tax. It is common to exempt property used for education, religious purposes, property owned by charitable organizations and used for social welfare purposes like hospitals, government buildings, property owned by diplomatic mission and so on. There are also variations in terms of categories of property, conditions and the extent of exemptions in different countries. For instance countries like Botswana, Lesotho, Namibia and Swaziland in Southern Africa exclude tribal land from local property based tax (Franzsen, 2001). Table 3.2 illustrates the type of property exempted from property tax in selected countries of eastern and southern Africa.

It is noteworthy however, that transition and developing countries tend to grant very large exemptions although it may be difficult to measure the magnitude with precision due to lack of comprehensive property information. Furthermore state owned property exempted from property tax is of high value and found in prime locations of urban areas. This impacts negatively upon property tax revenue collection.

Table3.2: Tax Base and Exemptions in selected Eastern and Southern African Countries

Country	Tax Base	Exemptions
Botswana	Land and Improvements	State owned land, council owned land, public libraries, museums, schools, churches etc.
Kenya	Land only.	Land for public utilities, public worship, crematorium and burial grounds, public libraries and museums, civil and military aerodromes, property occupied by diplomatic mission, properties in personal occupation of the president etc. also ad hoc exemptions by the responsible minister.
Lesotho	Land and improvements	State occupied property used for "public benefit", property below a value threshold fixed by the minister.
Malawi	Land and improvements	Land for public utilities, crematorium or burial grounds, property owned by diplomatic missions.
Namibia	Land and improvements (4 options). • General rate on value of the whole rateable property • Site rate on value of land only • Improvements rate on value of improvements only • Site and improvement rate on the value of the land and the value of the improvements but separately	Properties used exclusively for purposes of the principle activities of any church, school, hospital, amateur *sporting* organization, charitable institution.
South Africa	Land only (3 options) • site rating (land value only) • flat rating (capital improved value) • composite rating (higher rate on value of unimproved land and lower rate on value of improvements)	Land for public service infrastructure, state owned land, coastal public property
Swaziland	Land and improvements (4 options): rates on • value of land • value of improvements • value of a combination of land and improvements • total value of the property.	Churches, schools, registered charitable institutions, hospitals, a 'public place' (as defined), public libraries, museums and art galleries and embassies.
Tanzania	Buildings/improvements only Rates on capital value and flat rates	Land for public utilities, public worship, crematorium and burial grounds, public libraries and museums, civil and military aerodromes, property occupied by diplomatic mission, properties in personal occupation of the president etc. also ad hoc exemptions by the responsible minister
Uganda	Land and improvements (except for vacant land)	Same as for Tanzania
Zambia	Capital improved value and flat rate.	Public undertakings, military installations, churches and diplomatic missions.

Source: Author construct as compiled from Franzsen & Olima (2003), Franzsen (2001), McCuskey &Franzsen (2002), Konyimbih, (2002).

3.4.3 Tax Rates

In many instances responsibility for setting tax rates rests with local governments but the rates should not exceed the limits fixed by national governments. In some countries differential tax rates are applicable for different property use categories. For instance in developing sub-Sahara African countries some local authorities use one tax rate and others have different rates charged on different categories of properties or on different tax base. For example in Swaziland the rate charged on value of residential property is different from that charged on value of commercial property, whereas in Namibia rates on land value and value of improvements are different (Franzsen & Olima 2003).

Where differential rates apply, tax rates for residential properties tend to be significantly lower as compared with rates for commercial and industrial properties (Franzsen & McCluskey, 2005). It is worth noting that property tax rates in many developing countries are generally very low (Bird & Slack, 2002). Table 3.3 shows some examples of tax rates in developing countries. Low tax rates coupled with low property values resulting from outdated valuation rolls result in low revenue yields.

Table 3.3: Property tax rates in selected developing countries

Country	Tax rate on assessed value
Argentina	Not more than 1%
Botswana	Residential: 0.43% - 0.88%; Non-residential: 0.52% - 1.1%
Indonesia	0.5%
Kenya	2% - 22%. Rate above 4% subject to approval by central government
Lesotho	Residential: 0.25%; Commercial: 2.00%; Industrial: 2.75%
Philippines	0.07% - 2%
Swaziland	Residential: 1.96% and 0.33% (site and improvements separately) Commercial: 5.91% and 0.99% (site and improvements separately) Government: 2.12% (for both)
Tanzania	0.15% for all property use categories, 0.2% on non residential in Ilala Municipality
Uganda	Residential: 6% - 8%; Non-residential: 8% - 10%
Zambia	Residential: 1.0%; Non-residential: 1.5%

Source: Author construct based on Franzsen & McCluskey,(2005); Bird & Slack, (2002); Kelly, (2002)

3.5 Property Tax Administration

3.5.1 Property and Tax Payer Identification

One common deficiency of property tax systems in transition and developing countries is lack of property information to enable the tax authorities identify property and determine ownership. Inadequate records have seen most developing countries adjusting property tax to suit the record keeping constraints and some countries have been trying 'to experiment'

with various facets of property taxation (Bahl, 1998). The problems with records means that many countries have to rely on property data by self-declaration as submitted by property owners or other persons responsible for tax liability. For example in Indonesia taxpayers have a duty to provide property data by self-declaration in a sworn statement and the tax authority uses that information to assign or correct property identification numbers, audit property tax information and make up parcel-based maps (Youngman and Malme, 1994).

Lack of properly developed complete tax rolls[7] leads to absence of a common reference point such that the little available property information is held by different agencies. For example information on property sales or transfers recorded in the land registry office is not sent to the fiscal cadastral system. On the other hand, changes of the building character such as subdivision, renovation or in some cases replacement never reach the department responsible for keeping the property tax roll. Bird and Slack, (2002) in their study of property tax around the world observed that the process of property identification is often more difficult in developing countries and transition economies due to some of the problems cited in the case studies as:

- Revenue base information is neither up to date nor complete
- The information to support a fiscal cadastre on a consistent nation-wide basis is often fragmented between the central and local governments.
- The system for monitoring and recording land transfers is often lacking.
- Because it is too expensive for the local governments to keep a good record of property identification data, taxes are simply not collected on all taxable properties.
- In many countries, property records are not computerised.

Likewise Bahl (1998) best describes the records systems in these countries as:

> " portraying usually incomplete or badly dated cadastre, incomplete ownership records, informal construction that bypasses the permit process and un-updated files. Thus the process of property taxation is undertaken with little knowledge about the true base that should be taxed"(pg 153).

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[7] 'A complete tax roll' contains information about all parcels subject to tax, and the ownership/taxing liability for each parcel (Bahl, Roy 1998).

Property tax administration in developing and transition countries is to a large extent hampered by failure to develop and keep property records. Inadequate records result in difficulties in valuing taxable property and billing the right taxpayers. Subsequently, property tax jurisdictions find it difficult to collect property tax as they lack sufficient information about taxable property as well as property owners who constitute the taxpayers.

3.5.2 Valuation and Assessment

Most of the transition countries are former socialist economies that did not inherit a market-based system. As a consequence a number of countries adopted the unit approach or area based assessment in the valuation of property for taxation due to a lack of property information, a limited and restricted property market and also insufficient resources to allow development of alternative valuation approaches (Brown & Hepworth, 2000; Paugam 1999). Many developing countries adopt market value (or capital value) as a basis of property tax with high reliance on the cost approach in determining the taxable property value. Again this is a result of inactive or less developed property markets.

The valuation function in both transition and developing countries is hampered by problems of lack of resources and technical expertise as well as limited property information. Failure to undertake revaluation within the legally prescribed cycles is also a common problem to many countries. The specified revaluation periods in the law are in most cases not adhered to, and the pace of revaluation in the real world has been considerably more dilatory (Bird & Slack, 2002).

In countries of Southern Africa for example, the property tax systems have little capacity to value properties for taxation. This is manifested by shortage of qualified and skilled professionals to survey land; record and maintain an accurate deeds register (proper cadastral information); to assess properties and prepare proper valuation rolls; to do interim valuations and to do regular general revaluation; all of which are a prerequisite for a legitimate and efficient property tax system (Franzsen & Olima, 2003; Franzsen 2001)

Property valuation for taxation is subject to appeals by the taxpayer. Appeals systems are provided for in the property tax laws in both transition and developing countries. While appeals systems are designed for taxpayers to challenge tax base, valuation or assessment; the taxing authority in countries using self-declaration and assessment may challenge the information provided by the taxpayer.

Despite the appeal systems being in place in many countries they are rarely utilized. As also commented by Bird &Slack (2002), in many countries there may be an appeal system in law but in practice it seems almost never to be utilised. Perhaps because the taxes imposed are so small that appealing them is not worth the while of those most likely to do so. It could also be because the same people may have other, less formal, ways of seeking relief (for example corruption), or perhaps because the formal system may be so cumbersome and difficult to use that it is not worth pursuing. Another explanation for why appeals may not be pursued is the fact that the sanctions for not paying the tax is weak, and that there are no point in appealing if you do not plan to pay.

3.5.3 Tax Collection

The property tax collection function in many developing countries is entrusted to local governments albeit with controls imposed by central governments in some cases. In most transition countries however the collection of taxes is the responsibility of the national government because local authorities have very limited influence on the property tax. The tax payment responsibility rests with the owner of the property and in some cases the occupier is held liable for paying property tax.

Property tax is usually levied annually and payable within a specified period. Payment maybe in one or more instalments depending on what the law prescribes. Payment after the due date is a common practice in developing countries as evidenced by high tax delinquency, resulting in low revenue levels collected from the property tax source. Tax arrears as a proportion of expected revenues are to a large extent higher in developing and transitional countries with examples of 50% in parts of Kenya and Philippines and nearly 70 percent for land tax in Russia (Bird & Slack, 2002). Nevertheless there are exceptions for countries like Chile which recorded a collection ratio of 96% in 1991 from 70% in 1990 and Indonesia had the collection ratio improved to about 75% following the adoption of new collection based strategies (Bird & Slack, 2002).

Documented evidence indicate the problem of property tax collection in Eastern and Southern African countries as most critical, manifested by extremely low collection rates and failure by many cities to enforce legal penalties for non payment (Franzsen & Olima 2003; Kelly 1999; Max 1996). Much of the property tax revenue losses result from use of out of date valuation rolls and fiscal cadastre; the system of recording and valuing property; and rare to non existent tax maps, which make the identification of taxable property difficult; and subsequently affecting tax bills delivery (Olima, 2001). Moreover,

low collection ratio are attributed to such factors as lack of political will, lack of transparent administrative collection and enforcement mechanisms, and lack of taxpayer confidence in or understanding of how the tax is levied, collected, enforced and used (Kelly, 2000).

Enforcement measures to curb delinquency are provided for in law but implementation is generally weak in many developing countries. Penalties in form of interest and fees are charged for tax payment made after the due date, and long-term delinquency may lead to the sale of the property for tax authority to recover the unpaid taxes. Nonetheless, local authorities in many developing countries do not have sufficient capacity to enforce property tax compliance. On the other hand political will to support property tax enforcement is lacking in the majority of the African countries. This is rendered even more difficult as the majority of central government departments and individual government officials (owning property) are often in arrears.

3.6 Property tax reforms

In general reforms are undertaken for the purpose of improving performance of property tax systems. Different countries embark on property tax reforms with different objectives, albeit the ultimate objective being to increase revenue generated from this source. The main reasons for reforms as stated by Bird and Slack (2002) have been to: simplify tax system; raise more revenues from property taxes by improving tax base, collection methods; remove inequities in the tax system and improve tax administration.

Recent years have witnessed different countries embarking on or undertaking reforms as an attempt to address various issues affecting property taxation. Apart from the above-mentioned reasons for reforms in some cases other drives may have a role to play for a country to choose to reform its tax system. In the 1990's for example some European countries needed to reform and improve their tax administration systems as part of the application process for membership of the European Union (Brown and Hepworth, 2000). Furthermore, countries were often taking the opportunity to bring the rates of taxation more into line with member states so as to ensure competitive investment environment. On the other hand, transitional economies have embarked on decentralizing power and responsibilities to local authorities. As a result there have been attempts to move toward ad valorem property tax in order to increase local revenues for effective decentralization (Paugam, 1999).

During the last decade of the 20th Century there have been attempts by developing countries to introduce fiscal decentralization and local government reforms with the purpose of improving economic efficiency and accountability. To ensure adequate resources for sustainable local government reforms all countries are directing attention to strengthening property tax with prospect that it can contribute significantly to local government finances.

Developing countries encounter a myriad of difficulties in the administration of property tax. Scarcity of accurate base maps and property information, lack of institutional machinery capable of maintaining property data, inefficient collection and enforcement system are some of the problems that hamper property taxation in most developing countries. To be able to improve property tax systems these countries need to overcome the constraints by adopting tax reform strategies that are capable of addressing the difficulties in the obtaining context. Where appropriate strategies are adopted, property tax reforms are likely to result in improved taxation. For example the success story (reported in Kelly, 2000) of property tax reform in Indonesia is a result of comprehensive reform strategies adopted by the government. The Land and Building Law of 1986 provided a legal framework, which enabled the Indonesian government to initiate a number of improvements in property tax administration that resulted in increased revenue yields. Another example of successful property tax reform in the 1990's is that of Mexicali, Mexico where the local government was able to boost revenues from property tax, improve collection system as well as strengthen its Municipal finances as a result of a cadastre modernization programme adopted (Cohen, 1999).

Noteworthy is the fact that the legal frameworks in most developing countries provide an adequate framework to allow substantial property tax improvements but tax jurisdictions rarely utilise such provisions. As an example, enforcement procedures are provided for in the rating legislation but in practice enforcing property tax compliance is almost non-existent in developing countries. Kelly (1999) argues that the key to increasing revenue buoyancy (especially in developing countries) is to a large extent, improved administration, albeit tax policy decisions on the base definitions, exemptions, valuation standards and collection and enforcement provisions. Furthermore, from the Kenyan example (Kelly, 2000) the potential of improving basic property tax administration in terms of increasing the coverage, valuation and collection ratios is likely through:

- identification of specific improvement options available and creatively develop a reform strategy tailored to a country's unique legal, political and institutional conditions;
- availability of strong political support;
- focusing the property tax reform priority on improving administration;
- local authorities having control over tax base coverage, valuation, tax ratio and collection; and
- using computer technology to improve fiscal cadastre maintenance, valuation, assessment, billing, collection and enforcement.

Since the objective of undertaking property tax reforms is improving resource yields, then reform strategies chosen should focus on addressing all constraints affecting the administration of property tax. Successful property tax reform demands a comprehensive approach that is capable of integrating both policy and tax administration issues. But property tax reforms especially in developing countries have largely focussed on the valuation component with little attention on other factors, which are equally fundamental for successful property taxation. In line with this evidence from documented international case studies indicate that too much effort is being spent on property discovery and valuation (Franzsen & McCluskey, 2005). However, Kelly (2002) argues that the major obstacle to improved property tax is not valuation but poor administration and the lack of political will for collection and enforcement. As such property tax reforms in the majority of developing countries have had limited impact on improvement of property tax revenue performance.

3.7 Summary

The discussion in this chapter has highlighted property tax practices in selected countries in the world. Examples on property taxation practices have been drawn from both developed and developing countries. Property tax systems in developed countries appear to be doing well in generating property tax revenue. High percentage property tax collection levels manifest this. Conversely, it has been observed that property tax systems in developing countries are constrained with an array of difficulties in implementing property tax. One notable constraint is the fact that developing countries implement property tax on the basis of conditions obtained in western countries environment.

Owing to colonial heritage property tax structures in developing countries are designed on the basis of conditions in the developed countries. For instance most developed countries have adopted value based property taxation, which demands determination of discrete value for each rateable property. But property markets in most of these countries are not well developed to facilitate efficient ad valorem property taxation. Most property tax systems have limited capacity in terms of qualified valuers and resources to undertake property valuation. In addition land information systems such as cadastral systems are not well developed to provide sufficient property data for effective taxation. As a result property discovery and valuation turn to be costly undertakings and many property tax systems end up implementing property tax in ways that cannot generate sufficient levels of revenue.

However, it has been noted that infrequent property revaluation is not a problem confined to poor countries alone. Even some of the developed countries are not able to adhere to the prescribed revaluation cycles. As noted by Bird & Slack, (2002), even in countries with relatively good property tax administration, there are often problems in updating values on regular basis. A noteworthy example is Germany where no property reassessment for taxation has taken place since 1964 (Bird & Slack, 2002).

While there are attempts to improve property taxation critical problems are less addressed in developing countries. There is not much effort directed to the property tax collection function resulting in poor property tax revenue levels. Thus the property tax revenue levels rarely correspond to resources committed to property assessment. This happens to be a common characteristic with property tax systems in developing countries.

Chapter Four

LOCAL GOVERNMENT SYSTEM IN TANZANIA

Tanzania[8] is a country with two-tier system of government administration consisting of the central government on the one hand, and local governments on the other. Local government authorities are composed of urban authorities[9] and rural authorities as established under the Local Government (Urban Authorities) Act, 1982 and the Local Government (District Authorities) Act, 1982 respectively. Local government system had existed in Tanzania since the colonial period and its existence has continued after independence to 1972 when local government authorities were abolished and reinstated in1978.

In this Chapter the evolution of local government system and the financing arrangements are briefly discussed. A review of local government system and the financing alternatives is important because it provides an overview of the environment within which the administration of property tax as one of the local sources of revenue takes place. As such the roles and functions assumed by local government authorities can influence the property tax practices. On the other hand property tax revenue performance as one of the revenue sources impacts upon the ability of local government authorities to perform some of the functions.

4.1 Local Government System: The Colonial Period

The local government seen in Tanzania today has its roots in the colonial period from the time the Germans ruled the country in 1884. A system to assume local responsibilities was put in place when the Imperial Decree of 29th March 1901 had put into effect what were known as Communal Unions (Kommunnal Verbandes) for the Districts of Tanga, Pangani, Bagamoyo, Kilwa, Lindi, Lushoto (Wilhelmstall) Kilosa, Mbeya (Langenburg) and Dar es Salaam (Kironde, 2001). These unions were assigned responsibilities including

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[8] Tanzania is a United Republic made of two formerly independent countries. The countries, Tanganyika and Zanzibar united in 1964 to form the current united Republic of Tanzania. Throughout the discussion reference is made to Tanzania Mainland (formerly Tanganyika)

[9] The study focuses on municipal councils of Dar es Salaam, which fall under the category of urban local authorities.

establishment of schools, street lighting, refuse collection, drainage of swampy and unhealthy areas, and construction of roads, streets and bridges, distribution of seeds for natives and overseeing the management of cooperative village farms[10]. However, the Germans did not entertain local rule, as they were distrustful of the traditional rulers. Instead they introduced a system of 'direct rule', which placed the civil administration of the country under the direct control of the central government (Max, 1991).

The German rule was succeeded by the British administration, which introduced a local government system that had borrowed some elements from the traditional local self-rule but modelled on their English system. Unlike the German's direct rule this was an "indirect rule" that involved governing the country using traditional chiefs. Governor Sir Donald Cameron governed Tanganyika from 1925 to 1931 and introduced the "indirect rule". He believed that by using chiefs it would be easier to get people to obey government orders as the orders were to be issued by their own traditional rulers rather than the British Officers (Max, 1991).

The Native Authority Ordinance (Cap. 72) of 1926 was enacted to institute the "indirect rule", through which traditional chiefs were bestowed with administrative, executive and judicial powers in their areas of jurisdiction. However, the "native administration" system remained dormant with a top bottom bureaucracy until after the World War II when British Colonies were instructed to ensure that a democratic and efficient system of local government was in place. Complying with the directive the colonial government effected an amendment for the Native Authority Ordinance in 1950. The amendment created chief-in council's advisory committees to which the district commissioner as recommended by the chief appointed ordinary citizens as members.

Under the new set up executive powers were moved to the councils while chiefs retained judicial powers but could no longer make decisions without the approval of the council. Likewise the same amendment extended powers to the governor to declare a native authority to be a body corporate with perpetual succession, capable of suing and being sued. Despite the changes in the law, the new local councils remained unrepresentative of the people and lacked jurisdiction over non-natives. In 1953, the Local Government Ordinance (Cap 333) was passed to replace the Native Authority ordinance 1926. It is important to note that the Native Authority Ordinance of 1926 and its amendments of 1950 were applicable only to Africans resident in the area and the

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[10] As cited in Kironde (2001), from the German Colonial Annual Report on the development of German East Africa 1901/02 (Translations from German kept by the Department of History, University of Dar Es Salaam)

legislation had no provisions granting the native authorities jurisdiction over non-Africans residing in their areas. The new Ordinance therefore corrected this anomaly and made the functions of the Councils to be exercisable with respect to Africans and non-Africans residing in the area under their jurisdiction. The legislation introduced a multiracial electoral voting system whereby voters were compelled to vote for three candidates, i.e. an African, a European and an Asian in each constitution.

Under the Local Government Ordinance 1953 (Cap 333) there was a provision for creation of county councils which were to be large, superior bodies embracing several district and town councils. The South-East Lake County Council (covering the present Mwanza and Shinyanga regions) formed in 1955 was the first such council, which proved that it could not function efficiently as it was too large. The large size of the Council made the subordinate councils less autonomous while it lacked supervisory capacity. These factors contributed to the death of the South East Lake County Council, while no further attempts were made to create other similar councils.

As for the urban areas, towns with big number of businessmen and European officials attained town council status. These were Arusha, Lindi, Tanga and Mwanza in 1954, followed by Iringa and Dodoma in 1955, Mbeya and Morogoro in 1956, Moshi and Tabora in 1958 and Bukoba in 1960. Dar es Salaam became the first municipality in Tanganyika in 1949 under the Municipality Ordinance (Cap. 105) of 1946. The election or appointment of council members was based on the multiracial voting system while composition of members varied from town to town depending on the size, population and level of development. Membership to the Dar es Salaam Municipal council for example, constituted four Africans, four Europeans, four Asians and one Arab; all nominated by the Governor.

The municipality was empowered to make by-laws, to impose rate on property and to charge fees on business undertakings. The property rate and fees on business undertakings were intended to raise revenue for the municipality. Property tax was also used as a deterrent tool for the natives to migrate to town. On the other hand the municipal council was assigned responsibility for the provision of services such as health, roads, African Primary schools, abattoirs, fire fighting and so forth. Following this responsibility assignment the municipality was also entitled to receive government subventions to ensure that the services were adequately financed.

The following section presents the operation of the local government system from independence to the present day. The history of local government in Tanzania has witnessed changes and a marked event was the abolition of local authorities that had lived for a decade, from the early 1970s to early 1980s when they were reinstated.

4.2 Local Government system: post independence era

At the time of independence in 1961 the independent government of Tanganyika inherited three categories of local authorities established under the British administration. These were native authorities created under the Native Authorities Ordinance, 1926 (cap 72); district and town councils created under the Local Government Ordinance of 1953, (Cap. 333); and one Municipality (Dar es Salaam) created under the Municipalities Ordinance of 1946 (Cap. 105), (ALAT/PO-RALG, 2003). The 1953, Local Government Ordinance provided for the establishment of elected District Councils, which would exercise important local powers under close supervision of the central government (Prat, 1976)

The focus of the new government was on rural development, hence the need to establish a system of rural administration. The result was replacement of Native Authorities by District Councils using the revised provisions of the Local government Ordinance of 1953. The District Councils were made responsible for local services such as primary education and rural dispensaries.

The new District Councils established (in 1962) immediately after independence, were confronted with serious financial and administrative difficulties due to a sharp decline on the number of experienced expatriate personnel that was taking place. Together with this there was a considerable confusion between the role of TANU (a political party) and that of local authorities. Under the then prevailing ideology of a democratic one-party state local councils were being seen as rivals to the local branches of TANU. Such tensions threatened the credibility of local authorities although efforts were taken to harmonize the situation through integrating the party and local authorities. As a consequence the government of Tanganyika introduced the following reforms in order to resolve the confusion (Prat, 1976)

- At village level the party and local authority institutions were merged to form village development Committees whose managers would be the TANU ten cell-leaders[11] in the ward;

- At the district level, elections similar to those of the national electro systems were introduced;

- Decision was passed that the TANU District Chairman should become the Chairman of the District council; and

- All elected Councils were to be members of the party's annual District Conference.

Simultaneously with these changes there was a continued recognition of local governments as separate structures. Nevertheless, local governments continued to suffer from under staffing, and this impacted upon their performance. By 1968, the dissatisfaction emanating from failure by the local government authorities to perform the functions entrusted to them had reached a critical state. Many local authorities for example were unable to pay primary school teachers and the central government had to take over the responsibility. Likewise, Regional Road Authorities had to take over the responsibility for local roads while the responsibility for rural health services went to the Ministry of Health. In the same year Regional Development Committees were set up to step in the shoes of local authorities with funding for local development projects from the central government.

In 1971 District Development and Planning Committees became responsible for coordinating and planning of all local services; while the management of local services was transferred to the appropriate central government departments. New institutions namely District Development Councils and District Development and Planning Committees were introduced in 1972 to replace the District Authorities that had been abolished on 30th June 1972. A year later urban authorities were also abolished (June 30th 1973). At the time of their abolition there were 66 district councils plus 15 urban councils.

The then state of affairs with the local authorities provides a clear indication that the post independence local government system operated in a state of confusion. Some of the factors responsible for the situation are highlighted in the following section.

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[11] This was the lowest administrative position under the Party and each Ten-Cell leader was a representative of ten households (mjumbe wa nyumba kumi) at higher organs of the party hierarchy.

4.2.1 Some weaknesses of the post independence Local Government system

The local government system that had been modified to suit the needs of the new administration could not cope with the demands of the new independent nation. Some of the factors accountable for the inefficiency of the local government system as reported in Max (1991) were:

i. During the post independence period there was a mismatch between expenditure and revenue. The needs for public services expanded rapidly as many people were migrating to urban areas but local authorities were financially unable to cope. The councils had poor own financial base generating low revenue rates and government grants were inadequate to meet the requirements;

ii. Local authorities suffered from under staffing as well as lack of qualified personnel to handle the responsibilities, resulting in maladministration and financial inefficiencies;

iii. Revenues collected by the councils and funds from central government grants were mismanaged;

iv. After independence substantial investments were injected in infrastructure development but local authorities as custodians did not have the capacity to manage this infrastructure;

v. The relationship between local authority staff and councillors was not smooth as in many instances the councillors worked against the councils. For example, Councillors were refusing to participate in campaign for tax collection while on the other hand they depended so much on seating allowances causing unnecessarily many meetings or holding meetings, which were indecisive.

Following the abolition of local authorities, urban councils were merged with neighbouring rural areas leaving the Government focus shifted to rural areas. The central government through its offices in the regions and districts took over responsibility for the provision and management of basic services; and for the planning and implementation of development projects at the local level. The consequent result amounted to rapid deterioration of conditions in urban areas manifested by blocked drains and sewers, bad roads, health centres lacking drugs, un-maintained primary school buildings coupled with lack of text books and other facilities.

The run down state of service infrastructure in urban areas could not be tolerated any more. Subsequently the Town and Municipal authorities were re-established as from 1st July 1978 with the hope to address the situation. Nonetheless the local government authorities fully operational in 1984 after the supporting pieces of legislation were put in place. The Local Government (Urban Authorities) Act No. 7 of 1982 was passed so as to govern the establishment of town, municipal and city councils as local government authorities in urban areas. At the same time the Local Government (District Authorities) Act No 8 of 1982 was enacted for the establishment of village councils, township authorities and district councils as the local government authorities in rural areas. Then local government elections followed in 1983.

The local government system was effectively entrenched in the country's system of governance following the amendment to the constitution of the United Republic of Tanzania in 1985. The Constitution, under Section 145(1) provides that:

> There shall be established Local Government authorities in each region, district, urban area and village in the United Republic, which shall be of such a types and designations as shall be prescribed by legislation enacted by the National Assembly, or the House of Representatives of Zanzibar

Subsection (2) of section 145 further provides that:

> The National Assembly or House of Representatives as the case may be, shall enact legislation providing for the establishment of Local Government Authorities, and the structure, composition, sources of revenue and procedures for the operation of those Local Government Authorities.

It is quite reasonable to assume that the reinstatement of local government authorities was found necessary for their importance in terms of the roles they play for their communities. However, the new local authorities had inherited the weaknesses that had threatened their existence prior to being abolished. This affected their capacity to perform the functions assigned to them. Fundamental problems that confronted the reinstated local authorities have been categorised (ALAT/PO-RALG, 2003) as:

- **Institutional and Legal Framework**.

  The framework that regulates the relations between central and local government is complex, excessive and self- defeating, control oriented and is somewhat ambiguous and fragmented. Overlaps and conflicts between major pieces of legislation coupled with continued central government excessive control over local governments were

some of the factors that affected local governments. This was to some extent a result of the framework set-up that had existed during the centralization era but remained operational even after re-instating local authorities.

- **Roles, functions and structures**

  Local government authorities were seen to have uniform roles, functions and structures while they had limited capacity to handle their responsibilities.

- **Governance**

  Relations between political leaders at national and local level, civil society organizations and the councils are weak and sometimes antagonistic. The result has been problems such as clear antagonism between councillors and technical staff; views from the local councils are weakly represented at the central government level.

- **Finance**

  Under funding was a major problem, making local authorities operate under severe financial constraints. Besides under funding the councils experienced political interference by the central government agencies in revenue collection. The councils had been inefficient in collecting revenue and the central government did not operate a grant system with clear indications for local authorities to improve performance. Generally the public was against paying local taxes since the local authorities reflected inefficiency, non-transparency and unaccountability and corrupt practices were seen as part of the system. Also there was no clear institutional mechanism to guide the sharing of public revenue sources and funds between the central and local governments. This left local government authorities receiving inadequate and arbitrary transfers from the central government.

- **Human Resource Capacity and Management**.

  Most local authorities experienced a shortage of trained and skilled manpower because most employees were accountable to the Government Service Commission and/or respective parent ministries. This left local authorities suffering from understaffing.

- **Capacity of Central Government Institutions**.

  Relevant government institutions had limited capacity to design, develop and implement measures that would facilitate promoting a stronger local government system.

The enumerated problems contributed to poor performance by local authorities in almost all their functions, especially service provision. The existing infrastructure in urban areas such as roads, sewers, health centres, schools and so on were run down and no efforts were being taken to invest in new ones to match the increasing demand (ALAT/PO-RALG, 2003). The appalling situation with the local authorities called for action. The Local Government Reform Programme (LGRP) was launched to address the shortcomings with the existing local government system.

4.3 The Local Government Reform Programme

Besides specific problems with the local government system, poor national economic performance and dishonest and non-committed elected and appointed officials resulted in local authorities failing to perform their functions. The re-established local government authorities were not very different from those before the 1972 decentralization in terms of problems that impacted upon their performance. They took over functions and responsibilities without the necessary financial backing. As a result the re-established local authorities continued to lack obvious results to justify their existence. As the situation was not getting any better the need for reform was apparent.

Findings from various studies, commission, workshops and seminars that had been undertaken from the early 1990s indicated the need to design a reform that would improve the delivery of services as well as governance. The reform was to cover both the Civil Service and Local Government. There was also a need to downsize central government, increase efficiency and at the same time reform local government to decentralize more power, to improve service delivery, and to encourage transparency and accountability.

It was on the basis of the results from various studies and considerations that a Local Government Reform Agenda (1996 – 2000) was promulgated. The Reform Agenda is guided by the vision of the future local government system as formulated and endorsed at the National Conference in 1996 (ALAT/PO-RALG, 2003). The desired local government authorities as described in the Local Government Reform Agenda are institutions which:

- Are strong and effective, underpinned by possession of resources (both human and financial) and authority to perform roles and functions;
- Have leaders who are democratically elected;
- Derive legitimacy from services to the people;

- Facilitate participation of the people in planning and executing their development plans and foster partnerships with civic groups;
- Operate in a transparent and accountable manner, thus justifying their autonomy from Central Government interference.

The overall objective of the LGRP as stated in the Policy Paper (URT, 1998) is to improve service delivery by making local authorities more democratic and autonomous within the framework established by the central government and under conditions of severe resource constraints. As such local government authorities are charged with the responsibility for social development and public services within their jurisdiction, facilitation of maintenance of law and order and issues of national importance such as education, health, water, roads and agriculture.

The envisaged local government reform was to be achieved through decentralisation, which was adopted as a main strategy. In order to address the objectives of the reform four main policy elements are included in the decentralisation. The policy elements are:

i. Political decentralisation, which gives local government authorities powers to set rules.

ii. Financial decentralisation. Councils have financial discretionary powers and powers to levy taxes, whereas the central government has the obligation to provide to local governments unconditional grants and other forms of grants. Furthermore the councils are allowed to pass their own budgets reflecting their own priorities as well as mandatory expenditures required by the legislation setting national standards.

iii. Administrative decentralisation. Local governments have powers to recruit their own personnel in a way that suits the respective council in order to improve service delivery.

iv. Changed central-local relations. The relations will be changed with the central government having the over-riding powers within the framework of the constitution. Subsequently the line ministries will become i) policy making bodies, ii) supportive and capacity building bodies iii) monitory and quality assurance bodies and iv) control bodies (legal control and audits).

The local government reform programme has transferred responsibility for service provision from the central government to local government authorities with emphasis on improved quality of and access to public services. Despite the fact that the central government has the obligation to provide grants, local authorities have to improve their revenue performance so as to address the service provision challenges ahead of them.

4.4 Composition and Organization of Local Government Authorities

Out of the provisions of Section 145 of the Constitution of Tanzania a number of legislation were enacted to put in place the local government system and to facilitate operation of local government authorities. The main ones are:

Local Government (District Authorities) Act No. 8 of 1982

Local Government (Urban Authorities) Act No. 7 of 1982

Local Government Finances Act No. 9 of 1982

Local Government Services Act of 1982.

The aftermath of the passing of these pieces of legislation is the two main categories of local government authorities in Tanzania. These are the urban authorities constituting City Councils, Municipal Councils and Town Councils; and District authorities, which include District Councils, Township Authorities and Village Councils. Presently the count of Local government authorities is as shown in Table 4.1.

Table 4.1: Local Government Authorities in Tanzania

Status of local authority	Number
City Council	5
Municipal Council	10
Town Council	10
District Council	92
Township authority	NA
Village Council	NA

Source: Compiled from URT Local Government Support Project Report: January-December 2005
NA: Data not available

The administrative structure of urban authority is such that an urban local government authority id divided into wards and "mitaa". As a result of urban areas expansion some registered villages are found within the urban authority jurisdictions causing wards to have villages and "vitongoji". A district authority is divided into Divisions, Wards, Villages and

"vitongoji" as lower tiers. The "mtaa"[12] and "kitongoji" are the lowest local government administrative level in urban and rural areas respectively.

Local government authorities are empowered to make by-laws and to collect revenues so that they can fulfil their functions. The general duties and functions of local government authorities are broadly categorized as mandatory and permissive.

Mandatory functions and duties include:

- Maintenance of law, order and good government

- Promotion of social and economic welfare and well being of all persons residing within the areas of jurisdiction.

- Furtherance of economic and social development in their areas.

- Effective collection and proper utilization of revenues of local government authorities.

- Making by-laws for the implementation national and local policies.

- Consideration, regulation and co-ordination of development plans, projects and programmes so as to ensure more beneficial development and mobilization of productive forces to combat poverty, disease and ignorance, and for the control and improvement of agriculture, trade, commerce and industry.

Permissive Functions are those which local authorities may perform depending on the availability of resources. These include prescription of methods of husbandry on agricultural land, the building, equipping and letting of shops and dwelling houses; the establishment, maintenance, operation, and control of drainage and sewerage works and any other functions, which may be beneficial to the residents of their areas.

The functions delegated to local authorities are performed through standing committees. The common committees serving under urban authorities include: Finance and Administration; Economic Affairs, Health and Education; Urban Planning and Environment and HIV/AIDS. Those common in rural local authorities are: Finance, Administration and Planning; Education, Health and Water; Economic Affairs, water and Environment and HIV/AIDS.

Local government Authorities are governed by councils, which are composed of councillors, elected from each ward; Members of Parliament representing the local constituency and female members representing women's interests. The composition of the

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[12] *Mtaa* is a Kiswahili name for 'Street'. The same word is used to connote the lowest governance level in the local government administrative system.

Dar es Salaam City Council is slightly different as it covers other local authorities (the Municipal Councils) that exist within the City jurisdiction. As such the Council is composed of a Mayor elected by councillors; a Deputy Mayor[13] elected by the Councillors, all constituency Members of Parliament and at least two women members; three councillors from each of the municipal council (one must be a woman); and the mayor of each of the municipal councils.

The organization of roles and functions played by local government authorities is divided into departments, which service the authority itself and those that serve the citizens. The common ones directed to serving the people are: Engineering Department (Works Department), Education and culture, Trade and Economic Affairs Department, Urban Planning and Coordination Department, Health and Social Welfare Department; Cooperative; Agriculture and Livestock Development Department and Community Development Department. Nonetheless the composition of the departments may vary depending on local context and needs of the individual local government authority. In addition to these departments local authorities have Tender Boards as well as Service Boards such as water, education and health boards.

While improved public service delivery is underscored as a major aspect under the local government reform, it is interesting to note that this is not accorded similar importance among the prescribed functions. Service provision does appear among the mandatory functions and duties ascribed to local authorities. As an example, the establishment, maintenance, operation and control of drainage and sewerage works is categorised as permissive function that a local authority can perform depending on the availability of resources. Probably this explains the absence of drainage and sewerage infrastructure in most urban areas. Given the necessity of the service in the settlements, one wonders as to why the legislation made it optional for the council to provide such services.

4.5 Provision of Public Services

As is the case in other Sub-Sahara African countries, local authorities in Tanzania are charged with the provision of public services such as health, primary education, refuse collection, water and sanitation, and fire protection services, among others within their areas of jurisdiction. However, the situation in Tanzania is slightly different when it comes

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[13] A Deputy Mayor must be from an authority different from that where the Mayor comes.

to the provision of major public utilities and services. Historically these services have been and continue to be provided by the central government or by agencies of the central government.

Sector National policies consider certain services like water, education and health as basic and should be accessible to all. Linking to this, the legislation has been amended to incorporate provisions that require local government authorities to provide these services in an efficient and cost-effective manner and foster cooperation with civic groups and other persons or authorities.

Section 55 of the Local Government (Urban Authorities) Act, 1982 specifies a number of services that urban local authorities are required to provide to the local population. The services include maintaining all public facilities (e.g. latrines, urinals, cesspits, dustbins) street lighting; naming or renaming streets and numbering buildings, keep and maintain clean and in good order and repair all streets and sewers, keep clean all trunk roads and so on.

The local government legislation therefore requires the central government to transfer funds to local authorities to enable them develop, provide and maintain the prescribed services. More importantly the Local Government Reform Programme aims at creating local authorities that can derive their legitimacy from the provision of basic services to the people. However, despite these policy statements to enable local authorities, it has been observed that most services and infrastructure are still being provided by the central government or increasingly through executive agencies with direct central government or donor funding (Kironde, 2002). Besides, urban local authorities do provide limited and inadequate services in terms of both quality and quantity. Modes of service provision can be by outsourcing to private contractors for example solid waste management, or by government agencies as for water and electricity or by local authorities. The services for which local authorities are responsible for their provision include:

i. Water and Sanitation

The central government or central government agencies provide water supply and sanitation services in urban areas while urban councils deal with peripheral and rural areas. The central government agencies i.e. Urban Water and Sanitation Authorities (UWSAS) are responsible for the provision of water and sanitation in older planned areas of the towns. While UWSAS exist in 18 regional headquarters only 9 of these have sewerage systems with capacity to serve between 3-15% of their total urban population

(ALAT/PO-RALG, 2003). For instance the responsibility for water supply changed from a government agency (DAWASA) to City Water, a private company but the government has recently formed a new agency (DAWASCO), which has taken over the responsibility of water provision.

Urban Local authorities receive subventions from the central government for implementing water and sanitation schemes so as to provide water in peripheral urban areas and in rural areas where utility agencies do not provide the service.

ii. Roads:

Local authorities are responsible for the management of district, urban and feeder roads through funding from the Road Fund Collection. The road fund is collected by the central government out of which 30% of the total collection net of Road Fund Board Expenditure is disbursed to local authorities for the maintenance of district roads. In addition to the road funds, local authorities use their own resources to develop and maintain roads. It is important to note that the resources available are often too little compared with the enormou*s* task involved in developing and maintaining roads. This leaves poor roads in many areas, albeit some relative improvements in the district roads.

iii. Education:

Provision of primary education in Tanzania is the responsibility of local authorities with funding by the central government. Besides financing primary education the central government through the Ministry of Education and Culture has the duty of setting up minimum education standards and policies; as well as ensuring their implementation and the training of teachers. Local authorities are responsible for the provision of schools infrastructure and maintenance, books and stationery. General observations indicate that there is inadequate physical infrastructure, human resource, books and stationery as well as under skilled teachers to support primary education. Despite the donor-support, Primary Education Development Programme (PEDP)[14] for improving primary education and block grants for education from the central government, local authorities are experiencing difficulties in running primary education. Local authorities have little own financial resources to invest in the education sector.

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[14] Support for improving infrastructure in primary education. This support has enabled the construction of new classroom buildings, teachers' offices as well as the rehabilitation of a good number of the old buildings (ALAT/PO-RALG, 2003). However, there have been considerable complaints regarding embezzlement of funds earmarked for the programme.

iv. Health
Local authorities are responsible for the provision of health services at the level of District Hospitals, Health Centres and Dispensaries. Construction and management of the infrastructure, procurement and staff management are the responsibility of local authorities. The financing of health services comes from central government grants; local authorities own generated revenues; and finances allocated for vertical programmes; such as expanded programme on immunization, the essential health programme, the national AIDS control programme and programmes intended to improve access to clean water, sanitation and better nutrition and so on. In general the central government has not been able to provide sufficient grants to local authorities for the provision of health services. Notably is the lacking of drugs as well as other necessary supplies and facilities in hospitals and health centres.

v. Waste Management:
Local authorities are responsible for management of liquid and solid waste that originate from various sources such as households, industrial and business entities, institutions, market places and so on. Solid waste management involves the control of waste generation; waste storage; collection; transportation; processing and final disposal in a manner that is in accordance with the best principles of public health and economic, engineering, aesthetics and environmental issues (ALAT/PO-RALG, 2003). It is an undisputed fact that urban local authorities have limited resources and therefore cannot undertake all the processes of proper waste management. As such most parts of towns don't receive regular waste disposal services and collection is to a large extent confined to town centres and high-income areas. The situation is slightly better in local authorities (including Dar es Salaam), which have opted to involving private contractors in the collection of solid waste. Nonetheless, solid waste management remains a major problem for local government, as public waste services never reach a large proportion of the urban population, especially the poor majority in informal settlements.

4.6 Sources of revenue for local government authorities

Various sources of revenue are available for local government authorities. The major categories of revenue sources include intergovernmental fiscal transfers, borrowing, user charges and local taxes. In many countries, especially developing ones central government grants are often the largest source of revenue for most local authorities

(Aluko, 2005). However, it has been argued that over-dependence on central government grants encourage a "beggar attitude" (Konyimbih, 2000) and is likely to erode the sense of responsibility and accountability and above all the autonomy of the local government authorities (Max, 1991).

Another potential source of revenue is the user charges where local governments provide services and appropriate user charges employed. Bird (2000) argues that whenever possible, local public services should be charged for property rather than give away. Thus charging the immediate users of infrastructure and services is aimed at generating revenue to cater for operating and investment costs. Nevertheless user charges should be used in situations where the specific beneficiaries of the infrastructure can be identified and non-payers excluded (Slack, 2005). User fees are appropriate to pay for water, sewers and garbage collection services since it possible to identify the beneficiaries. Conversely user fees are unsuitable for services like local roads, storm water drainage, police protection and parks for the reason that it is not easy to identify the beneficiaries and exclude people from consuming the services.

Local government authorities also generate revenue from various local taxes. These can be categorised as land based taxes and non-land based taxes. Property taxes, land rent and fees related to development of land like building permit fees constitute land-based taxes. Other taxes such as excise taxes, payroll taxes, corporate income taxes, retail sales taxes and value added taxes might be considered as sub-national government sources of revenue (Bird, 2000). But in most developing and transitional countries these are not local taxes because they are levied by central governments. However, the fiscal relationship between local and central government determines to a large degree local taxes levied by local government authorities.

Local government authorities in Tanzania are authorised to generate revenue from an array of sources provided for in the Local Government Finance Act (No. 9) of 1982. But powers to raise their own revenues are subject to the approval of the Ministry responsible for Regional Administration and Local Government. Thus, despite the sources of revenue being listed in the legislation, a local authority can only utilise a source from the list after approval by the Minister responsible for local government.

The sources of revenue for local government authorities are broadly categorized as internal (or own) and external. Internal sources of revenue include all local taxes and miscellaneous receipts while external sources constitute central government grants and borrowing. Previously the Local Government Finance Act, 1982 provided for fifty six

revenue sources from which a local authority may choose to exploit. At present local authorities have less revenue sources at their disposal following the abolition of sources identified as nuisance taxes. Table 4.2 illustrates some of the revenue sources for urban local government authorities.

Table 4.2: Own Sources of Urban Local Government Revenue in Tanzania

1. Business Licences
2. Property Tax
3. Advertising Fees (Billboards)
4. Industrial Cess/City Service Levy
5. Liquor Licence
6. Human Resource Licence
7. Transport of Mineral Products Fees
8. Health Inspection/Food Handling Fees
9. Billboards Tax
10. City Buildings Rent
11. Transport of Quarry Products Fees
12. Abattoir Slaughter Fees
13. Medical Services Fees
14. Building Permit Fees
15. Hotel Levy
16. Fence Building Fees
17. Meat Inspection Fees

Source: Compiled from Municipal Council Documents

4.7 Summary

This chapter has provided an overview of the local government system in Tanzania from the colonial time to the present. The intent was to highlight on the set up, powers and responsibilities bestowed upon local government authorities.

This was considered important because the study focuses on real property taxation, which as one of the major sources of revenue, its weak revenue performance impacts upon the local authority's ability to perform its functions.

The discussion in this chapter has also indicated that the central government still exercise ample control over some of the powers and responsibilities of local government authorities. As noted in a joint government-donor review (GOT/PO-RALG, 2004) of the LGRP, there have been achievements in council restructuring, popular awareness, retrenchment, contracting – out and financial management but reform efforts continue to be delayed or disrupted by continuing central government controls. Of interest for this study is the finance aspect. In the review an increase in the centrally disbursed financial grants for recurrent expenditure has been reported. But local government own-source revenues and the autonomy to make discretionary decisions and priorities have diminished to the point where the viability and sustainability of the own-revenue system has been questioned. For instance the recent abolition of the so-called "nuisance" taxes has

strongly impacted upon own-source revenues. While the removal of some regressive and cumbersome taxes is an advantage, it is important to note that own-source revenues have been reduced to a point where it is difficult for local government authorities to ensure autonomy, respond to local needs or co-fund development grants and maintenance or operation costs (GOT/PO-RALG, 2004).

Even though the lost own-source revenue is compensated, the procedures for a local authority to get compensated are cumbersome for most of the councils. Consequently, the councils are left in financial difficulties. In the light of the prevailing situation it calls for the local government authorities to enhance utilisation of the remaining local sources of revenue. It is in line with this that there is a need for improving property taxation as one of the remaining sources of revenue.

The foregoing discussion has shown that since the colonial time provision of local services was the responsibility of local government authorities. Also the local government authorities have the obligation to raise revenue from local sources. However inefficiencies with the local government authorities in service delivery and revenue collection have been persistent from the period after independence to the present.

<center>**Chapter Five**</center>

<center>**TAXING REAL PROPERTY IN TANZANIA**</center>

This Chapter presents the main features of the property tax system in Tanzania as prescribed in the legal framework. The Chapter starts with a brief discussion on the land tenure system and how it influences the management of urban land. A review of the land tenure system is important because the forms of land holdings and the operation of the property market are largely influenced by the tenure system. On the other hand property tax is based on property values, the assessment of which is influenced by the way property is transacted. Thus the forms of land holdings and the behaviour of the property market have a bearing on the levying of property tax

As is the case with many countries, real property in Tanzania attracts a number of taxes including property tax or rate, capital gains tax, stamp duty, VAT on rental income from non-residential property and land rent[15]. Among the various forms of taxes related to real property, this study focuses on **"property rates"** a term commonly used in countries with historic British colonial influence. While the term "property taxation" broadly includes a number of taxes such as those aforementioned, it is also extensively used to refer to taxation of land and buildings. The subject of this study therefore is real property tax levied on real estate.

5.1 Land Tenure and Management of Urban Land.

5.1.1 Land Tenure system

The present land tenure system in Tanzania is rooted in the colonial past. Prior to the coming of the colonial administration land in Tanzania (then Tanganyika) like in many other African countries was held under customary tenure whereby powers to control and allocate land were vested in a tribe, clan, family or chiefs. Chiefs, headmen, clan or tribe elders were entrusted with the administration of land of a particular community. The coming of Germans as the first colonial administrators brought remarkable changes to the land tenure system.

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[15] Land rent in Tanzania is levied on land parcels held under Statutory Right of Occupancy. To some extent it is regarded as some form of tax associated with ownership of landed property mostly in urban areas.

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In 1985 the German administration declared all land in the territory to be Crown land vested in the German Empire. But lands held by private persons, chiefs or native communities for whom there was proof of ownership were exempted from the application of the declaration. Subsequently leases of definite and indefinite period (implicitly freehold) were introduced. Succeeding the Germans after the First World War, the British passed the Land Ordinance Cap 113 in 1923. Similarly under the Land Ordinance, all lands whether occupied or unoccupied were declared public lands with all the interests over the lands placed under the control of the governor. The interests over the lands were held, used or disposed of, for the common benefit of the natives. Under the ordinance land was to be held as a Right of Occupancy.

After independence in 1961 the independent government inherited the conceptual and major part of the legal framework and land tenure from the colonial period (URT, 1994). Thus, even after independence land remained 'public land' and vested in the state as declared by the colonial Land Ordinance. Significant changes brought by the independent (Tanganyika) government were the conversion of the colonial (largely German) freeholds into government leaseholds under the Freehold Titles (Conversion) and Government Lease Act (Cap.523) of 1963. The Government Leases were later on converted into rights of occupancy under the Government Leaseholds (Conversion to Rights of Occupancy) Act No. 44 of 1969. The independent government retained the right of occupancy land tenure with a maximum of 99 years term, as governed by the Land Ordinance 1923.

The Land Ordinance remained operational until May 1st 2001 when the Land Act N. 4 and the Village Land Act No.5 were passed to govern land holdings under right of occupancy in urban areas and rural areas respectively. Like the Land Ordinance 1923, the Land Act 1999 treats land as 'public' property. According to Section 4 (1) of the act, all land in Tanzania shall continue to be public land and remain vested in the President as trustee for and on behalf of all the citizens of Tanzania. With the new Land Act dual land tenure system has been put in place, recognising both statutory and customary rights of occupancy. Land holding under Rights of occupancy is to be confirmed by a certificate of occupancy issued with respect to land allocated by public authority or land that is acquired through pertinent customary procedures. According to the Land Act:

> "right of occupancy" means title to the use and occupation of land and includes the title of a Tanzania citizen of African descent or a community of Tanzanian citizens of African descent using or occupying land in accordance with customary law.

"customary right of occupancy" includes deemed right of occupancy. "deemed right of occupancy" means the title of a Tanzanian citizen of African descent or a community of Tanzanian citizens of African descent using or occupying land under and in accordance with customary law.

Under the dual land tenure system landholders with certificate of occupancy have explicit security of tenure. But security of tenure for landholders in informal settlements without formal certificates of occupancy remains ambiguous. There is no clear provision in the legislation that confers security of tenure to land holdings in unplanned areas except for a certificate of validation that can be issued upon application by the occupier. Moreover, land occupiers in unplanned (urban) areas do not qualify for security of tenure under customary tenure system as this applies only in rural areas or to registered villages within the urban areas.

In practice the land tenure system has had considerable influence on the operation of the property market. According to the Land Act No. 4 of 1999, the interests in or rights over land of the occupier with a right of occupancy are limited to unexhausted improvements on the occupied land since land is the property of the state. As such transactions of vacant land are restricted under the law. However recent amendments in the law, under Land (Amendment) Act No.2 of 2004 allow sale of vacant land but subject to approval by the Commissioner for Lands. The approval is guided by provisions of Section 37 of the Land Act, which sets the conditions for disposition of vacant land.

For a long time in history property transactions were restricted. It is only in recent years that the number of properties changing hands has been increasing. Nonetheless people transacting in real property are seldom willing to disclose the true prices for which real property change hands. Even though there have been restrictions in transacting land holdings under formal ownership, it has been easy to sell land in informal settlements where conditions attached to granted right of occupancy do not apply. As a result of restrictive land laws the property market has not been active enough to generate market sales data for use in valuation. Thus scarcity of market data has negatively impacted upon the real property valuation practice.

5.1.2 Urban Land Management

Management of urban land is broad involving a number of functions performed by responsible authorities as guided by the respective land policy and related pieces of

legislation. The land management functions include arrangements for land use planning and allocation, development control, land surveying, land registration, land valuation and taxation, infrastructure utilities and so on. Among the aspects that facilitate efficient land management is cadastral and land register system. This section highlights on the management of urban land and the situation of land information in Tanzania.

As earlier pointed out, the land tenure system in Tanzania provides two parallel systems under which development land is supplied. These are the formal and informal systems. Delivery of development land in urban areas under the formal system is entrusted to the state machinery. The formal or official land delivery involves preparation of land, which entails acquisition, and payment of compensation to sitting occupants. Then follows preparation of planning schemes, surveying of the land and providing the necessary infrastructure before it is allocated to the land seekers. However experience shows that the planned and surveyed land is allocated to prospective developers without the basic service infrastructure.

The Ministry of Lands and Human Settlements Development through its three divisions is responsible for making land required for urban development available and ensuring proper and orderly development. The Human Settlements Division is responsible for land use planning, controlling and regulating land development to ensure adherence to approved land use schemes and standards. The Surveys and Mapping Division is responsible for establishment and maintenance of cadastral system by preparing maps and surveying land parcels. The Land Development Division on the other hand, assumes the overall land administration and management of land development. The division undertakes a number of functions including plots allocation, preparation of certificates of title, land registration, preparation of legal descriptions of each land parcel for transfer, and granting and processing of consent to land transactions. The Land Development Division through the Valuation section is also responsible for carrying out valuation for various purposes such as assessment of fees and land rent as well as valuation for mortgage, compensation, among others.

While the official land delivery system was expected to provide sufficient planned land for orderly development in urban areas, this has not been the case. The system has demonstrated lack of capacity to meet demand for planned land development in urban areas resulting in the expansion of the informal land markets. Kombe (1995) notes that the informal land delivery system is predominant in most urban areas and the majority of land

seekers obtain plots from this system. Informal land delivery system in the Tanzanian context refers to a situation where land is acquired outside the sanctioned legal framework.

Under informal system land is acquired through buying and development does not conform to the regulations proclaimed by planning authorities. Often landholders under informal system do not have documented proof of ownership hence creating difficulties to land administration such as failure to register and compile land information, and secure landowners' rights. Consequently the government loses a lot of revenue in that the authorities levying various fees and taxes lack records of the majority of the landholders. The informal system is also responsible for a number of land management problems including irregular land development; development of marginal, hazardous or environmentally sensitive land, lack of land for public infrastructure and utilities and many others.

5.1.3 Land Records

Among the key elements of efficient urban land management is properly managed land information presented in cadastral and land registration systems. In simplicity a cadastral system is composed of a cadastre and a land register. According to Larsson (2000), a cadastre is a systematic description of the land units within an area. The description being made by maps that identifies the location and boundaries of every unit and by records. A cadastre therefore represents a specific type of land record comprising maps that indicate the identification number and area of the unit, land use for each parcel, land value and information concerning ownership or control of the interests in land. The instrument may be established for fiscal purposes (e.g. valuation and equitable taxation), legal purposes (conveyancing), to assist in the management of land and land use (e.g. for planning and other administrative purposes), and enables sustainable development and environmental protection (FIG, 1995 in Zevenberg, 2002).

The second type of land records is the "legal" record, which are commonly referred to as 'legal cadastre' or '(legal) land register'. The term '(legal)' land register is used to describe the legal registration of rights and deeds concerning real property (Larsson, 2000). As such, a land register contains information about ownership, indicating name or names of persons holding a particular land parcel and the conditions of such ownership.

Essentially the cadastre and the land register complement each other with respect to proper functioning of the cadastral system. While the cadastre gives information about

the land parcel showing the parcel identifier, size and location, the land register identifies the land rights owner with the conditions of ownership. Such information provide a sound basis for contributing to equitable and efficient land tax system on one hand and on the other supporting real property market transactions such as acquisition compensation, transfer of land rights, mortgage and so on.

Land records are considered of particular importance for the state to know all land units liable for taxation or other services, dues and fees. It is argued that a good cadastral system based on map and embodying the unique identification of each land unit provides the benefit of improved basis for land assessment and taxation among others (Larsson, 2000). With proper records of land units and their owners it is possible for local authorities to have complete tax coverage with subsequent increases in revenue. Besides, sufficient knowledge in form of size and boundaries about each taxable property can result in a fairer tax system. Thus proper records of land units and their owners lead to a more efficient taxation system since the taxable units as well as taxpayers are known and it becomes easier for taxing authorities to collect tax.

While land records are essential for various land related uses, property taxation in Tanzania is substantially starved of property information. The cadastral system is inadequate, providing a relatively small number of registered properties. According to Silayo (2001), the primary objective of cadastre in Tanzania is to provide geometric cum written description of land parcels for the purpose of acquiring and registering land rights. For a long time since the colonial period, the cadastre has been a tool for legal recognition of land rights. However, it has been slowly changing to cater for fiscal purposes since the government uses the cadastral maps to levy land rent on all surveyed land in urban areas.

As is the case with many other countries of the third world cadastre and land register in Tanzania are not adequate enough to facilitate proper management of urban land. Urban Local Authorities are experiencing difficulties in dealing with issues that require comprehensive land records. Levying property tax is one area that is restrained by lack of comprehensive land records. As a consequence information about taxable units as well as taxpayers is to a large extent obtained from field surveys. The situation is more complex in informal settlements where information is lacking. As noted by Lupala (2002) data on land ownership, subdivision and transfers, plot characteristics, number of inhabitants in informal settlements are unknown.

5.1.4 The character of urban areas

Most of urban areas (regional town centres, municipalities and cities) of Tanzania expanded from town centres established during the colonial era. The towns continued to grow after independence as a result of many people moving from rural to urban areas. Inability of town authorities to cope with the increasing urban population coupled with failure to provide planned land for housing development resulted in two main notable features in urban areas, identified as 'planned areas' and 'unplanned areas'.

Planned areas in most towns developed before 1970. These had been equipped with basic municipal infrastructure systems such as roads; drains, water and electricity supply networks. Most of the old infrastructure systems are run down and have been incapacitated due to higher population using the facilities than planned for. As a result many urban areas lack or have poor basic infrastructures. Besides, planned areas that developed after the abolition of local authorities lack street names and house numbers, making it difficult to identify properties for various administrative purposes. Lack of development control is another problem in planned areas manifested by for example developments extending beyond allowable site coverage hence blocking access roads within neighbourhoods. Absence of physical infrastructure such as schools, playgrounds, and market areas is another observable feature in planned areas. This is a result of land allocated for such public uses being taken up by individuals and developed for residential use.

A major notable feature of unplanned areas in urban Tanzania is urban sprawl and overcrowding resulting from uncoordinated and uncontrolled development. Since individuals acquire parcels of land through informal buying from different landholders, they also tend to develop such parcels of land according to individual requirements. The consequent effect is lack of basic public utilities as no land is reserved to cater for such uses. Nonetheless the situation with respect to infrastructure and services is not very different from that of planned areas especially those developed after the early 1970s. Many houses in unplanned areas get connected to water and electricity supplies networks with difficulties because no land is reserved for the provision of required infrastructure. To a large extent roads found in unplanned areas are not of the size that allows easy movement especially for large trucks. This, to some extent leads to unplanned areas being excluded from receiving some of the public services such as solid waste collection services.

5.2 Property taxation in Tanzania: the past and the present

The history of property taxation in Tanzania can be traced back to the German colonial era although Koponen (1994) argues that taxation was by no means foreign to the African people. He points out that African people had contributed to the upkeep of the resources of their traditional leaders by rendering tax or tribute in kind or in work. As such the pre-colonial taxation had taken the form of irregular 'gifts' coupled with regular cultivation of leaders' fields. It was in the light of the then prevailing practice that the colonial hut tax was initially paid in kind or in work, in areas where little or no money was circulating.

The German colonial government introduced the house and hut tax in 1898 after passing the tax ordinance in 1897. The tax was paid according to the number of dwellings and the tax amount per house or hut was 6 to 12 rupees in urban areas and 3 rupees in rural areas (Koponen, 1994). Although the colonial tax was meant to become a major means of raising revenue for the state, at the beginning the main aim of the tax was to induce Africans to work without using direct force, since a large labour force was required for the colonial plantations. Thus the tax had driven people to work in two ways: directly as tax labourers who paid their taxes in form of work instead of cash or produce; and indirectly by creating a need to earn money to pay the tax (Koponen, 1994). However, in the mid 1890's the local tax was levied in major coastal cities with the main purpose of raising revenue for public utilities such as street lighting and sewerage in the respective towns.

After the end of World War I a tax based on land and buildings was introduced by the British rule. This was levied under the Township Ordinance Cap 101 of 1920. In 1946 the Municipalities Ordinance (Cap 105) was passed to establish municipalities. The legislation authorized municipal councils to levy property tax at a rate of 10 percent on the capital value of all building situated within the municipalities. Council houses and property occupied by the Governor were exempt from property tax liability.

The Local Government (Rating) Ordinance (Cap 317) was another piece of legislation enacted in 1952. This ordinance extended the tax to cover unimproved site value of all properties held under long-term leases or rights of occupancy. Thus owners of properties held under long-term leases were required to pay a rate based on the value of land and buildings, while properties under short-term leases were to pay a tax based only on value of buildings. Following Tanganyika's independence the independent government introduced the urban house tax in 1961 with the Urban House Tax Ordinance passed in 1962 and the Municipal House Tax in 1963. The Urban House Tax Ordinance of 1962 extended the house tax to cover houses in unplanned areas. The Urban House Tax and the

Municipal House Tax remained operational until 1972 when local government authorities were abolished.

Following the abolition of local government authorities the government took over the responsibility of funding and management of local services. To support this responsibility the government enacted the Land Rent and Service Charge Act in 1974 so as to introduce a new form of property tax designed to combine land rent (for use and occupation of land) and service charge. The land rent and service charge was levied on land held under both short and long-term rights of occupancy. The Act provided for every holder of a right of occupancy to pay 9 or 10 percent of the economic value of land. The Land Rent and Service Charge Act was repealed in 1983 following the enactment of the Urban Authorities (Rating) Act in the same year. Land Rent was then levied under a separate piece of legislation, the Land Ordinance Cap. 113 of 1923, and subsequently is levied under the Land Act 1999.

Following the re-establishment of local government authorities, property tax was also reinstated. Under the Local Government Finances Act No. 9 of 1982, local authorities are empowered to levy rates as a way of raising revenue. The Urban Authorities (Rating) Act, 1983 was thereafter passed to govern property taxation.

Land Rent

Land Rent in Tanzania can be traced back to the colonial period under the Land Ordinance Cap. 113 of 1923 (repealed), under which persons holding a right of occupancy were obliged to pay land rent. The same legislation empowered the President to grant a Right of Occupancy free of rent to a non native if the land was to be used for the purposes of religious, cemetery, crematorium, and non profitable educational and health services only. Since the colonial era to the present day, land rent has continued to be levied on parcels of land held under right of occupancy. The present land rent is levied under the Land Act No. 4 of 1999. Essentially the rent is payable for use and occupation of any parcel of Land granted under the Act. Section 33 (1) of the Land Act prescribes that:

> "The holder of a right of occupancy shall, subject to provisions of this section pay an annual rent for that right of occupancy in the manner provided for under the provisions of the Exchequer and Auditors Ordinance"

Section 33(7) of the act empowers the Commissioner for Lands to exempt from paying rent any person or organization holding land exclusively used for religious worship or for burial or for both religious worship and for burial. Likewise subsection 8 empowers the

commissioner to grant a right of occupancy at a nominal rate if the land is to be used exclusively for charitable purposes.

Land rent in Tanzania is shared revenue, levied by the central government. Local government authorities are allocated 20 percent of the annual collections. Even though every landholder is required to pay land rent, the use of the resultant revenue is not clear. Likewise the reason for the allocation of 20 percent of the revenue to local government authorities is unclear. This is an issue that needs research in order to understand the use of the land rent revenue because property taxpayers have shown concern on land rent as they consider being double taxed on the same tax base. For example property owners in Morogoro Municipality complained to the government on paying both property tax and land rent for the same property (reported in Majira Newspaper, 16th January 2003). While land parcels with certificates of title or letters of offer are subjected to paying both land rent and property tax, land holdings under informal arrangements are excluded from paying land rent. In the next sections the property tax characteristics are discussed.

5.3 Characteristics of the Property Tax

5.3.1 The Tax Base

Unlike in other countries where property tax base may primarily include land and buildings and to a lesser extent other assets the tax base in Tanzania covers buildings (or improvements) only. Thus the tax is based on the capital value of buildings. According to the Urban Authorities (Rating) Act,

> *"rateable property* is described to cover all buildings found within the taxing jurisdiction, which are in actual occupation together with the improvements on, in or under any such building. Whereas improvements are described as the whole or any part of a building structure of whatever materials constructed, which is capable of beneficial use or occupation and which is of sufficiently permanent nature as normally to pass with land on disposition".

However the level of exemptions provided for under the law governing property tax contribute to the reduction of the size of the tax base of any rating authority in Tanzania.

5.3.2 Exemptions

Taxable property is exempted from property tax liability in accordance with the provisions of both the Local Government Finances Act, 1982 and the Urban Authorities (Rating) Act, 1983. The law excludes the following buildings from property taxation:

- 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;
- Other property as may be prescribed by the concerned urban local authority.

Furthermore, in accordance with Section 19 a council is authorized to exempt any tenement from paying rates subject to ensuring that there are other sources of revenue to compensate for the revenue of exempted property. Besides a local government may reduce payment of a rate on account of the inability to pay it; or exempt, any person or category of persons from liability to pay the rate. Additionally, the Minister is authorized under S. 13(5) of the LGFA, 1982 to exempt any category of persons from payment of any rate levied as per the provisions of the Act.

Apart from the exemptions stipulated in the Urban Authorities Rating Act, 1983 another exemption order[16] was given in accordance with the Local Government Finances Act, 1982 by the Prime Minister in 1997 and became effective from January 1998. The order extended powers to exempt property and increased the type of properties to be exempted from liability of rates. Thus under the exemption order the Minister (responsible for local government administration) is authorised to exempt property from property tax. Provision No.4 of the exemption order states that:

> The property and improvements within the area of jurisdiction of a Local authority specified in the schedule hereto and which in the opinion of the Minister are being used for public purpose are hereby exempted from liability of rates payable under the provisions of The Urban Authorities (Finance) Act.

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[16] The order is referred to as The Urban Authorities (Rating) Exemption from Liability of Rates Order 1997

Property and improvements specified in the Schedule:

    i.   Property owned and used exclusively as office accommodation, laboratories and godowns by the government and its departments

    ii.   Government residential property used exclusively by government officers and employees

    iii.   Property used by or reserved for use by a Local Authority

    iv.   Property used exclusively for educational institution.

    v.   Property owned by a religious institution not used in any way for commercial purposes.

A notable practice with the property tax system in Tanzania is the exclusion of government buildings from the property tax base although it is nowhere stated in the law that such properties should be exempt from property taxation. However, the responsible Minister is required to pay service charge in lieu of property rates but the central government has not been remitting finances to the local authorities in this respect. This has a significant impact on the size of the property tax base as government buildings are many and occupy prime locations of urban areas. In addition exemptions granted by the discretion of empowered government officials do not take into account the provision of Section 9 of the Rating Act. For example no consultations are made with the responsible council when the Minister exempts a property from tax liability in order to establish the alternative source for compensating the revenue from the exempted property.

5.3.3 Valuation

The basis of property tax is the market value of a building or where the market value cannot be ascertained, the replacement cost of the building as determined by a qualified valuer. Besides, the rating legislation provides for self-assessment. In accordance with Section 8 (4) of the UARA, 1983 the rating authority where it deems necessary or expedient may require the owner of the rateable property to furnish the authority with the value of the property. But this legal provision is practically dormant.

According to the rating law, valuation of rateable properties is to be undertaken for preparation of a valuation roll after a jurisdiction has been declared a rateable area by the Minister responsible for Local Government. A valuation surveyor is appointed to survey the properties, estimate the rateable values and to prepare the valuation roll. As pointed out earlier, the rateable value of the property to be determined is the **market value** or the

replacement cost as the case may be. Section 22 (1) of the Urban Authorities (Rating) Act of 1983 stipulates that:

> …….the rateable value of premises shall be the market value of premises or where the market value cannot be ascertained the replacement cost of the buildings, structures and other developments comprised in the premises after deducting the amount which it would cost at the time of valuation to restore the premises to a condition in which they would be as serviceable as they were when new.

Provided that rateable value shall not be less than 75 per cent of the replacement cost. In accordance with subsection (2) of section 22 of the rating act:

i. "replacement cost" means, in relation to buildings, structures, and other development, the amount which it would cost, at the time when the premises are being valued to provide all buildings, structures and other development as they were when new if the premises consisted of an undeveloped site;

ii. "development" means any kind of work or improvements carried out on or in land and includes in particular foundations, excavations, drainage systems, and pathways, aprons and other prepared surfaces;   and

iii. references to buildings and structures include references to machinery which is attached to and forms an integral part of any building or structure.

Experience shows more reliance on the replacement cost approach for rating valuation in Tanzania. Although the most reliable valuation method in estimating the market value of the property is the sales comparison approach, this has proved difficult in the Tanzanian situation. The use of the sales comparison approach is restricted by a number of factors such that valuers have resorted to the use of cost approach as the most appropriate. While reliability of the sales comparison approach depends heavily on the availability of property transactions data, the property market in Tanzania is not active enough to generate sufficient sales data. Also in the absence of a centralised data bank the scanty data available is not readily accessible as it tends to be confined to the individual valuation firms (Mwasumbi, 2001).

Completion of the valuation exercise is followed by the preparation of a valuation roll. The estimated rateable values are recorded in the valuation roll. According to Section 8 (2) of the rating act, a roll shall show in respect of each hereditament:

a) the area and situation of the property valued;

b) the name and address of the owner thereof;

c) the name of the leaseholder or, where an improvement stands on parcels belonging to more than one leaseholder, the names of such leaseholders;

d) a brief description of the herditament and improvement included therein;

e) the area of land comprising the herditament;

f) the rateable value of the herditament.

Section 8 (3) further provides for preparation of a new roll every five years or such longer period as the Minister may approve. The legislation makes it obligatory for the rating authority to publish the roll and invite the public to inspect it. Section 11 of the rating act requires the rating authority to publish in the Gazette and in at least one newspaper circulating in the area of the rating authority indicating that the roll or supplementary roll is open for public inspection at the offices of the rating authority.

The authority is also required after the publication of a notice to serve by post upon each owner or occupier of the hereditament listed in the roll or supplementary roll. The notice should inform such person that a roll or supplementary roll has been published, the times at which such roll may be inspected, and the date on or before which objection to the roll must be lodged with the rating authority.

5.3.4 Tax Rates

Local government authorities in Tanzania can levy two types of rates as provided for in the Urban Authorities (Rating) Act of 1983. A general rate is levied over the whole area of the council's jurisdiction and paid by any person covering an immovable property situated within the area of jurisdiction. Whereas a special rate is imposed and levied only in specified area of the jurisdiction of the council where a specified project approved by the council has been undertaken and has benefited the owners of the rateable property in the area. The special rate however can only be levied with the consent of the Minister responsible for local government affairs.

The property tax rates are not fixed in the rating legislation but are set by rating authorities in accordance with Section 20 of the Rating Act, as well as Section 15 of the LGFA of 1982. Thus a local government authority sets a tax rate chargeable as a percentage of the assessed value of the property.

Besides rates based on value of rateable property, local authorities are also empowered to levy *flat rates* in areas where properties are yet to be valued, be it in

planned or unplanned areas. Under Section 13 of the LGFA, 1982 local authorities are authorized to make by-laws imposing rates. Flat rate property tax is therefore levied on buildings and rates are specified in by-laws made by a responsible rating authority. The flat rates vary depending on the size, use and in some cases location of the rateable properties.

5.3.5 Appeals Procedures

After a valuation roll has been published it remains open for inspection at the offices of the rating authority and the rating authority is required to set a date for lodging objections, which should not be less than 23 days after the date of publication of the notice in the Gazette. A property owner or occupier of any hereditament included in the roll, or his appointed representative, may inspect such a roll and take any extracts there from. The rating authority or property owner or occupier of any rateable property may lodge an objection in accordance with Section 13 of the Rating Act. A representative of the owner or occupier may also appeal against the valuation.

On the other hand the rating authority may object to the valuation in respect of any rateable property entered in the roll or any property that has been omitted from the roll but it should have been included. The objection should be served on the owner-occupier of the property concerned or his appointed representative and on the Valuation Surveyor responsible for the roll.

The objection by owner or occupier or his representative is served on the rating authority in writing as prescribed in First Schedule Form designed for serving notice of objection. The objection must be served on or before the specified date and must state the concerned property, the grounds for objection and the entry in the roll, which the objector considers that it should be replaced.

All objections are referred to the Rating Valuation Tribunal, which must determine all objections lodged in connection with the roll. The law provides for an appeal to the High Court against an award on a point of the law but not against the amount of the award made by the Tribunal or against a decision of the Tribunal as to whether or not the objection has been properly determined. After the hearing of objection rateable property owners are notified of the decisions taken by the tribunal.

5.3.6 Property Tax Collection

The payment of property rates is the responsibility of any rateable property owner as provided for under Section 48 of the Rating Act. In the absence of the owner of the rateable property the rating authority is empowered to demand the amount due and payable rate from a tenant or occupier in accordance with Section 46 of the Rating Act. The tenant or occupier is then entitled to recover the paid amount from any rent or other amount payable by him/her to the property owner or his/her successor in title. The collection of property tax is made possible by the billing, collection and enforcement procedures.

Valuation offices of the rating authorities are responsible for the preparation of the bills or demand notices, which are mailed or delivered by hand to the property owner. Upon receiving a demand notice the property taxpayer decides on when to settle the tax liability despite the thirty days period within which payment should be made. It has been observed that there is neither a statutory date for the billing, nor a statutory date for payment (McCluskey et al, 2003). Instead each rating authority specifies a due date on the demand notice as it is sent out to the ratepayer. The common due date is stated as thirty days from the date the notice was sent to the ratepayer.

Property tax rates are levied annually and in most instances payable in one instalment. When the demand notice is sent to the taxpayer it states the due date that the whole annual amount of the property tax should be paid to the rating authority.

Enforcement mechanisms

Procedures for enforcement of property tax compliance are provided for in the Urban Authorities Rating Act of 1983 and the Local Government Finances Act of 1982. The legal provisions that empower Councils to enforce rates compliance include:

i) Penalty imposed at the rate not exceeding one *percentum* per month or part thereof or the amount of rates that remain unpaid. (Section 47 of the UARA, 1983)

ii) Distrain upon the personal goods and channels of the rates defaulter under Section 26 of UARA, 1983.

iii) Instituting proceedings for the sale of the premises whose rates are in arrears in order to recover the amount due. (Section 29 UARA, 1983).

iv)   Recovery of unpaid rates through deductions from the defaulter's wage or salary by employers in accordance with Section 30 of the Local Government Finance Act, 1982.

v)   A penalty of twenty five (25%) percentum per annum of the amount of tax in arrears or imprisonment for a term not exceeding 12 months, or both. This is prescribed in the by-laws made under S. 13 and 15 (c) and (e) of the LFGA, 1982.

vi)   A fine not exceeding fifty thousand shillings or imprisonment for a term not exceeding three months to a person who fails or refuses to pay rates under the Local government Finances Act (S. 21), 1982.

Notwithstanding that the law provides for enforcement instruments, councils find it difficult to implement them in enforcing property tax compliance. For instance most local authorities find the procedures of going through courts as time consuming and costly. Given the resource constraints confronting rating authorities, enforcement of property tax compliance is an activity seldom undertaken.

Even though the law provides clear guidance on the procedures for rating practice, rating authorities experience difficulties in adhering to the legal provisions. For example municipal valuers responsible for property tax face problems in interpreting the extent of exemptions, as some of the exempted properties do not legally qualify to be exempted from property tax liability. Also delays in completion of the valuation process and preparation of a valuation roll are a common problem. This subsequently delays the billing process, the appeals process and determination of the appeals.

5.4 Land information for property taxation

Property tax administration involves a number of processes linked to one another, which require immense amount of information. The property tax base determines the type of information required and the methods of collecting such information. It is argued that the availability of data and the difficulty and cost of collecting such data may influence the design of a property tax system (Youngman and Malme, 1994). The information is required for use at various stages of the property tax administration.

5.4.1 Property ownership records

Where land registry systems are efficiently organized information about ownership, size of land parcel and physical boundaries and property sale prices can be obtained from Land Registry Offices. But the situation in Tanzania is different because land related information is fragmented and kept with different government departments. For example survey maps are kept and maintained at the Survey and Mapping Division, whereas property ownership information is maintained at the Lands Division, both of the Ministry of Lands. Local authorities, which are among the major users of such information with respect to land administration and taxation, have inadequate data.

Information on property ownership is recorded at the Land Registry of the Ministry of Lands and little is found at the local authorities. Properties are recorded by plot numbers with names of the property owner, permitted usage of the land parcel as well as development conditions contained in the Certificate of Title, a document that provides proof of ownership. But plots for which certificates of occupancy have not been issued little information are recorded in the letter of offer. Transfers of property ownership are also recorded at the land registry office although several remain unrecorded because they are not reported to the municipality authority. Nonetheless this is the case with plots obtained through the official land delivery system.

The Land Register with the Ministry of Lands captures legal description and ownership of land parcels found in planned areas. Most of the land parcels in informal settlements are un-surveyed and therefore not recorded in the register for they are obtained outside the formal land delivery system. Only individual land parcels that have been surveyed are recorded in the land register[17].

For a long time land ownership records were being maintained manually in paper files. However in recent years there have been developments in the Ministry of Lands and Human Settlements Development whereby land ownership information of the planned and surveyed lands is being computerized for easy management.

Land parcels in informal settlements are largely held without documented evidence of ownership. Instead evidence of ownership is through recognition of land or property owners by respective local administrative structures at grassroots level for example a sub ward or *mtaa leader*, recognition by neighbouring land or property holders and possession

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[17] Individuals holding land in unplanned areas can apply to the Commissioner for Surveys to have the land parcels surveyed. Once surveyed and approved the land parcel is officially recognised and recorded in the register.

of selling agreement paper. However, it is interesting to note that in 2005 the Ministry of Lands embarked on a project to register properties in informal settlements in Dar es Salaam for the purpose of levying land rent. It is hoped that the data generated from this exercise could also be useful for property taxation

Citing cases from informal areas in Dar es Salaam, Kombe (1995) observes that selling agreement papers or letters of transfer show (approximate) geographical location, house number[18], transaction price, payment terms, names, and effective date of transfer. The letter of transfer is usually kept in custody of the property owner, and in rare cases a copy would be deposited with a ward or sub ward office.

5.4.2 Maps

A well-developed cadastral system provides cadastral maps, which can be used for property tax administration. Useful cadastral maps for taxation purposes should show boundaries and size of parcels of land, location of each parcel and identifiers. Identifiers include parcel numbers; subdivision block; lot designations and the names of streets; railroads; subdivision and administrative jurisdictions (IAAO, 1990). Information on land ownership and administrative information such as property address, property owner's address, taxing jurisdiction, taxpayer account number and so on, may also be included to form part of the mapping required for property taxation purposes.

As is the case with many other developing countries, the cadastral system in Tanzania is not much developed. The few cadastral maps that may be available with local authorities are inadequate, lacking most of the necessary information to guide property taxation. The cadastral maps show boundaries of land parcels, size and location of each plot relative to the other, and circulation roads within the block that in many instances are not seen on the ground. Built structures or other improvements tend to extend beyond the allowable site coverage, hence eating space designated for roads.

In most cases valuation surveyors have to input into maps a lot of information from the field before the map becomes useful in identifying properties on the ground.

5.4.3 Property Information

The property tax base in Tanzania constitutes buildings or improvements on the land. Brief data on property characteristics is generated when carrying out rating valuation and

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[18] These are property tax numbers that are assigned to each individual property for the purpose of levying property tax.

subsequently recorded in valuation roll. This is the only information that the property tax administration system relies on as other means of collecting property information are rarely exercised. For instance little development control is done to capture data on new buildings in the jurisdiction. Hence property information in the rolls is collected through field surveys undertaken by valuation surveyors responsible for the valuation and preparation of valuation rolls. This practice leaves the taxing authorities without property characteristic data for properties, which have not been entered in the roll.

In practice, revaluation and supplementary valuation are rarely undertaken. As a consequence property records in the valuation rolls tend to be out of date. But for effective property taxation it is important that changes on the characteristics of taxable property are recorded because such information is necessary for establishing the value of the property and subsequently determining the tax liability.

5.4.4 Valuation Information

Since tax assessment in Tanzania is based on market value of a property, sales information is vital for the use of the sales comparison approach in determining the market value. Property market data however is limited due to a number of reasons. A major reason affecting availability of market data is the fact that quite many property transactions remain unrecorded and most of those reported have their exchange prices understated.

Legally property transfers have to be processed through government departments such as local authorities or land registry of the Ministry of Lands where valuation to ascertain values of properties changing hands would be conducted and concluded sales documented. But very few transactions are recorded with understated sale prices in order to minimize the transfer tax burden. Market data may also be obtained from real estate agents and institutions such as valuation firms, banks providing mortgage facilities and law firms, which handle transfers on behalf of property vendors and buyers.

However as earlier noted information from valuation firms has to be dealt with cautiously as a central data bank is lacking, resulting in each firm maintaining a data bank that was distinct from the other. On the other hand information from law firms is to some extent suspect because they tend to work in favour of the property owner. As noted by Kombe (1995), in situations where a real estate agent has negotiated a higher price with the buyer than that offered by the seller, the agent would collude with legal experts to prepare two sale agreements having different prices. One document would bear the "vendor's initial offer price" while the other would show the "actual sale price".

Subsequently sale prices in some cases are even lower than the vendor's offer price that would be recorded for transfer tax purposes.

While banks and government departments may be storing information pertaining to property changing hands, such information is in most cases not readily available for public access due to the need to observe confidentiality. Besides, property information contained in valuation reports tends to be confidential to specified parties with interests in the respective valuation report. In addition the valuation code of conduct requires the valuer to maintain confidentiality for the information contained in the valuation report.

Like information that may be obtained from formal institutions, market data resulting from informal property transactions for which property ownership is not documented is limited. This is especially so because local leaders and witnesses chosen by parties to the transaction usually play these roles without formal protocols or guidance. Again, local leaders and witnesses to transaction deals tend to maintain confidentiality by not disclosing the concluding price of the transaction.

Subsequent to lack of easily accessible market data, the rating legislation provides for an alternative use of the cost approach for determining the taxable value. Under this method of valuation construction cost information is necessary for estimating the value of taxable property. In Tanzania, construction cost can be obtained from the National Construction Council, building contractors, construction or project management firms and Quantity surveying firms.

5.5 Summary

The discussion in this Chapter has reflected on a property tax environment in Tanzania. It has highlighted on land tenure system, which is a determinant of forms of property ownership and the functioning of the property market. These impact upon availability of property market data that is again fundamental for effective property taxation. The legal framework guiding property taxation has also been presented.

From the foregoing discussion it has been observed that the property tax environment in Tanzania is constrained by various factors ranging from legal requirements that are difficult to adhere to and practical issues that are accelerated by limitations such as lack of adequate land information and the inactive property market. Unavailability of sufficient land information and market data impacts upon property taxation practice considerably.

Chapter Six

LOCAL ADMINISTRATION AND LOCAL REVENUE IN DAR ES SALAAM

6.1 Introduction

Dar es Salaam was established as a port and trading centre in 1862 by Sultan Majid Bin Said (Kironde, 1994; Kombe, 1995) and became the capital of the German administration in 1891. The growth of Dar es Salaam into a trading centre and an administrative capital of the Germans witnessed a population increase to 10,000 inhabitants by the year 1894 and to 20,000 in the year 1900 (Lupala, 2002). Population growth was rather slow during the German administration owing to the restrictive policies that prohibited the Africans from migrating to urban areas. After the First World War (1914 – 1918) Tanganyika became a British Protectorate and in 1919 Dar es Salaam was again made the administrative capital of the British Colonial government. By 1948, the population of Dar es Salaam had increased to 69, 277. The trend continued with average annual growth rates of 7.1% between 1948 and 1957; 7.8% between 1957 and 1967; and 9.7% between 1967 and 1978 (Lupala, 2002). The population growth of Dar es Salaam city over the years is as shown in Table 6.1.

Table 6.1: National and Dar es Salaam City Population Growth

Year	Tanzania Mainland	Dar es Salaam
1948	7,480,500	69,227
1952	8,785,613	99,140
1957	8,788,500	128,742
1967	12,231,342	272,515
1978	17,036,449	737,836
1988	22,455,207	1,360,865
2002	33,461,849	2,487,288

Source: Mwasumbi, (2003); URT, 2002 Population and Housing Census.

From the colonial time through to independence Dar es Salaam maintained the status of a major administrative and the largest commercial centre. However, the city lost the government's capital status in 1973 when Dodoma was declared the new capital of Tanzania.

Despite the 1973 declaration, Dar es Salaam still plays the role of the country's chief commercial, economic and industrial centre. Besides it provides the country's major port from where all major transportation networks of roads and railways originate and connect to all parts of the country and neighbouring countries in eastern, central and

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southern Africa. Moreover the city continues to accommodate most of the government ministries and institutions as well as diplomatic missions and foreign organisations. It also hosts most of the functions of the capital city. Subsequently in terms of quality and quantity of landed property Dar es Salaam presents the urban centre with the largest share.

Map 6.1: Dar es Salaam City in Tanzania

6.2 The Character of urban development of Dar es Salaam

The present spatial structure of Dar es Salaam is a product of successive administrative regimes from the colonial time to independence and post independence periods. At the time of the German administration Dar es Salaam was divided into zones based on various

standards of buildings to be erected, specified in the Building Order (Bauordnung[19]) for Dar es Salaam of 1891. Kironde (1994) points out that in the building order the eastern part of the town and the area along the harbour was exclusively allocated for Europeans; the next zone around India Street for Asians and the rest of Dar es Salaam towards the periphery for Africans. Following the commencement of the central railway line construction in 1905 there was a tremendous increase of Africans who settled haphazardly in Kariakoo. The increased African population and the fact that Dar es Salaam's population had grown from 9000 people in 1894 to 19,000 in 1913 prompted the 1914 Bauordnung for Dar es Salaam.

The 1914 Building Order modified the preceding planning regulations and divided Dar es Salaam into three zones for European residential quarters, for business quarters and for the native quarters. Nonetheless, the order was never implemented following the First World War.

In 1919, soon after the war the British Administration, which had replaced the German rule, reinforced the division of Dar es Salaam into a European area, a Commercial/residential area (for the Indians) and a native area that had been left behind by its predecessors under the 1914 Building Order. In 1945 the plan that had been prepared in the 1930's was revised and five zones proposed. According to Kironde (1994: 255) the proposed zones were:

> **Zone I:** residential, to include the Government area, Upanga, Oysterbay, Kurasini and a small part of Keko. This was meant for the use of Europeans and Asian;
>
> **Zone II:** commercial, being parts of the city centre adjoining the Government area, and also parts of Oysterbay, and parts of Gerezani. This too was meant mainly for European shopping;
>
> **Zone III:** Bazaar, being the Indian commercial/residential area in Town centre for Indian residence, and general shopping;
>
> **Zone IV:** African, i.e. Kariakoo and Ilala, extended outwards, as well as Kinondoni, Mwananyamala, and Regent Estate, meant for African residences;
>
> **Zone V:** Industrial that is the Pugu Road – Temeke Area as extending westwards, and the Port Area.

The 1940s and 1950s witnessed the implementation of the planned housing schemes. These were the African Settlement Schemes in Ilala, Kigamboni, Temeke, Magomeni and Kinondoni. The housing schemes were conceived for the supply of labour to companies

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[19] According to Kironde the word 'Bauordnung' is translated as: bau = building, ordnung = order. The word also implies zoning and building regulations.

operating at the harbour and to industrial estates. Also the Kinondoni African housing scheme was intended to accommodate African servants working in European residential areas. Under the housing schemes the government constructed quarters in Ilala and a few houses in Temeke and Magomeni while plots were demarcated and allocated for individual Africans to build their own houses in areas where government houses had not been constructed (Kironde, 1994). One notable feature of the African Settlement Schemes was the dearth of land servicing (Kironde, 1994). Plots were allocated without the basic infrastructure services, and the quarters were not provided with services. Apart from the African settlements schemes, planning schemes for Asians in Upanga and Chang'ombe, and for Europeans in Regent Estate and Kurasini were also implemented.

During the 1960s there were attempts by the independent government to implement guided urban development in Dar es Salaam. One important event of the early 1960s was the slum clearance program. Under the slum clearance programme the 'Swahili' type houses that had been built of local (or temporary) materials in African Settlements during the colonial time were replaced with the so-called 'permanent houses' built of permanent materials. In addition the houses were connected with piped water and provided with hygienic pit latrines. Also access roads within the slum clearance areas were tarmac surfaced with drainage systems. The Swahili houses constructed under the slum clearance programme have remained a symbol of government efforts during the early years of independence to see its people properly housed. Apart from slum clearance the independent government through the National Housing Corporation (NHC) undertook to develop new housing units in urban areas for rental and tenant purchase arrangements.

Apart from implementing slum clearance the government was also committed to seeing planned development in Dar es Salaam. Planned development was to be guided by master plans that had been prepared in 1968 and 1979 (Lupala, 2002) but were hardly implemented. Subsequently planned development (with minimum control) continued parallel to unplanned development.

Spontaneous development however, continued in areas outside the demarcated city boundaries as a result of increasing population while there were few houses to accommodate Africans. The housing shortage was aggravated by high population growth coupled with low government capacity to provide housing and large proportion of low-income earners who could not afford to build their own houses. It is important to note that housing development in unplanned areas had taken place since the colonial time and a number of informal settlements had developed before independence. Keko, Chang'ombe,

Buguruni, Kigogo, Msasani, Mburahati and Magomeni are the old informal settlements that developed in Dar es Salaam before independence (Kironde, 1994). The colonial government had tried to control the growth of unplanned settlements with limited success and the situation got worse after independence as informal settlements grew at an alarming rate.

Following independence of Tanganyika, Dar es Salaam registered a high population growth rate that could not match with the available housing stock, resulting in city expansion with extensive housing development in unplanned areas. Records indicate that in 1969 there were 14,720 houses in 14 squatter areas of Dar es Salaam and the number had increased to 27,981 in 1972 accommodating a population of 224,000 people (Kironde, 1994). By 1979 squatter settlements had increased to 25, housing 60 percent of Dar es Salaam population, and increased to 40 in 1990. The 2000 estimates indicate that the number has increased to 50 squatter settlements (Lupala, 2002). As noted by Kombe and Kreibich (2000), in 1992 the number of people living in informal settlements had risen to around 70 percent[20] and was expected to grow to nearly 80 percent.

Common features of informal settlements include irregular and uncontrolled land development, extreme high densities and overcrowding, lack of land reserved for roads, drains and public facilities such as recreational grounds (Figure 6.1). Vehicular access is limited making the provision of services such as solid waste collection and septic tank emptying a difficult venture. Utilities like water and electricity are available to some individuals who provide for themselves or through community group initiatives (Kyessi, 2002). Besides, land development in informal settlements takes place without any institutional machinery to coordinate and regulate the activities and procedures. As such limited information is readily available about ownership land rights, subdivision and transfers, land parcels characteristics and so on. As observed by Kironde (1994), the number of structures in informal settlements is unknown and thus has negative connotations for urban management. As a result local authorities do not have comprehensive information about their taxpayers and therefore lose substantial amount of revenue.

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[20] Although the population of people living in informal settlements in Dar es Salaam has been estimated at 70% for a number of years, no current reporting has confirmed the real magnitude of the situation. Nevertheless the estimation gives an indication of the fact that a large proportion of the Dar es Salaam population is accommodated in informal settlements.
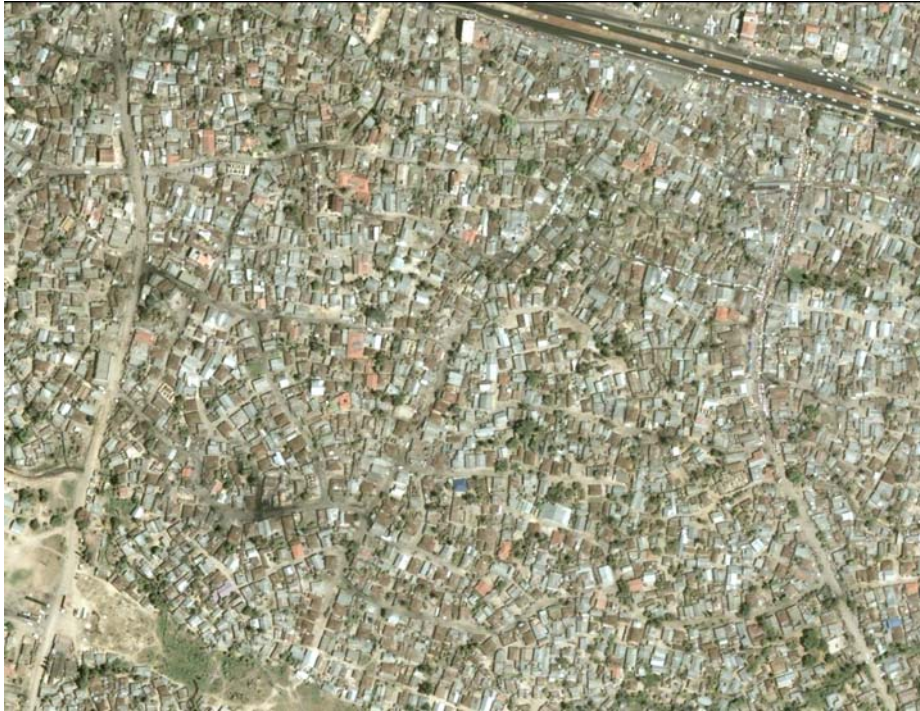
Figure 6.1: An example of informal settlement - part of Manzese

Attempts by the independent government to remove squatter in Dar es Salaam proved unsuccessful because while some squatter areas were being demolished to give room for redevelopment, new squatters were formed. Fighting squatting proved to be difficult due to lack of resources for land preparation in payment of compensation, planning, surveying and servicing resettlement areas. On the other hand squatting was considered inevitable because a significant city population was living in informal settlements. Hence in the 1970s the government adopted a new approach to dealing with informal settlements. This was the squatter upgrading programme that covered Dar es Salaam and other urban areas in the country. In Dar es Salaam, squatter upgrading was implemented in Manzese and Mtoni/Tandika squatter areas. The squatter upgrading programme involved provision of access roads, piped water and storm water drainage. However it is interesting to note that the service infrastructure provided under the squatter upgrading programme is presently no longer available.

Apart from squatter upgrading, provision of serviced plots for self-house construction was also adopted as a way to retard squatter development. The sites and services programme was therefore implemented simultaneously with the squatter upgrading programme thorough donor funding. Under the sites and service project plots were provided in the areas of Kijitonyama, Mikocheni (Phase One), and Sinza and Mbagala (Phase Two). Although serviced plots were made available to individuals for

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self-construction it has been observed that the infrastructure provided in serviced areas was generally of low standards.

Parallel to the donor funded squatter upgrading, and sites and services projects the government through the Ministry of Lands implemented the Mbezi planning scheme under which plots were planned, surveyed and allocated to potential developers without the basic service infrastructure. As a consequence housing development in Mbezi beach settlement had been slow and costly. However, despite the difficulties resulting from lack of infrastructure, Mbezi has developed into a high-class residential area with high value properties exhibiting a mismatch with infrastructure and services available. As correctly described by Kironde (1994) the situation in Mbezi in 1990s was characterized by few impoverished roads that are not passable during rainy season. There are no schools, health centres, markets or police posts in the area. However the situation has not changed much today because the roads are still poor despite the resident's (property owners) collective efforts to level and maintain them. Private operators have developed the few primary and secondary schools found in Mbezi Beach area, apparently on land that was not designated for school use, while there are only two government primary schools. The isolated health centres also belong to private operators and no government health infrastructure is available in the area. The Ministry of Lands continued to allocate planned and surveyed plots without infrastructure in other new areas like Tabata and Tegeta. Recently the government through the Ministry of Lands has embarked on planning and surveying land parcels that are sold, but again without the basic urban infrastructure.

The land development pattern of Dar es Salaam from the colonial era to the present portrays two main types of settlements categorized as *'Planned'* and *'Unplanned'* areas. Within the two broad categories further development areas can be distinguished with respect to type of buildings (development), age of development and to a limited extent, availability of basic service infrastructure. Nevertheless the issue of inadequate services cuts across all types of settlements. Kironde (1994:96) in looking at Land Use Structures of Dar es Salaam (1890 – 1990) categorized the city into four development areas as follows:

> I. **Old Planned Areas.** Developed mainly before 1970 and including the City Centre, Kariakoo, Oysterbay, Chang'ombe, Pugu Road Industrial Area, Upanga, Kinondoni, Magomeni, Ilala and Temeke. Developments in these areas are run down, calling for redevelopment to match the current standard of development.

II. The New Planned Areas. These are areas, which were developed since 1970, during and post the Site and Services programme (Scheme). These include the areas of Kijitonyama, Sinza, Mikocheni, Mbagala, Mbezi Beach, Tegeta and Tabata. The main features of these areas are poor to lack of servicing. Development of plots in these areas, especially the non external funded post Site and Services areas (Mbezi Beach, Tegeta and Tabata) has taken place without the basic service infrastructures such as water supply, access roads, electricity and so on.

III. The Old Unplanned Areas. These are areas that developed before 1980. This group includes such settlements as Keko, Buguruni, Msasani, Manzese, Mwananyamala, Hanna Nassif, Mtoni and Tandika. These areas have been developed into high densities with irregular pattern of development.

IV. The New Unplanned Areas. These developed mainly during the past three decades and include such outer areas as Kimara, Mabibo, Bunju, Mbagala and Ukonga. A notable feature of these areas is that they have been and continue to be developed into fairly low densities and have to a large extent attracted those categorized as high income people or those who are considered to have influential positions in the government.

The four categories of development areas have been used in selecting participants to a survey conducted to obtain taxpayers perceptions of property taxation in Chapter Nine. The intent is to establish if the area category would have influence on the property owner's views on property tax.

At present characteristics of the land development groupings have not changed much. Development in the new planned areas has picked up with a substantial proportion of allocated plots in Mbezi and Tabata built up but the service infrastructures are still inadequate. Development in Tegeta is picking up albeit slowly. For the old planned areas changes are visible as old and run down buildings are being pulled down and rebuilt. This is more pronounced in Kariakoo area where for example, most of the dilapidated residential structures located within the prime commercial area have been pulled down and redeveloped into multi-storey buildings providing for residential apartments, shops and office space. Likewise changes though slow are taking place in other old planned areas where many buildings especially those fronting onto the roads are being modernised to catch up with current standards.

The situation is not very different in unplanned areas. In recent years a lot of changes with respect to quality of buildings are taking place in old unplanned areas. A significant proportion of the houses in informal settlements have changed character as a result of transformation processes undertaken by individual house owners. As observed by

Nguluma (2003) houses in informal settlements are undergoing transformation in form of horizontal and vertical extensions, replacement of old structures with new ones, replacing mud and pole walls with concrete blocks as well as changing the interior accommodation arrangements and finishes. Such changes in building character, impact positively upon real property in terms of quality and value. The ultimate result is increased property tax liability for improved properties and increase in revenue.

For the new unplanned areas no significant change can be seen except for the emerging fashion to build larger and higher standards of buildings. As observed earlier some of the informal settlements, especially those occupied by high-income earners have high quality houses (Figure 6.2) that are not many in planned areas especially the old planned areas. But all the expensive house development in the new planned areas takes place amidst absence of the basic urban infrastructure and individual developers are compelled to provide services by themselves.

Figure 6.2: An example of a high quality property in Makongo Juu unplanned settlement

Looking at the land development pattern of Dar es Salaam city from the colonial time to the present it can be reasonably argued that the types of buildings in most areas are to a large extent mixed. It is only in the old planned areas that had developed during the colonial era that some orderly development pattern can be seen. Many building structures

in the City Centre, Oysterbay, Upanga, Kinondoni (Regent Estate and Ada Estate) Magomeni have maintained some similarity. But in other areas both planned and unplanned it is common to find building structures of different types, varying from single to multiple storey, of varying construction materials, a mix of residential houses, and those accommodating residential and business (trading) activities. In a way development irregularity can be observed in most areas of the city. As noted by one commentator:

> Dar es Salaam's spontaneous growth is not limited to unplanned residential development but many areas, particularly along major routes have been converted into commercial, industrial and transportation uses without the sanctioning of the planning authorities. Spontaneous commercial areas can be seen along Bagamoyo (now Ali Hassan Mwinyi) Road, at Namanga; along Morocco (now Kawawa), Morogoro, Shekilango and Port Access (Sam Nujoma) Roads, at Mwenge, etc. and in numerous other locations (Kironde, 1994: 85).

As such, apart from areas developed during the colonial period, it is not easy to categorize and distinguish the settlements of Dar es Salaam by type of buildings. A variety of houses in terms of design, construction and standards have been developed in the same areas. In the recent past Swahili type houses were predominant in old planned areas like Ilala, Magomeni, Temeke but slowly a considerable population of houses are changing character. Even in the so categorized as high class/income residential areas a variety of house types does exist. Thus, one potential problem resulting from such mix up of house types is in the levying of property taxes (rates).

The development of real property in Dar es Salaam has been discussed so as to recognise the potential difficulties in assessing property values as a result of disparity in property characteristics that takes no account of the zoning differences. Location and quality of locality in which the building is found have significant contribution to the value of the property. But the situation in Dar es Salaam distorts the importance of these attributes as for example some very good high value properties are located in poor localities therefore reducing their potential market values. Figure 6.3 illustrates a typical example of a poor locality with isolated high value properties. Disparity in terms of size, quality and character of buildings found within the same neighbourhood and in some cases adjacent to one another threatens assessment equity and subsequently distribution of the property tax liability. Furthermore the assortment of buildings of wide variation within the same neighbourhood has a great potential of restraining the use of mass appraisal

approaches in rating valuation. Along the same lines the pattern of land development found in Dar es Salaam impacts upon property identification, registration and valuation for rating purposes. As such it would be fair to argue that the city development pattern is in a way responsible for some of the deficiencies of property tax practices in Dar es Salaam.

Figure 6.3: An example of a high value property surrounded by poor quality properties.

Availability of land services contributes significantly to property values in a neighbourhood. Although settlements in Dar es Salaam have been developed with high standard properties, most of them have inadequate to poor infrastructure services. For example some houses cannot be easily accessible because there are no roads or the roads have been blocked. Also a property may have water system connected but no water flows. In the following section the situation of infrastructure and services in the city is highlighted.

6.3 The status of infrastructure and services in Dar es Salaam

Poor land servicing in Dar es Salaam is a historical phenomenon that has existed since the colonial time to the present. During the colonial era infrastructure and service provision

was limited to the non-native (European) residential areas and commercial areas. The native areas where African residential settlements had developed were excluded from government plans of infrastructure and services provision. The colonial government had no concern on the un-serviced native areas for they were strategically distantly located and in that way the European residential areas would not be affected by unhygienic environmental conditions in the African settlements (Kironde, 1994).

Generally, areas demarcated for African housing lacked basic infrastructure and services including roads, roadside drainage, system of sewerage and refuse disposal, water supply and electricity, street lighting, police protection and so on. Where infrastructure and services had been provided it was very minimal. For example in 1932 just one standpipe was in place to serve the 600 house owners of Ilala, with only one public toilet in the area (Kironde, 1994). In the early 1950s there was concern on African houses that had been built on un-serviced plots located close to European residential zone that was adequately serviced. This was seen to pose health dangers to European residential areas. But

> the Chief Town Planning Officer of the colonial government viewed the problem of non servicing in native areas to be a result of the Africans low productivity which put him at a low economic level; his low earning capacity which limited his expenditure on housing; his low taxation capacity which made him unable to pay for the public services like drainage, street sweeping, refuse removal, police, education and public health;………..(Kironde, 1994:292).

This kind of perception meant that the government responsibility was limited to provision of plots for Africans to build houses and provision of basic infrastructure and services was not a priority for reasons that the Africans had no economic capacity to pay for the services. However, following the serious public health concern with respect to lack of basic services in African residential areas of Dar es Salaam the government resolved to provide funds for servicing the areas. But it is unlikely that the services were installed because until Independence the African residential areas were still poorly serviced (Kironde, 1994).

As pointed out earlier, after independence the new government embarked on improving the African houses built of traditional materials in poorly serviced planned areas followed by improvement in unplanned areas. Apart from the World Bank funded sites and services the independent government has continued to allocate un-serviced plots. Despite the lack of basic infrastructure services in both planned and unplanned areas in

Dar es Salaam, property development has continued. Public utility infrastructures like water and electricity are mostly provided at trunk level with lines running along primary roads. As a result land developers have to seek service connections for water supply and electricity from long distances. Individual and uncoordinated connections to utility systems have rendered availability of such services unreliable and a more costly element in housing construction.

Although the city of Dar es Salaam has been developed extensively, it is generally characterized by poor service provision. Most of the service infrastructure systems installed during the colonial time and early years of independence experience frequent breakdowns due to old age and poor maintenance. Moreover the infrastructure systems in residential areas are overstretched because of serving extremely large numbers of users beyond their capacity.

While not all municipal services are under the control of the municipal councils, city residents tend to hold municipal authorities responsible for inadequate supply of services. For instance water and electricity are supplied by government agencies, which are answerable to the central government and municipal councils have no control over their operations. Nevertheless municipal councils are failing in providing the services that are within their powers. The status of each service facility is briefly described hereunder.

Water supply:

In the case of water supply, the installed capacity is far less than demands. Besides an average of 60 percent of water produced from the source is lost on account of leakage during the distribution process due to old infrastructure system, and only 40 percent reaches the consumers (Kyessi, 2002; Kironde, 2000). Another recent report by DAWASCO depicts that the 254,000 cubic metres of water pumped into the distribution system constitute 90 percent of the City water demand but only 45 percent reach customers[21] for similar reasons. Other problems confronting the water distribution system include unauthorised connections, use of water for watering gardens and *shambas* and installation of water pumps by water vendors. The performance of water authority is also threatened by non-payment of service charge by consumers.

Power supply

Electricity supply is inadequate leading to interruptions especially during the dry season when water levels at the hydropower sources are low. The ageing and overloading of the power distribution systems also contribute to inadequate power supply. A substantial

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[21] Reported in Sunday Observer local newspaper of 24th July 2005

proportion of households in Dar es Salaam depend on other sources of energy for cooking and electricity is reserved for lighting as indicated in Table 6.2.

Street lighting as the municipal council's responsibility is nonexistent in almost all parts of the city. Areas that had been provided with street lighting during the 1960s and 1970s , today they lack that service. As an example, even streets in the city centre such as Bibi Titi Mohamed, United Nations road, Ocean road, Sokoine Drive, as well as civic areas like the High Court, Ministry of Foreign Affairs, Ministry of Finance and Karimjee Hall have no street lights around. It is generally insecure to walk around the city at night, as a number of crimes are committed, taking advantage of darkness. In line with this a remarkby one newspaper reporter points out that

> "street lighting is something that can be provided by using our own resources. Dar es Salaam residents are paying a myriad of taxes meant to maintain and develop the city's various infrastructures but they have yet to get their value of money. While the city authorities have been very ingenious in devising ways of filling their coffers, it is difficult for anybody to believe that they cannot repair street lights due to financial hardships"[22]

Solid waste

Solid waste collection and disposal is another critical problem in Dar es Salaam. For a considerable number of years the amount of solid waste generated in Dar es Salaam grew to the level beyond the collection capacity of the then Dar es Salaam City Council (DCC). As noted by Kyessi, (2002) about 76 percent of solid waste generated in Dar es Salaam is left uncollected

Lack of cost recovery, absence of community mobilization, inadequate equipment, lack of well-designated and prepared landfill sites and improper/unhygienic methods of refuse disposal have been cited as major factors affecting solid waste management (Kyessi, 2002). To arrest the appalling situation, solid waste management services were privatized in 1993 starting with the city centre. However collection is confined to most areas of the city centre and the high-income areas where contractors are assured of recovering their operational costs.

Although privatization of solid waste management services was expected to improve the situation, piles of waste are a common sight on streets, open spaces, river valleys and drainage systems (Mwasumbi, 2003). While privatization of solid waste management services has reduced the amount of unattended waste the problem still needs more attention in many parts of the Dar es Salaam City. More so is the fact that solid

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[22] The Guardian (8th September, 2005). Dar's unlit streets a national disgrace.

waste contractors limit their service only to consumers who can pay for the service. As such it is common to find unattended waste in areas, which are served by contractors. However the unpleasant scenery affects everyone in the locality whether or not pays for the service. Regarding the situation of waste disposal, Dar es Salam city has been described to be sitting on a ticking time bomb, leaving people wondering if there exist authorities to deal with waste disposal management (The Guardian, 19th August, 2005).

Sanitation

Generally the sanitation situation in Dar es Salaam is poor, characterized by high dependence on onsite sanitation arrangements. Table 6.2 indicates that more than 80 percent of the population in Dar es Salaam rely on onsite sanitation. Due to high water table in many parts of the city pit latrines tend to overflow and pollute the environment during wet seasons. Also inadequate and costly means of handling sanitation waste lead to some people taking advantage of the un drained storm water and discharge the waste on the ground surface. As a result of poor sanitation frequent outbreak of waterborne diseases such as cholera especially in densely populated areas of the city is experienced.

Table 6.2: Percentage of Households, Source of Energy and Sanitation Facility

Municipality	Piped Water	Source of Energy*		Toilet Facility	
		Electricity	Charcoal	Flush Toilet	Pit Latrine
Ilala	45%	49%	58%	19%	79%
Kinondoni	91%	47%	46%	15%	83%
Temeke	69%	40%	62%	11%	87%

Source: The United Republic of Tanzania, 2002 Population and Housing Census

*Electricity is shown as the main source of energy for lighting and charcoal for cooking

Drainage

Most areas that developed after 1970s are not provided with storm water drainage systems whereas in the old planned areas the drains are blocked and therefore not functioning. Consequently, flooding is experienced in many parts of the city at times of heavy rains. The situation is worse in valleys where dense informal housing development has taken place.

Roads

Only trunk roads are bituminized and are modestly maintained. Access roads that were constructed during the colonial era are worn out as they have been receiving little to none maintenance. The gravelled access roads constructed in the sites and services residential areas are in poor condition and passable with difficulties during rain seasons. The newly developed planned areas such as Mbezi, Tabata, and Tegeta lack proper roads resulting in poor accessibility. The situation is worse in informal settlements where no land is reserved for building roads and the few that happen to be available are too narrow. This limits vehicular accessibility and consequently affects the provision of services like cesspit emptying and solid waste collection. Also in case of fire the fire fighting trucks are not likely to reach many houses easily.

Primary Education and Health Services

The population of school going children in Dar es Salaam is high compared to the number of schools available. As a consequence primary schools in the city are overcrowded. According to Kironde (2000) the required number of primary schools in Dar es Salaam is between 400 and 500 but there are only 167 leading to a class having more than 100 pupils instead of the normal figure of 45 pupils per class. It is also possible that the numbers have increased. With such big numbers many pupils have to sit on the floor. Although there have been attempts to increase the number of classrooms in existing schools, the numbers of children in class are still big. In addition teachers are not motivated due to problems associated with their remuneration, welfare and work environment in general.

On health services, dispensaries and health centres are in most occasions lacking the necessary drugs and other supplies. Patients find that they are paying for medical prescription but have to buy drugs from private dispensing stores.

Overall, the provision of technical infrastructure and services in Dar es Salaam is inadequate and in some cases lacking. Individuals have to make private arrangements and pay for accessing utility infrastructures and services. This has left many city dwellers that cannot afford to pay without the basic services. On the other hand lack of infrastructure is a common feature in both planned and unplanned areas. Also most new planned areas have limited infrastructure services just like the unplanned areas. To a large extent the infrastructure and services that are found in the settlements in the city are a result of individual's efforts.

As it was earlier hinted upon, availability of services in a locality enhances property values and subsequently with high property values the tax liability for individual properties increases. This leads to more revenue for a local authority. On the other hand where infrastructure facilities and services are provided in the locality property owners would be more willing to comply with their property tax liability. It has also been argued that people are always more willing to pay taxes if in return they receive some tangible benefits or services (Kelly & Montes, 2001). Thus availability of public services influences acceptability of property tax by the tax paying public, in that services are to a great extent an indicator of proper use of the taxpayer's money.

Given the services deficit in many parts of the city, many residents are not happy with the operation of the municipal councils. More importantly most property owners show resistance to paying local taxes because they feel that the municipal councils are not responsive to the citizen's demands for municipal services. Conversely, the municipal councils are losing a lot of revenue as a result of taxpayer's unwillingness to pay local taxes. Also property values are affected by inadequate services and therefore reducing the individual property tax liability. In line with this dissatisfaction with the local authorities' services has been reported in a recent study conducted by the government which revealed that 60 percent of the people sampled were not happy with delivery of services to the public by local government (The Guardian, 10th September, 2005).

The discussion on services is important in this study because of the close link of property values and services. Also the level of service delivery to community members has considerable impact on property tax compliance.

6.4 Local Government structure of Dar es Salaam city

Following the reinstatement of local government authorities in the early 1980s, Dar es Salaam City Council was responsible for local administration of the city. But the city council had difficulties in managing the city affairs. Kironde (1994) observed that Dar es Salaam experienced managerial crisis manifested with high turnover of City Directors, most of who had an average tenure (in office) of less than two years each. The reinstated city council could not cope with changes brought by decentralization. In terms of finances the city council was highly dependent on the central government for performing its functions.

For some years the Dar es Salaam city council was failing to perform its functions, among which was service delivery. As a result city council was replaced with a City

Commission in 1996 to take over the administration of the city. In 2000 a local government system was reintroduced in Dar es Salaam but restructured into City Council charged with overall administration of the city and three Municipal Councils of Ilala, Kinondoni and Temeke, each responsible for all functions of a local government authority in a jurisdiction. The current local government administrative structure of Dar es Salaam is as illustrated in Figure 6.4.

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┌─────────────────────────────────┐
│          City Council           │
└─────────────────────────────────┘
                 │
                 ▼
┌─────────────────────────────────┐
│       Municipal Councils        │
└─────────────────────────────────┘
                 │
                 ▼
┌─────────────────────────────────┐
│             Wards               │
└─────────────────────────────────┘
                 │
                 ▼
┌─────────────────────────────────┐
│  Sub-Wards (Mitaa) and Villages │
└─────────────────────────────────┘
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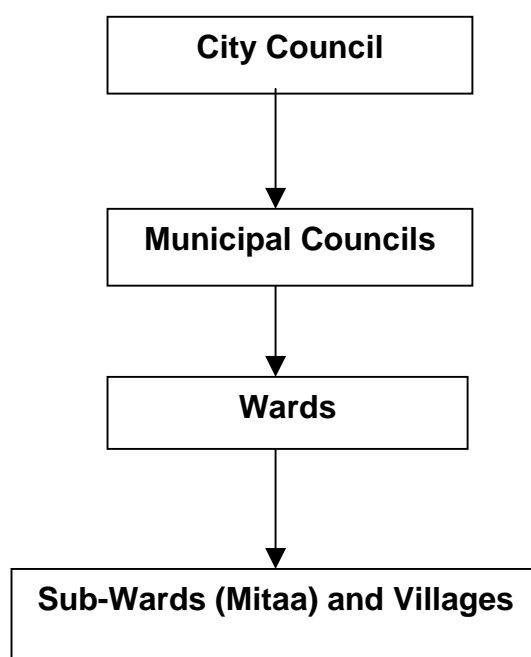
Figure 6.4: Local Government administrative structure of Dar es Salaam
Source: City Council.

The local Government administration in each Municipality is divided into wards and sub-wards (mitaa) and villages for rural Dar es Salaam. A sub ward (mtaa) is constituted by a number of households under a sub ward leader. The number of the Wards and sub-wards in each municipality are as indicated in Table 6.4.

Table 6.4: Wards, sub wards and villages under the Dar es Salaam Municipalities

Municipality	No. of Wards	No. of Sub Wards	No. of Urban villages
Ilala	22	65	9
Kinondoni	27	109	14
Temeke	24	51	15
Total	**73**	**225**	**38**

Source: The United Republic of Tanzania, 2002 Population and Housing Census

Prior to multi-party political system in Tanzania the ten-cell leader (popularly known as *mjumbe*) was the lowest level of local government administration. But following the

adoption of multiparty political system the ten cell leaders as identified by the ruling party are not part of the local government structure. The title is however used for convenience under the local government system.

6.5 Functions and Responsibilities of the Local Authorities in Dar es Salaam

Each of the local authorities in Dar es Salaam discharges various functions as stipulated in the Local Government (Urban Authorities) Act 1982. While the City Council is charged with a coordinating role of local government activities the three municipal councils are primarily responsible for local administration and the provision of municipal services. Besides, the municipal councils are responsible for the implementation of projects such as primary education, health, local roads, waste removal, sanitation, town and economic planning and water supply in areas of the city which are not serviced by the responsible government agency

While the traditional primary role of municipal councils is provision of services, in Tanzania some of the municipal services are under the auspices of central government departments. Water and sanitation and electricity are illustrative services handled by government parastatals in the name of DAWASCO and TANESCO companies respectively. Furthermore, central government ministries such as those responsible for health, education, roads, land and human settlement development play important role in local government activities. These are linked with the respective council departments.

Functions and Responsibilities of Urban Authorities in Tanzania are in accordance with the provisions under the Local Government (Urban Authorities) Act 1982. With the restructured local government administration in Dar es Salaam the functions of the Dar es Salaam City Council are set out under Section 69A; a section that was inserted in the principal Act in 1999 following the establishment of the City Council and the three municipal councils.

Municipal councils are the primary urban authorities within Dar es Salaam area. The functions and duties of each urban authority are set out under Part V Section 54 of the Local Government (Urban Authorities) Act as:

(a) to maintain and facilitate the maintenance of peace, order and good government within its area of jurisdiction;

(b) to promote the social welfare and economic well-being of all persons within its area of jurisdiction;

(c) subject to the national policy and plans for rural and urban development, to further the social and economic development of its area of jurisdiction;

(d) to take necessary measures to protect and enhance the environment in order to promote sustainable development;

(e) to give effect to the meaningful decentralisation in political, financial and administrative matters relating to the functions, powers, responsibilities and services of all levels of local authorities;

(f) to promote and ensure democratic participation in and control of decision making by people concerned; and

(g) to establish and maintain reliable sources of revenue and other resources enabling local government authorities to perform other functions effectively and to enhance financial accountability of local government authorities, their members and employees.

Section 15 (1) of the Local Government (Urban Authorities) Act provides for establishment of a Ward Development Committee in each urban ward, which under Section 16 (1) has the following functions:

(a) to do all such lawful acts and things as are necessary or expedient for the implementation of decisions and policies of the urban authority, or for the economic and social development of the ward;

(b) to promote the establishment and development of cooperative enterprises and activities within the ward;

(c) to initiate or formulate and undertake any task, venture or enterprise designed to ensure the welfare and well being of the residents of the ward;

(d) to plan and coordinate the activities of, and render assistance and advice to the residents of the ward engaged in any activity or industry of any kind;

(e) to formulate, and submit to the urban authority, proposals for the making of by-laws in relation to affairs of the ward

(f) to monitor and co-ordinate functions of the *mitaa* within the ward.

Likewise the functions of a *mtaa* committee under Section 14A (2) of the Act are:

(a) to implement council's policies;

(b) to advise the councils on matters relating to development plans and activities of the *mtaa*

(c) to advise the Ward Development Committee on matters relating peace and security in the *mtaa;*

(d) to keep proper record of residents of the *mtaa*; and

(e) to do such things as may be conferred upon it by the Ward Development Committee.

The structure of the local government system in Tanzania depicts a crucial role assumed by the sub-wards in local government administration. However, there is no formal remuneration within the local government structure for the sub ward committee members or leaders. Neither the chairman nor staff at the sub ward draws a salary, although some

percentage of the revenue collected in the ward is remitted back to *'mtaa'* to finance its operations (ALAT/PO-RALG, 2003). Besides, sub ward committees work in very difficult conditions. Generally, many wards have no proper office space such that the duties are performed in accommodation donated by sub ward leaders or residents. Moreover the wards and sub wards are lacking working tools and supply of stationery is limited.

In relation to property taxation the local leaders at sub-ward level assume an important role in terms of facilitating the identification of taxable properties and the owners who are the taxpayers. They also facilitate the preparation of property tax registers at sub-ward offices. In addition they help the valuers in the distribution of property tax demand notices and subsequently in persuading property owners to pay taxes. However lack of structured remuneration to local leaders amounts to disincentive for them to work effectively. Conversely it may motivate them to indulge in practices that might work against the municipality in revenue mobilisation. Financial strength is a major input for local authorities to perform the functions and duties ascribed to them. In the following section the major sources of revenue exploited by the Municipal Councils in Dar es Salaam are presented.

6.6 Sources of revenue for the Municipal Councils in Dar es Salaam

Since the local government system was reinstated the Dar es Salaam City Council (DCC), like other local authorities in Tanzania had been dependent on central government grants for running its affairs. Although local government authorities are supposed to generate revenue from local sources there has been much dependence on central government grants because the revenue generated is not sufficient to support their operations. For instance from the mid 1980s to late 1990s more than 50 percent of the city council's revenue came from central government grants. Illustrative is the situation in 1995 when the Dar es Salaam city council received 81.8 percent of its revenue from the central government being the highest grant over the years since its reinstatement. In the following year (1996) the central government transfers to the appointed City Commission dropped to 56.6 percent as the City Commission had increased revenue collection from local sources.

The increase in revenue from own sources for the City Commission resulted into a corresponding decrease in grant finance from the central government, but this was short-lived. However the proportion of the central government grants in the City Commission's revenue started to increase in 1998 following the insertion of Section 10A in the Local Government Finances Act (1982) that provides for block grants to local government

authorities. The grants are designated for development and maintenance of services particularly education, health, water, roads and agricultural services. The central government transfers to Municipal Councils in Dar es Salaam contribute more than 50 percent of the total council revenue. Table 6.5 is illustrative of the proportion of grants from the central government. Also data on Table 6.5 indicate that revenue collection in Ilala municipal council was relatively better as the council contributes slightly above 50 percent of the budget from locally generated revenue.

Table 6.5: Composition of Municipal Council's revenues in Tanzania "Milion" Shillings

	2000		2001		2002		2003	
Municipality	**Own revenue**	**Grants**	**Own revenue**	**Grants**	**Own revenue**	**Grants**	**Own revenue**	**Grants**
Ilala	4,509	7,748	5,162	4,152	5,990	5,503	6,588	6,381
Percentage	37%	**63%**	55%	**45%**	52%	**48%**	51%	**49%**
Kinondoni	2,514	4,293	2,813	5,292	3,971	8,181	3,980	7,776
Percentage	37%	**63%**	35%	**65%**	33%	**67%**	34%	**66%**
Temeke	2,173	2,767	2,566	3,965	2,005	3,881	NA	NA
Percentage	44%	**56%**	39%	**61%**	34%	**66%**		

Source: Municipal Council's Financial Reports
NA: data not available

Apart from the central government grants the Municipal Councils also generate revenue from various own sources. Although for each of the Municipal Council revenue from own sources is seen to be increasing relative to the previous years, central government grants are still taking a significant proportion of the council's total revenue. Prior to July 2003 the main sources of revenue for the councils in Dar es Salaam were as indicated in Table 6.6.

Table 6.6: Aggregated revenues from main sources of own revenue for Dar es Salaam Councils 1998 - 2002

		Amount collected in TShs Millions				
	Sources of revenue	**1998**	**1999**	**2000**	**2001**	**2003**
1	City Service Levy	2,705	2,723	2,879	3,849	4,328
2	Development Levy	1,385	1,695	1,883	1,770	1,890
3	Property Tax	1,134	1,121	1,241	1,525	1,664
4	Business licences	655	851	1,881	1,859	2,444
5	Advertising and billboard fees	319	398	571	822	1,030
6	Bus terminal fees	-	-	310	448	479
7	Abbatoir and slaughter fees	130	157	209	268	296
8	Motor vehicle parking	91	127	167	280	258
9	Market dues and stall rent	10	116	169	153	137
10	Cattle market charges	15	57	174	135	120
11	Hotel levy	100	83	96	117	122
12	Forestry produce fees	62	105	118	131	107
13	Town bus licences	-	33	71	83	0.73
14	Intoxicating liqour	88	75	102	97	80
15	Sale of fish	-	33	42	50	68

Source: Franzsen & Semboja (2004)

Development levy[23] ranked second in terms of contribution to total council's revenue but was abolished as from July 2003. This has resulted in a significant decrease in the local revenue raised by each municipal council.

Among the main sources of revenue, the most important ones in terms of revenue they generate are City Service Levy (CSL)[24], Business Licences and Property Tax. Property tax ranks third in terms of amount of revenue contribution to the council's revenue. The contribution of property tax to total council's revenue for each municipal council is as depicted in Tables 6.7, 6.8 and 6.9.

Table 6.7: Most important sources of revenue for Ilala Municipal Council: 2000 – 2003

	2000		2001		2002		2003 (budgeted)	
Revenue Source	Amount (000)	%	Amount (000)	%	Amount (000)	%	Amount (000)	%
City Service Levy	1,553,393	34	1,994,286	39	2,044,249	34	2,303,961	31
Business Licences	1,140,965	25	1,051,111	20	1,194,469	20	1,800,000	24
Property Tax	**542,057**	**12**	**549,016**	**11**	**690,828**	**12**	**1,110,520[25]**	**15**
Sub-total	3,236,415	72	3,594,413	70	3,929,546	66	5,214,481	70
Other Own Sources	1,272,377	28	1,567,789	30	2,060,983	34	2,285,519	30
Total Own Revenue	**4,508,792**	**100**	**5,162,202**	**100**	**5,990,529**	**100**	**7,500,000**	**100**

Source: Franzsen & Semboja (2004)

Ilala Municipal council covers the Central Business District of Dar es Salaam with a substantial population of high value properties. But given the fact that most government and institutional properties are found within the jurisdiction, many properties are tax-exempt. While government departments and ministries are supposed to contribute to council revenue in lieu of property tax this is not the case in practice. Considering the big number of high value properties, property tax proportion to Ilala Municipal council revenue would have been higher. As indicated in T able 6.7 property tax contributions to council revenue have not exceeded 15 percent since 2000 when the council was put in place. Conversely the municipality benefits from the advantage of large commercial enterprises being found in the jurisdiction, hence a relatively higher contribution of revenue from CSL.

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[23] Development levy is among the so-called nuisance taxes that were abolished in 2003.
[24] City Service Levy is levied from every resident business enterprise or agency in each year of income at 0.3% of the turnover net of the value added tax and the excise duty; in respect of all economic activities, including manufacturing, processing, agricultural, production, distribution of goods, rendering of services, commerce, and the importation of goods or services.
[25] Actual property tax revenue collected was TShs. 640,286,000

Table 6.8: Most important sources of revenue for Kinondoni Municipal Council: 2000 – 2003

Revenue Source	2000		2001		2002		2003 (budgeted)	
	Amount (000)	%	Amount (000)	%	Amount (000)	%	Amount (000)	%
City Service Levy	472,373	19	600,646	21	949,051	24	1,000,000	21
Business Licences	253,848	11	555,716	20	839,234	21	1,001,384	21
Property Tax	**494,365**	**20**	**588,154**	**21**	**642,062**	**16**	**1,200,000[26]**	**26**
Sub-total	1,190,626	50	1,744,516	62	2,430,347	61	3,201,384	69
Other Own Sources	1,232,250	50	1,068,202	38	1,539,888	39	1,461,967	31
Total Own Revenue	**2,452,836**	**100**	**2,812,718**	**100**	**3,970,235**	**100**	**4,663,351**	**100**

Source: Franzsen & Semboja (2004)

For Kinondoni Municipal Council property tax contributed more to the council's own revenue than CSL and Business Licences in 2000 and 2001 but there was a decline in 2002. On the other hand the increase in property tax revenue is not much considering that increased number of properties has been captured in the valuation roll as well as in the flat rate register.

Table 6.9: Most important sources of revenue for Temeke Municipal Council: 2000 – 2003

Revenue Source	2000		2001		2002		2003 (budgeted)	
	Amount (000)	%	Amount (000)	%	Amount (000)	%	Amount (000)	%
City Service Levy	1,131,115	61	1,116,994	44	1,263,149	47	1,400,000	42
Business Licences	304,797	16.5	342,707	13	414,553	15	499,670	15
Property Tax	**231,008**	**12.5**	**394,856**	**15**	**330,400**	**12**	**695,931**	**21**
Sub-total	1,667,470	90	1,844,557	72	2,008,102	74	2,595,601	78
Other Own Sources	177,696	10	721,892	28	704,074	26	718,399	22
Total Own Revenue	**1,845,166**	**100**	**2,566,449**	**100**	**2,712,176**	**100**	**3,314,000**	**100**

Source: Franzsen & Semboja (2004)

It is worth noting that revenue from property tax in Temeke Municipality recorded substantial increase in 2001 but declined in 2002. According to the Temeke Municipal valuer, one reason for the decline of property tax revenue is the big number of properties under public corporations for which no tax amount is being remitted. The parastatal organisations, which were put under privatisation, have been waiting the privatisation process to complete but have not been paying property taxes for properties under divestiture.

Judging from the three tables, there have been significant annual increases of revenue from property tax in all the three municipal councils but the source stands the third after CSL and business licences in terms of share of contribution to the respective

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[26] Actual property tax revenue collected was TShs. 611,942,000

council revenue. Although contribution to council revenue has been increasing, collection levels for property tax are still very low. The situation would have been different if all owners of properties listed in both the valuation rolls and property registers were complying with their property tax liability. In terms of contribution to the council revenue, CSL is highest, followed by Business License, especially in Ilala municipal council, which has the advantage of the CBD being located within its jurisdiction.

Another noteworthy feature with the municipal council's revenue is the high contribution by the central government grants. The central government transfers cover more that 50 percent of the municipal councils' revenue budgets. Among the three municipal councils Ilala portrays a comparatively lower proportion of grants from the central government whereas Kinondoni receives the highest. The figures also depict a corresponding situation that suggests weak own revenue performance. In view of the situation the higher central government grants can be regarded to act as a disincentive for councils in collecting local revenue. This is especially so when considered that the financial grants are largely taken by employees salaries. Thus as long as employees are assured of their salaries there is less drive in collecting revenue from own sources.

6.7 Summary

The chapter has presented an overview of Dar es Salaam city as a case study area. The discussion has highlighted on the experiences and characteristics of urban development, the situation of infrastructure and services, the local administration and sources of revenue for the municipal councils. Each of these aspects influences in a way the property tax practice. The pattern of land development, and infrastructures and services affects property values and subsequently taxable values. On the other hand the local sources of revenue provide a ground for judging the property tax revenue performance in terms of its contribution to the total council's locally generated revenue. A discussion of the results of the empirical investigation of property tax as one of the major sources of local government revenue follows in Chapters Seven and Eight.

Chapter Seven

RATING VALUATION PRACTICE IN DAR ES SALAAM

7.1 Introduction

In this Chapter results from empirical investigation with respect to rating valuation, which is basically a determinant of property rates, are presented. The chapter explores the processes entailed in property valuation for rating purposes namely property identification, valuation, property tax rates assessment and appeals. Drawbacks that can undermine rating valuation are also outlined. Views of the actors involved in the rating valuation practice provide a basis of understanding how rating valuation is practised in Dar es Salaam. The actors in valuation practice whose experiences form part of the findings as presented in this section are valuers at the municipal valuation offices and valuers working with valuation firms that have been engaged in undertaking rating valuation. Information from review of various documents also complements the field data in demonstrating the rating valuation practice. The role of local leaders assisting players in the whole process of rating valuation is also addressed. The rating valuation practice is presented in the context of the three Municipal Councils namely Ilala, Kinondoni and Temeke in Dar es Salaam[27]

Records indicate that rating valuation in Dar es Salaam was first undertaken from 1993 under the Phase I Dar es Salaam Rating Project and the first valuation roll became operational in 1996[28]. Prior to that property tax in Dar es Salaam was levied on flat rate basis in accordance with the Local Government Finances Act of 1982. Property tax was reinstated in Dar es Salaam in 1987 after 15 years from the time local government authorities were abolished. Property owners in urban areas in Tanzania as a whole were freed from property tax liability in 1972 when local government authorities were abolished. The tax was reinstated in 1982 under the Local Government Finances Act but the procedures for property tax assessment were put in place in 1983, following the enactment of the Urban Authorities Rating Act of 1983.

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[27] Previously the three municipalities formed the Dar es Salaam City Council as one rating authority. In 2000 each municipality became an independent local government authority. In order to explore the rating valuation practice data from all the three municipal councils is used as the practice is rooted in Phases I & II of the Dar es Salaam Rating Project.

[28] The Rating Valuation was undertaken towards the end of 1993 through 1994 but the valuation roll was operationalised in 1996.

In the course of implementing the Economic and Social Adjustment Programme (EASP), the government of Tanzania with assistance from the World Bank implemented the urban infrastructure programme. The programme entailed rehabilitation of infrastructure and expansion of urban services under the Urban Sector Engineering Project (USEP), which was later changed to Urban Sector Rehabilitation Project (USRP) in 1997. In order to ensure that the infrastructure investments were maintained and sustainable, it was necessary also to improve the financial performance of local government authorities. Thus effective local revenue sources were considered crucial for sustainable maintenance of infrastructure investments and improvement in the provision of urban services with the Municipal Councils.

Among the local authority own sources of revenue, property tax was identified as the potential largest source of untapped local revenue. It is assumed that property tax was chosen because the tax is often associated with financing public services provided in urban areas. With improved urban infrastructure property values would also increase and subsequently increased revenue for the local authorities. Thus in order to tap this revenue the World Bank funding to support the urban infrastructure programme was extended to support also the Rating Valuation Project initially in Dar es Salaam and afterwards in other eight municipalities (of Arusha, Moshi, Tanga, Morogoro, Iringa, Mbeya, Tabora and Mwanza). The main objective of supporting the Rating Valuation was to enable the municipal councils to create and maintain comprehensive valuation rolls. It was assumed that if taxable properties were identified, valued and registered in the roll, revenue from property tax would also increase. The Dar es Salaam Rating Project as an outcome of the implementation of the urban infrastructure programme marked the beginning of rating valuation practice in Dar es Salaam. Since then the practice has continued, with each Municipal Council undertaking rating valuation from own finances.

The taxation of real property involves a number of steps namely identification of taxable property (or tax base), valuation and preparation of valuation roll, setting tax rates, issuing tax bills, responding to valuation appeals, collecting taxes and dealing with enforcement procedures. This chapter focuses on property identification and valuation processes.

7.2 Property Identification

7.2.1 The adopted practice

Identification or discovery of property tax base sets the first step in levying property tax. The identification process involves gathering information about ownership of property, land area and physical boundaries, as well as location of the property to be taxed. The information so collected enables creation of property inventory or registers for the taxing authority and can be translated into municipal property tax maps. Information about taxable property can be obtained from land registry offices in situations where land registry systems are well organised. But where such information is lacking from the land registry the responsible officials have to collect it from the field.

Like in many developing countries property information for taxation purposes in Tanzania can rarely be obtained from the land registry. The legal cadastre maintained at the land registry contains inadequate information for the purpose of taxation. Documentation with respect to plots that have been allocated mostly shows ownership record, size of the land parcel and development conditions. Moreover the information recorded is rarely updated to take into account changes that occur. Hence property information kept at the land registry is to a large degree unreliable. Such circumstances make it mandatory that information about taxable property is collected from the field.

Rating Valuation in Dar es Salaam was first undertaken in 1993 under the Phase I Dar es Salaam Rating Project. The custodian of the project was the Permanent Secretary of the Ministry of Regional Administration and Local Government of the United Republic of Tanzania through the Urban Sector Rehabilitation Project, while the then Dar es Salaam City Council was the beneficiary. The Dar es Salaam City Council did not have sufficient number of qualified valuers to undertake the valuation of such magnitude the work was contracted to six private valuation firms. These were Ardhi Institute (now UCLAS), Tan-Valuers. Martin Heyman (later on bought by Knight Frank), Proper Consult, Property Consultancy and Services, and Land Master Combine. The Dar es Salaam Valuation office (DVO) was also set up under the Urban Sector Rehabilitation Project for monitoring the project.

At the time of commencing the Phase I Rating Project the Dar es Salaam City Council had no properly organised records about all properties within its jurisdiction. It was therefore necessary to have all information collected through field surveys. In order to have taxable properties identified for rating purposes, part of Dar es Salaam city

covered by the project was divided into zone and each was assigned to one valuation firm. Each zone was further subdivided into blocks.

Using aerial photos and cadastral maps valuers had to identify each individual property on the ground assign reference number and enter the reference number into a survey plan. The property reference number was designed to show zone number, block number and property serial number. The property reference number constituted an identification of taxable property in a specific zone.

The property identification exercise was carried out together with property inspection whereby the valuer was required to take record of plot number, block number[29], location, sub ward and street names, address of the property owner or occupier, tenure details, physical measurements of the building(s) and brief description of the property. This information was required for the actual valuation of the rateable property. As a result the physical inspection process of rateable property turned out to take longer time than property inspection would usually require. The contracted valuation firm is just assigned the area where rating valuation is to be carried out and has the obligation to secure survey maps and aerial photographs for property identification and creation of property tax database.

Under good practice the taxing authority is supposed to have comprehensive property data, but in Tanzania creating information required for property identification has become part of the work done by the valuer when undertaking rating valuation. As a result municipal valuation offices build their property databases based on information contained in the valuation rolls. However the property databases are not updated because revaluation hardly takes place. For instance since rating valuation was undertaken in the 1990s no revaluation has taken place except for the one that covered the central part of Dar es Salaam in 2003. Hence property information captured in valuation roll may not reflect the real situation on the ground in later years as a result of not being updated.

Incomplete and inaccurate property information is to a large extent a result of lack of properly organised information with the land registry system. Property information held by the land registry is in most cases incomplete and out of date, as changes with respect to property remain unrecorded. Besides survey maps produced by the Survey Division are incomplete or contain limited information to facilitate property identification for taxation purposes. A case at hand is the missing of street names in the survey maps.

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[29] This Block Number is that found on survey plan and is different from the blocks the rating authority had subdivided for rating purposes.

While street names have a very important role in property identification, most of the streets in Dar es Salaam especially in areas, which developed after 1970s[30], are nameless, and also the houses are not numbered. Under such circumstances the municipal valuation offices are unable to maintain complete and accurate property inventory. The municipal valuation offices therefore depend on property records contained in the valuation rolls. However, naming streets is the responsibility of the Municipal Councils stipulated in the Local Government (Urban Authorities) Act, 1982 but one wonder as to why the Councils have not been doing so. Naming streets would work to the advantage of the councils not only for identification of property for taxation but for other purposes as well.

Lack of property information prior to carrying out rating valuation has significant impact on the duration of a valuation contract. A lot of time is lost when trying to locate individual properties, as the valuer has neither accurate maps nor street names to facilitate identification of the property being valued. In some cases the valuer has to depend on information contained in a letter of offer or a certificate of title held by the property owner. Where such documents are not available the valuer has to rely on information provided by the owner or occupier, and in worst situations the valuer has to solicit information from a neighbour. In such a situation the problem shifts to reliability of the information provided. While the objective is to obtain information about the rateable property the approach creates a problem of reliability of the information given. Some of the likely consequences could be mix up of names and property identity or omission of names of potential property taxpayers

7.2.2 Property Identification: Experience from rating valuation in Dar es Salaam

For the purpose of identifying property the rating exercise involved creation of property referencing system and a tax map for each defined rating zone. Valuers were required to identify numerically every rateable property in separate ownership on a 1:2500 cadastral survey plan and cross reference to a Property Data Card System. During the Phase I and II of the Dar es Salaam Rating Project reference numbers were assigned to properties on aerial photomaps (of 1992) at the Dar es Salaam Valuation Office (DVO). The maps were then given to valuers for identifying properties on the ground. However the practical situation was different since there were more properties on the ground than those appeared

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[30] The streets in parts of central Dar es Salaam were named during the colonial time and after independence but before 1970.

on the maps. The situation was even more complex in unplanned areas where the intensity of housing development is higher and haphazard.

One notable practical problem during the two rating valuation phases was a confusion of property identification with reference numbers such that numbers were wrongly cross-referenced from the field survey plan onto the property data cards. In trying to address the problem in the subsequent rating valuation assignments reference numbers are assigned to properties as are found on site and inserted in the maps simultaneously. But the property reference numbers for property taxation are assigned in a sequence that is different from the plot numbers appearing in survey maps as assigned by the survey division responsible for the surveying and mapping of land parcels.

Identification of property and owners in un-surveyed areas is done through local leaders. Each sub-ward (mtaa) office is required to keep a register of houses with names of owners that are found in a *sub-ward.* In each *sub-ward* there are groups of houses with each group placed under a representative (*mjumbe*/ten cell leader) who is supposed to provide information about properties and owners in his area to the sub-ward office. The information is used to create a property inventory of houses existing in a sub-ward. Records for each house have to indicate: house/plot number (where available), name of the property owner, postal address, street name, house type and use (e.g. single storey, residential, commercial, residential/commercial etc.) and size. Since no measurements are taken the size is presented in terms of room count. However, property information generated at sub ward offices is of limited use. For example, it would be difficult to locate a property using such information without the help of a local leader. This is so because without street names and house numbers only a person familiar with the area can locate the property being sought. On account of problems associated with property identification one valuer narrated his experience as follows:

> *"My experience with rating jurisdictions (Mwanza, Tabora, Tanga and Morogoro) for which my company worked was that complete and accurate information was completely missing. Only sketchy information existed in files kept at the lands office but not coordinated with information available at the municipal valuation office. The taxpayer registers established at ward level were only useful for collection of revenue in form of flat rates but not for the valuation process. The aerial photomaps provided by the USRP office provided minimum information in comparison to the number of properties we found at the field. Besides the maps did not show streets with names and plot numbers. As a result there was high dependence on local (sub-ward) leaders who had to guide valuers in identifying properties,*

and in a few instances services of land surveyors were to be sought in identifying plot numbers on the maps in relation to the properties on the ground. Generally lack of information renders property identification a cumbersome venture, time consuming, and consequently it affects the completion of rating valuation contracts". (Interview with Managing Director and Valuer, Proper Consult Limited)

The property inventory created at ward level is then submitted to Municipal Valuation office where it is entered in the property tax database. Such information is also used for assigning tax liability (flat rate basis) to individual properties listed in the register.

In attempts to cope with the situation the Kinondoni Municipal valuation office for example has employed one technician in each ward who is responsible for the follow up of development taking place in the wards and provide feedback to the valuation office. The technician has to keep track on changes in ownership, name and address, as well as structural changes of the buildings. Explaining the way they handle the property identification aspect a valuer at Kinondoni municipal council said that:

"Identification of rateable properties is done through physical counting and affixing property tax numbers on houses. Technicians engaged by theMmunicipal Council with assistance from local leaders do the counting of properties. However lack of property data has been affecting revenue collection because the number of taxable properties, the payable amount and for how long they have not paid are all not known". (Interview with Kinondoni Municipal Valuer).

However, property information collected at sub-ward levels is not much because data gathering is found to be too much work for one technician to handle all properties in a ward. Information about property characteristics demands the technician to visit each house, as information declared by the local leaders is in most cases inadequate when it comes to estimating the property tax flat rates. On the other hand not all property transactions are reported to the ward or sub-ward offices (or to the respective local leaders). All this leaves the municipal valuation office with limited property information for taxation.

Another valuation firm contracted to carry out rating valuation in Segerea area, Dar es Salaam in 2004 was provided with 1985 survey maps. While the maps showed scattered developments in 1985, the real situation in the year that valuation was undertaken, was completely different. More properties had been developed and it was difficult to identify them on site using the maps provided. The firm opted to use the 2002

population census maps with the help of local leaders in identifying properties and their owners. A valuer who was involved in this valuation remarked

> *"It was possible to match properties on the census maps with that on site because Segerea is still developing and less compact. But if the area were fully built identification would be more demanding. However it was not possible to submit the valuation roll together with the property referenced maps since a lot of reconciliation on cross-referencing was required while the contract duration was running out. While the valuation roll had been completed more time was required to work on the property tax map. In the course of undertaking the rating valuation we also noted an extensive disparity between property information held by the municipal council and that kept at the land registry".*
> (Interview with valuer, Thomas Kironde and Associates)

In the absence of the conventional instruments that are meant to facilitate easy identification of taxable properties valuers have been compelled to work within the available strategies. Responding to the question on how they deal with the problem of property identification the valuers of Ilala and Temeke MunicipalCouncils reported that:

> *"Property information is obtained from the valuation roll as prepared by the contracted valuation firms. But for properties that have not been valued sub-ward leaders provide registers showing lists of names of property owners, type of houses and their use. We then use the information provided to determine tax liability for each property on flat rate basis".* (Interview with Ilala Municipal Valuer).

> *"Rateable properties are identified from records of individual properties in the valuation roll. For properties not recorded in the roll council officers together wit sub-ward chairmen identify properties and owners through field visits, assign property tax numbers to each identified property and determine tax amount for individual properties using the flat rate schedules provided by the municipal valuation office".* (Interview with Temeke Municipal valuer).

Experience in Dar es Salaam shows that in the absence of property information stored in maps municipal valuers rely on physical visits to the properties with assistance from local leaders.

7.2.3 The effect of land information deficiencies.

Apart from the problem of maps being incomplete and inaccurate most streets in Dar es Salaam are not named and houses are not numbered. Kironde (1994) had noted unnamed streets and unnumbered houses in Dar es Salaam and the situation is still the same twenty

years after. Only parts of the old central Dar es Salaam have streets with names and houses numbered officially. As a response to the problems associated with unnamed streets, people developing houses and residing in new areas assign names to some of the roads in the respective vicinity and some get christened after certain historical events. For example at 'Tangi Bovu'[31] in Mbezi Beach area there are streets known as 'samaki wabichi', 'mafuta ya taa', 'kwa Msomali, 'Kofi Annan' and so on. These street names are however, not official and they remain localised because they cannot be found in maps. Hence, mostly people living in the neighbourhood know such names.

Missing street names and house numbers is not only a concern of those responsible for land administration but also to the members of the local community. In the absence of street names and house numbers it is problematic to direct for example fire brigade to a house gutted by fire or to direct police to a house invaded by robbers or ambulance service providers. These are just few examples of critical situations of emergency nature that would require prompt response. But with lack of means of identifying a house it may be difficult for the people in need to access such services with the required urgency. Hence directing a person to a place in many parts of Dar es Salaam can be a nightmare. An observation by one newspaper reporter can serve as an illustration of the practice used for locating many parts in Dar es Salaam. In this example a resident of Mbezi Beach could best direct his friend to where he lives in this way:

> *"When you get to the Old Bagamoyo Road, turn left, drive down, and then follow the road leading to Whitesands /Belinda Resort/Beachcomba Hotel. Before you reach TPDF range area there is a road to the Oasis Club. You proceed for about 70 metres, you get to a junction, follow the right one, then ask anybody for 'kwa Apson or miti mirefu'; and you will be directed. Before you cross a small river, my house is somewhere there, just mention my name to whoever you will find there and they will show you my house"* (Sunday Newspaper September 29th 2002)[32].

Under such circumstances identifying property for any purpose becomes real difficult and time consuming. Given that adequate maps are lacking owing to resource constraints, can the Municipal Councils get to know all the taxpayers in their jurisdictions.

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[31] This is an area where an old and dilapidated water tank was a landmark for a long time. It gave identity to part of Mbezi Beach area when the neighbourhood was being developed. Today the name has been adopted as an identity of the part of Mbezi Beach

[32] Newspaper article entitled 'Shame that is Dar's nameless streets'. It was intended to reflect people's concern on the situation in Dar es Salaam resulting from the Municipal Councils' failure to name the streets and number the houses.

While property data collection depends on the availability of good current cadastral maps, the situation is different in Dar es Salaam. Useful cadastral maps for taxation are almost lacking and the few that are available are inadequate and out of date. In this kind of situation high reliance has been put on visits to the property for physical identification. This is made possible by the use of local leaders who help to identify rateable properties and the owners. Some attempts to affix property tax plate numbers on some of the houses have taken place but it would still not be easy to see them unless one was guided by street names that can be located in a map or known to the people residing in the area. Hence the support of local leaders stands as a strategy to rely on in identifying properties especially for those not fronting onto roads.

7.3 Valuation of rateable property

According to the rating law, building or improvements on the land constitute a taxable object in Tanzania, while land is excluded from property taxation. Property tax is therefore levied on the market value of only buildings or improvements. In order to ascertain the market value for taxation purposes the building value is assessed so as to establish the rateable value of the property, which excludes the value of land. Land value is excluded from the rateable value because according to the land Act No. 4, of 1999 land in Tanzania is the property of the state and the rights of an individual are limited to the un-exhausted improvements put on land. Likewise the individual's tax liability should be based on the value of investment put on the parcel of land held. Thus the valuation of rateable property takes into account the value of buildings or improvements only. However, a property owner pays land rent for use and occupation of the held land parcel to the landlord (the government)

7.3.1 Valuation methodology

Although the use of Sales Comparison Approach is the most ideal for estimating the market value of a property, its use in Tanzania has some limitations. The urban Authorities (Rating) Act 1983 provides for market value of the property to be the rateable value but circumstances surrounding the property market limit the use of the market approach in rating valuation. Section 22 (1) of the Act stipulates that where the market value of the premises cannot be ascertained the replacement cost of the buildings, structures and other developments after adjustment for depreciation will form the rateable value. In view of the situation in which open property market sales evidence is limited or

to a large extent lacking the Cost Approach has been adopted as the most appropriate method for rating valuation in Tanzania.

In carrying out rating valuation assessment guidelines that were prepared for the Phase I Dar es Salaam Rating Project in 1993 are still being used. The essence of the guidelines was to achieve some form of uniformity in determining the rateable values of individual properties. According to the rating valuation guidelines, premises in any rating area are broadly categorised into residential, commercial, hotel and industrial groups. Each property category is further categorised into cost ranges to reflect replacement cost rates per square metre applicable in valuation. The construction rates per square metre within each sub-category vary with respect to the quality of construction of individual buildings. Besides the value of site works is treated as additions to the replacement cost of the buildings. Thus a certain percentage is added to the replacement cost of the buildings to reflect the cost element of site works.

The replacement cost of the premises so established is essentially the rateable value in case of new buildings. Conversely, the value must be adjusted for depreciation for buildings, which are not new in order to reflect the level of obsolescence (physical, economic and functional) that the building has suffered over its lifetime. Again the rating valuation guidelines prescribe four categories of depreciation adjustments that can be made to replacement cost in order to ascertain the rateable value of each property. The depreciation rates have however been set in accordance with the Rating Act that puts the maximum allowable depreciation at 25 percent of the replacement cost. Thus depreciation rate applicable in adjusting the replacement cost ranges from 0% for new buildings to 25% depending on the condition of the building being assessed. Replacement cost rates; rates for site works additions and depreciation rates are illustrated in Table 7.1.

Table 7.1: Replacement Cost Schedules, Site works Value and Depreciation Rates

RESIDENTIAL BUILDINGS				
Houses, Bungalows, Blocks of flats, Institutional houses				
Category	Quality of construction	RC* per square metre (TShs)	Site work value added to RC	Depreciation Rate
A	Very high standard of construction, high quality balding materials, high specifications for finishes & workmanship, internal fittings of superior quality	200,000 - 150,000	Replacement Cost increased by 10% for site works of high specifications	0% to 5%
B	Differ from category A with cost of construction, specifications, finish and workmanship good to average.	150,000 - 100,000	Replacement Cost increased by 5%, site works constructed to average standard	6% to 10%
C	Standard Swahili houses. Constructed to average to poor standard of workmanship. Building materials, internal finishes and fittings of average to poor quality. Modern materials lacking.	100,000 - 60,000	NIL	11% to 20%
D	Constructed by informal technicians using local materials, minimal modern amenities	60,000 - 10,000	NIL	21% to 25%

COMMERCIAL PROPERTIES				
Business premises, office buildings, banks, retail stores, shops, laundries, craft shops, tailoring shops, petrol stations, cinema halls, restraints and bars, canteens				
Category	Quality of construction	RC per square metre (TShs)	Site work value added to RC	Depreciation Rate
A	Constructed to very high standard of workmanship, fittings and finishes, multi-storey, high rise buildings with lifts and central cooling system.	300,000 - 200,000	Replacement Cost increased by 10% for site works of high specifications	0% to 5%
B	Constructed to acceptable standards, typical office block up to four storeys without lifts.	200,000 - 100,000	Replacement Cost increased by 5%, site works constructed to average standard	6% to 10%
C	Constructed to average to poor specifications	100,000 - 50,000	NIL	11% to 20%

HOTEL PREMISES				
Category	Quality of construction	RC per square metre (TShs)	Site work value added to RC	Depreciation Rate
A	Constructed to very high specifications and standard; with all modern amenities	250,000 - 200,000	Replacement Cost increased by 10% for site works of high specifications	0% to 5%
B	Constructed to good specifications, including all modern facilities	200,000 - 150,000	Replacement Cost increased by 5%, site works constructed to average standard	6% to 10%
C	Constructed to average to poor specifications	150,000 - 100,000	NIL	11% to 20%

INDUSTRIAL PROPERTIES Including factories, canneries, manufacturing and processing of products, bottling plants, cold stores, industrial mills and warehouses				
Category	Quality of construction	RC per square metre (TShs)	Site work value added to RC	Depreciation Rate
A	Constructed of portal framed /block with loading base steel trusses and very high storey height	150,000 -100,000	Replacement Cost increased by 10% for site works of high specifications	0% to 5%
B	Industrial premises such as warehouses constructed with columns and beams, together with reinforced concrete framed structures.	100,000 - 70,000	Replacement Cost increased by 5%, site works constructed to average standard	6% to 10%
C	Industrial premises including sand cement blocks walled buildings with shorter storey height.	70,000 - 50,000	NIL	11% to 20%
D	Workshop and shed structures	50,000 - 30,000	NIL	21% to 25%

Source: USRP 2001 and McCluskey, W. et al.*RC: Replacement cost

It is worth commenting that the construction rates used in the rating valuation are not realistic because they have remained static for more than 10[33] years now. While they might have been realistic in 1993 when first operational they have not been adjusted to reflect changes in the national economy. Thus they have not been realistic in subsequent valuations in later years. Another notable feature of the valuation guidelines is the upper limit depreciation rate. For instance there are situations where under normal valuation a building would attract high depreciation rate in relation the level of obsolescence but for rating purposes the rate should not exceed 25 percent of replacement cost. As such

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[33] Measured in terms of US$: In 1993, $1 was equal to TShs. 461; and in 2005, $1 was equal to TShs. 1090

depreciation rates are focused more on construction quality of structures than the real obsolescence. In the light of these circumstances one can safely argue that depreciation rates are structured with intent to tax more the high value properties and also to ensure that every property in urban area was subjected to property tax liability even if it was too old.

7.3.2 The valuation process

Valuation for rating purposes starts with the municipal council appointing a Valuation Surveyor to undertake property valuation and prepare valuation roll. The powers to appoint the Rating Surveyor are provided for in the Urban Authorities (Rating) Act 1983. The Valuation Surveyor must be registered with the National Council for Professional Surveyors (NCPS) of Tanzania as per the provisions of the Professional Surveyor's (Registration) Act 1977. The valuer may be a full time employee of the rating authority or an employee of the Government Valuation Department who is nominated by the Minister. Despite the requirement that valuers in government service undertake rating valuation, local authorities have been outsourcing rating valuation to private valuation firms. This is because local authorities have employed a very small number of qualified valuers. Nevertheless, it is more advantageous for councils to outsource rating valuation, as private valuation firms would undertake the assignment in lesser time and therefore save cost. Conversely, if in house valuers were to carry out rating valuation they would work under their normal routine duties. This would result in higher costs, as it would take longer to complete the work. In any case it is not likely that municipal valuers have the capacity to handle the rating valuation of all properties in the jurisdiction. Since rating valuation involves a mass of properties it is only a relatively large task force that can accomplish the assigned work within a reasonably short time. Hence by outsourcing the rating authority valuers are left with the administration role of the rating valuation project that has been contracted out.

Prior to carrying out the rating valuation the law requires the Minister responsible for local government (after consultation with the rating authority) to declare an area within the jurisdiction, a rateable area. A declaration order must be preceded by a draft notice published in the government gazette and in a newspaper circulating in the rateable area. The draft notice should be published in not less than sixty days before the declaration order is made to allow for objections against the order. The valuation of rateable properties starts after the public is notified of the intention by the local authority to undertake rating valuation.

The appointed Valuation Surveyor undertakes to inspect and value all properties found in the rateable area. Although section 5 (1) of the Rating Act authorises the valuation surveyor to require the property owner to provide particulars that can enable the valuer to correctly value the property, the practice has been to physically inspect each individual property in order to establish proper description of the buildings (or improvements), draw sketch plan and take measurements. It is noteworthy that physical site visits are inevitable considering that the rating authorities have inadequate records of rateable properties. On the other hand physical inspection of a property is necessary because property owners may not be able to provide comprehensive and reliable details about their property. Also property inspection would help to deter attempts by property owners to cheat on quality of their property for the purpose of reducing the property value and subsequently the tax burden.

After property data have been collected from the field value computation is done in the office. Property details and assessed rateable values for each individual property are recorded in special property data cards. Thus details about each property are recorded in a separate property data card. Information contained in each property data card is then transferred into a valuation roll. According to Section 8 (2) of the UARA 1983 a valuation roll must show in respect of each hereditament:

a) the area and situation of the property valued;

b) the name and address of the owner;

c) the name of the leaseholder or, where an improvement stands on parcels belonging to more than one leaseholder, the names of such leaseholders;

d) a brief description of the hereditament and the improvement included therein;

e) the area of land comprising the hereditament;

the rateable value of the hereditament. Practically a typical valuation roll submitted to municipal councils in Dar es Salaam contains the following information:

i) Valuation entry Number (VRE No.)

ii) Property Reference Number

iii) Plot Number

iv) Block number

v) Sub ward name

vi) Name and address of property owner

vii) Property description (brief)

viii) Area of Main Building and Out building

ix) Rateable value

Since the Phase I Rating Valuation for Dar es Salaam City, the three Municipal Councils that came after have continued with the practice of outsourcing rating assignments to private valuation firms. The rating valuation contract requires the contractor upon completion of the work to submit to the rating authority (the employer) completed property data cards, a completed valuation roll and a property tax map of the respective rateable area. Experience from the municipal valuation offices in Dar es Salaam shows that while it is relatively easier and faster to work on property data cards and valuation roll, valuers find it difficult to enter the property reference numbers in maps and prepare tax maps for submission together with the valuation roll. One municipal valuer remarked:

> *"for the areas that rating valuation has taken place the contracted valuation firms tend to submit the completed property cards and valuation roll without the property tax maps".* (Interview with Valuer, Ilala Municipal council).

On the other hand valuers find the preparation of tax maps a tedious exercise and time consuming. One Consultant Valuer recited that:

> *"Rating valuation is problematic because information about properties to bevalued is in most instances inadequate. As a result a lot of time is spent on identifying properties and getting the right information. In trying to work within the given time frame we have to concentrate on the production of property data cards and subsequently a valuation roll so that they are submitted within the contract duration. Given the circumstances tax maps have to wait because they are too involving. Preparing tax maps based on survey maps containing incomplete information that portrays a different picture from that on the ground becomes quite cumbersome. That is why tax maps are not submitted in time together with the property data cards and valuation roll".* (Interview with Valuer, Thomas Kironde and Associates)

While municipal councils have not been able to create property database for use in rating valuation it is interesting to note that the same authorities expect valuation firms contracted to value properties to come up with tax maps. Even though contracted valuation firms attempt to prepare property tax maps accurate information is not readily available to facilitate a comprehensive property database.

Apart from rateable values determined by a Valuation Surveyor the authority is allowed to establish property values from property owners. According to Section 8 (4) of the Urban

Authorities Rating Act, the rating authority may, where it deems necessary or expedient require the owner of the rateable property to furnish the authority with the value of the property. But practice shows that rating authorities have never utilised this provision. Perhaps this would complicate the rating valuation, as there is a higher probability of property owners understating the value of their properties with intent to minimise the tax burden. Experience shows that people tend to underreport property sale values as a way of reducing the transfer tax.

7.3.3 Objections to valuation

Upon receiving the valuation roll from the contractor the rating authority is required by law, within forty days after delivery of the roll to publish in the Government *Gazette* and at least one newspaper circulating in the rating jurisdiction. Through the notice published in the gazette and newspaper the public is informed of the presence of the roll, which is open for inspection. Following the public notice property owners are allowed to lodge objections against the roll or supplementary roll within twenty-eight days after the date of publication of the notice. The notice in the gazette or public media should also specify within twenty one days after the notice the date and place at which the Rating Tribunal will sit in order to determine any objections to the roll or supplementary roll.

In addition to the notice in the public media, Section 11 (2) of the Urban Authorities Rating Act (1983) provides for the obligation of the rating authority to serve a notice by post upon each name appearing in the valuation roll within twenty-one days after the publication of the notice in the *gazette* and newspaper. The notice by post informs the addressee of being listed in the valuation roll, the times allocated for inspecting the valuation roll or supplementary roll at the rating authority's office, and the dates within which objection to roll must be lodged with the rating authority.

Although the law is very clear about the rating authority's obligation in ensuring that property owners are informed about their legal right to inspect the roll and the notice is published in the newspaper, the response is generally very low. A small number of property owners show up to inspect the valuation roll. Similarly very few objections are lodged against the roll. As an example, the Phase I Dar es Salaam Rating Project had a total of 29,515 properties valued but only 3,015 (10%) objections were lodged at the Dar es Salaam Valuation Office (under the USRP) and out of the objections 83% challenged rateable values (Rwechungura, 1998). Property owners objected to high rateable values that had been assessed by the valuers. It is important to note that this was the first rating

valuation in Dar es Salaam and that previously property tax was levied on flat rate basis. Thus for many property owners the tax amount based on assessed rateable values appeared to be too high, depicting drastic change from the flat rates. On the other hand about 4,642 (16%) notices served to property owners in accordance with S.11 (2) of the Act were returned to the Dar es Salaam Valuation office undelivered. The notices were not delivered because the rating authority lacked addresses of many property owners and were only identified with nearest CCM (then the only political party) offices.

A recent experience with the Ilala Municipal Council has demonstrated a low turnout of people whom lodged objections with the rating authority. The Ilala Municipal Council recorded only nineteen objections against the valuation and supplementary roll for which public notice was served in May 2004. The Supplementary roll (which was the revaluation of properties in areas covered under Phase I Rating Project in 1993/4) covering the city centre and industrial areas recorded a total of 6,214 properties and a valuation roll covering Segerea Ward had listed 9,408 properties. Out of the 19 objections, 16 (i.e. 84%) were against the rateable values.

On looking at the circumstances regarding objections it is not easy to tell why just a small number of property owners object to the valuation roll while it is the property owner's right provided for under the Rating Act. Nonetheless a number of reasons may be speculated for the property owner's behaviour in respect of objecting to the valuation roll. First it is likely that many people did not see the public notice that invited the public to inspect both the valuation roll and the supplementary roll. But the rating authority had extended the duration for another twenty-eight days after the elapse of the first invitation and the turnout was still negligible. Under such circumstances one may be tempted to think that property owners were satisfied with the assessment of their properties and were ready to pay any amount as per assessment.

On the other hand it may also be the case that property owners are not concerned because they do not plan to pay the tax and think that there will be only a small risk of punishment. For instance a survey conducted for this study in some parts of Dar es Salaam, supports the small number of valuation appeals since 96 percent of the respondents(118) whose properties had been valued did not inspect the valuation roll and therefore did not appeal against the assessed values of their properties although they knew that they had a legal right to do so. Nevertheless the respondents did not indicate whether they were satisfied with the assessed values or otherwise. On the other hand the small number of appeals works to the advantage of the valuers as it means less work with

respect to attending to appeals. While there is nothing wrong with few objections, perhaps this could be pointing to good rating valuation practice.

7.3.4 Determining objections

The role of the Rating and Valuation Tribunal

The role of the Rating and Valuation Tribunal is to hear and determine all objections that may be raised in connection with the valuation roll or supplementary roll in question. The Tribunal's responsibility involves analysis of objections or complaints against information provided in the valuation or supplementary roll and that in the property data card. In the course of deciding on the appeal the Tribunal is obliged to conduct site visits to the property for which there is objection to the roll in order to verify the existence of the property and its description. Information obtained from the physical inspection conducted by the tribunal is then compared with that contained in the property data card and valuation roll, as well as that presented in the objection form. Finally the decision is reached on the basis of the Tribunal's findings. The decision together with the facts guiding the ruling in respect of each objection is recorded in a special form designed for that purpose. The resultant ruling by the Tribunal enables the rating authority to proceed with the levying of the tax accordingly.

Handling objections – practical examples

The Rating Tribunal is charged with determining objections lodged to a valuation roll or supplementary roll in accordance with the law. Under Section 11 (1) c of the Urban Authorities (Rating) Act 1983 the notice to publish the roll must state the date and specify the place at which the Tribunal will sit to determine any objections within twenty-one days after the appointed date for lodging objections. Despite this clear provision under the law the Tribunal has not been able to accomplish the responsibility in time. As an illustration, public notices for the Phase I valuation roll were given on the 23 September 1994, stating the date of the valuation roll as 1st January 1995 and the date of valuation as 7th November 1993. Moreover the public notice had stated that the Rating and Valuation Tribunal would sit in Dar es Salaam for the purpose of determining objections at a date to be announced but not earlier than 20th November 1994. But it took thirty months (2$^1/_2$ years) for the Tribunal to sit and decide on the objections since the sitting was held in September 1997. Similarly it took quite long for the Tribunal to sit for the objections lodged against Ilala Municipal Council. While the revaluation and supplementary valuation for the central

areas of Ilala Municipality were completed in April 2002 and the Phase IV rating valuation for Segerea ward was completed in February 2004, both the valuation roll and supplementary roll were published on 4th May 2004. The public notice had stated 24th day of April 2004 as the effective date of both the Valuation and revaluation rolls, and that the independent Rating Tribunal would sit to determine objections to both rolls within twenty one days from the 11th day of June 2004. But the Tribunal sat to decide on the objections to both rolls on 13th to 19th January 2005, some six months after.

At the Rating and Valuation Tribunal sitting the valuation firm that undertook the rating valuation and property owners who filed objections were invited to attend the session. The Consultant valuer was required to attend in order to defend their valuation and respond to queries arising from the valuation roll. Surprisingly none of the property owners who had filled objection forms, with respect to to the valuation roll showed up at the Tribunal meeting. A valuer with Ilala Municipal Council commented that:

> *"none of the property owners who objected to the valuation roll and supplementary roll turned up for the Tribunal meeting despite the fact that the notice about the date when and place where the Tribunal would sit appeared three times in the newspapers".* (Interview with Valuer, Ilala Municipal Council).

While the public was notified of the date and place for the Tribunal sitting through newspapers it is important to note that eight months had elapsed from the time when objections were lodged to the actual date when the Tribunal sitting took place. This suggests a higher possibility that those who had lodged objections had already forgotten about it since a longer period had passed from the time they filed the objections.

Delays in the Tribunal's sitting taking place not only impacts upon the objector's right to be heard and decision reached but could also create uncertainties in dealing with the complaints that had been raised. For instance deciding on objections regarding rateable values two years after the valuation date may be problematic due to the time elapsing between such date and the date of hearing the complaints. If for example the decision was to be based on verification of the building size, it is quite common to find that measurements taken two years before have changed and the building has structurally changed. This is likely to happen considering the uncontrolled construction of buildings in most urban areas in Tanzania.

A valuer working with a valuation firm that had carried out a revaluation of properties in central area of Ilala Municipality expressed concern over the delays in serving notice for

the revaluation roll and supplementary roll as well as getting the Tribunal to respond to the objections. His remarks were that:

> *"While revaluation of properties in the central area of Ilala municipality was carried out as from September 2001 through February 2002, the valuation roll was published in May 2004. I just wonder how the Tribunal is going to handle the objections, considering that many new houses replacing the old and inferior ones have come up especially in Kariakoo area. Sometimes it also becomes problematic for us valuers and other members of the Tribunal to verify the description of the building on the basis of information submitted to the council some two years back where the building in question has been transformed tremendously".* (Interview with valuer, TRACE Associates Limited).

7.3.5 Administering rating valuation

While the law prescribes the rating authority valuer or government valuer as a legally qualified expert to undertake rating valuation circumstances with the Municipal Councils in Dar es Salaam are not conducive to allow the practice. The municipal valuation offices have no capacity to carry out rating valuation involving large numbers of property as they have very small numbers of valuers. Ilala has seven valuers, while Kinondoni and Temeke have four valuers each. The situation has therefore made it necessary for the councils to engage private valuation firms in carrying out rating valuation.

Upon the private valuation firm being contracted to undertake rating valuation, the respective municipal valuation office becomes the coordinating office and the representative of the employer on all matters related to the rating valuation contract. With respect to rating valuation the municipal valuation office is responsible for monitoring the rating exercise in terms of receiving the property data cards from the consultant valuers and checking the quality of work. Thus the Municipal Council as a client can only accept the completed work upon certification and recommendation from the Municipal Valuer. On receiving the valuation roll the valuation office has to check each entry to verify if it is correct before accepting it as the final output that can be made public.

Even though private valuation firms undertake large volume of work at lesser cost, there have been problems with the quality of work. Municipal Valuers have cited examples of situations where some of the valuation assistants engaged by valuation contractors are less qualified for the work. Moreover the valuation assistants are paid low. As a result the valuation work submitted to the Municipal Councils is on a number of instances not of good quality. Consequently the checking of the property data cards

becomes too involving for the Municipal Valuers. For instance some of the property data cards are submitted containing wrong description of properties. This is because some of the valuation assistants are not committed to the work and sometimes they are not trustworthy. In some cases the Municipal Valuers have experienced some properties being undervalued and some overvalued. Under such circumstances the faulty property data cards are rejected and the responsible Valuation Contractor is required to rectify the mistakes.

7.3.6 Determining property tax rates

With ad valorem property tax the established rateable value forms the basis of the payable tax amount with respect to each rateable property. The amount of revenue required by the taxing authority from property tax is ascertained through distributing the tax burden among all taxable properties in the jurisdiction. The tax rates should be set on the basis of revenue required to meet the council's expenditure for the taxpayer and what is believed to be the "optimal" share of revenue coming from property taxation. Similarly, Franzsen et al (2003) argue that the level of taxation in a community should be determined by the revenue needed to satisfy the needs of the taxpayer together with the ability to pay for the services. The rateable values as assessed on the valuation roll therefore set a basis for the distribution of the tax burden to the members of the community.

Over the years the property tax system in Dar es Salaam has adopted tax rates that were established in 1996 during the Phase I Rating Project under USRP. Initially a uniform rate of 0.1% of the rateable value of the property was imposed and later on raised to 0.15% in 1997. The basis of the rate, which is still applicable to the current date, has remained unclear. Besides, the rate can only be used to forecast the amount that can be expected from properties listed in the roll but not for equitable distribution of the tax burden. The practice is also suggestive that even the projected revenue amount does not represent the property tax revenue that the council should expect because the actual number of taxable properties in the jurisdiction is not known. As such there is no link between the tax rate charged on property values and the property tax revenue requirement of the rating authority.

Since there is no direct relationship between the tax rate and the property tax revenue requirement of a municipal council the rate has remained constant over the years and there are no indications that tax rates will be changed in the near future. The only change that the Ilala Municipal Council has effected in the by-laws is differential rates

imposed on residential and commercial properties. The rates are 0.15% and 0.2% for residential and commercial properties respectively. On the other hand the threshold tax amount levied on a property is TShs. 10,000/= even if the amount resulting from application of a tax rate on a rateable value was smaller. Thus a tax liability of less than TShs. 10,000/= determined on the basis of the tax rates is increased to the level of the minimum tax amount.

In evaluating the Rating Valuation consultancy Services and Property Tax Administration in Dar es Salaam and Eight Project in Tanzania, Franzsen et al expressed concern over the very low rates charged by the Municipal Councils. Franzsen et al (2003) noted that tax rates of 0.1% to 0.5% of rateable value on buildings only were extremely low when compared to even the rates in other countries in the region such as South Africa, Botswana and Namibia where the rates are generally between 1% and 2% of total capital value of land and buildings. While it is a fair comment that the tax rates are very low the objective of setting such low rates is not clear. If the tax rates were related to the revenue requirement then probably the rates would be even higher beyond the ability to pay of many property owners. It is also likely that the councils do not feel that the rates are too low because they cannot adequately determine the level of expenditure requirement for the services needed by the taxpayers.

While it has been observed that the tax rates are extremely low, resulting in low revenue output, it is not clear as to why the councils have not considered revising the tax rates upward. However, it is important to note that even if municipal councils wanted to adjust the tax rates upward they could not do that without the consent of the central government. It is also not likely that the central government has interest in raising the property tax rates. As also noted by Aluko (2005) the extremely low effective rates mandated by central governments are due to the reason that central government derives no revenue from the local property tax hence it has no direct financial interest in high yields.

Another reason is the fact that it is not easy for the municipal councils to determine levels of expenditure on services where service delivery to the taxpayers is questionable. Considering the prevailing situation it would be reasonable to comment that with the Municipal Councils in Dares Salaam there is no link between service provision and property tax. In defending the current tax rates a Valuer with lala municipal Council remarked that:

> *"if tax rates were to be determined on the basis of revenue*
> *requirements they would be too high and would not get approval*

of the central government".   (Interview with Valuer Ilala

Municipal Council).

Such a sentiment has left councils levying uniform rates over a period of more than ten years now. As will be returned to in the final chapter there can be a downward spiral where lack of legitimacy can make an otherwise rational tax level impossible.

7.3.7 Property tax flat rates

Apart from tax rates imposed on rateable values municipal council levy also flat rates on properties that are yet to be valued and therefore not included in the roll. These properties are listed in property registers generated at Ward and Sub-ward offices. The minimum flat rate amount levied on a property is Tanzanian Shillings 10,000/=. The flat rate tax amounts have been set and prescribed in the respective municipal by-laws and are determined according to type, size and use of the property. Thus tax amounts assigned to properties originate from the flat rates schedule (see Appendix 1).

Even though the flat rates schedule is intended to provide a wider scope of coverage for the valuers to determine rateable values for individual properties that have not been valued, on the other hand it raises a number of questions. The list of tax amounts appears to be too long with a lot of variations such that it would be difficult for a taxing authority valuer to identify the appropriate tax liability from the list and match with the property. This is more critical when valuers are confronted with many properties for which tax liability is to be determined in a situation where information about properties being taxed is inadequate. People who have not trained as property data collectors compile the attributes of each property listed in a property register at the sub-ward office. As such the description given to the property may not be adequate for objective assessment, not withstanding that tax amounts under flat rates are more of estimates than a reality. Furthermore size of various buildings categories are proposed in the schedule for guidance in judging the size of a rateable property, but considering the level of education of people's representatives (of units in a sub-ward) the estimation of building size as per the given ranges might pose serious problems. All these culminate to inconsistencies experienced in levying flat rates.

It is not unusual to find properties of similar attributes and that therefore ought to fall within the same range of tax amount are taxed differently. For instance Shillings 10,000/= is levied on one property and 75,000/= on the other while the two properties have no significant differences to justify such a big variation on the tax amount ascribed to

each. This happens because valuers who assess the taxable amounts are guided by property description in the property register and the flat rates schedule but sometimes the given description might mislead them. It is noteworthy that a disparity in flat rates levied on properties is an issue that was brought up by respondents of the survey in this study.

7.4 The role of Local Leaders

The state of affairs with (property) taxing authorities in Tanzania has somehow created high dependency on local leaders. Due to lack of properly organised property data and details about property owners in the respective rating jurisdictions, local leaders have become useful in getting such information to the local authorities. The local government administration system in Tanzania is designed such that the leaders at lowest levels are given responsibility to know the people they represent. Thus a head of each household is supposed to register with the unit representative. Subsequently the unit representative becomes a reference point for an individual on issues that would require one to identify oneself with respect to the area of residence. Such reference is used for population census, voting registration, property transacting and reporting issues to police. For instance on reporting a case to a police office one would be required to furnish information about area of residence and the name of his/her unit representative (*mjumbe* or ten cell leader). Similarly a misunderstanding between neighbours has to be reported to unit representative before it is referred to the sub-ward office. Such practice has made it possible for the local leaders to get to know more about the people they represent in their communities at household level.

In due consideration of the role of local leaders at community level local government authorities have also been extensively involving them in matters related to revenue mobilisation. With property taxation the local leaders have been working closely with valuers to facilitate identification of rateable properties and owners. Local leaders facilitate also the preparation of property tax registers. Each sub-ward office has to keep a property register of all properties found within the sub-ward. For each property the register must show: name of property owner, location, street, plot number or property tax number, whether surveyed or un-surveyed, use and the type of building. The register should also indicate the years that the property owner has paid tax.

Although much is expected from the sub-ward office, many have not been able to perform to the expectations of the municipal valuation offices. Both the ward and sub-ward officials do not necessarily have the required skills for property data collection. Moreover

the majority of sub-ward offices in Dar es Salaam are lacking facilities such as stationery, furniture and office space. As a consequence some sub-wards have their day-to-day operations taking place at the Sub-ward executive secretary's residence or at accommodation donated by good citizens. Hence not much can be expected from such working conditions.

Furthermore it is important to consider the work relationship emerging between the property tax administration system and the local leaders at ward and sub ward levels of the local government administration. While on the basis of the agency relationship the property tax administration system's concern is on increasing property tax revenue, the local leaders as agents on the other hand might have divergent objectives in the course of performing their duties. This is especially so because they lack structured pay and are likely to be motivated to pursue other goals that might be detrimental to municipal councils. What would be the incentives of the local leaders to perform their duties with respect to supplying property information in the interest of the Municipal Council increasing property tax revenue? This should be a matter of concern to the Municipal Councils if local leaders are to be committed to facilitating property taxation better.

7.5 Valuation issues undermining property taxation

Identification and valuation of property are critical processes in property taxation. The process of identifying property establishes the size of the tax base available for the tax authority. It is through identifying taxable property that the tax authority gets to know its property taxpayers. Thus a taxing authority cannot levy taxes if the tax objects and tax subjects are not discovered. On the other hand the valuation process determines rateable values that provide a basis of taxation. Effective property taxation therefore relies on the assessed property values. It follows therefore that efficiency in generating property tax revenue is to a large degree influenced by the performance of these processes. More revenue is likely where many taxable properties are identified and valued.

From the study it has been observed that inadequate and poor quality data possessed by the Municipal Councils in Dar es Salaam have negatively impacted upon identification of taxable properties. Availability of quality data is vital for the efficiency of a property tax system. But in the absence of adequate property information the property tax administration system has not been able to establish comprehensive property tax database. As a result the property tax coverage is low and the total number of taxable properties in each municipality is not known. The councils largely operate on the basis of

estimated numbers. Accordingly a considerable size of the tax base is not registered and therefore escapes liability to property tax.

Another problem confronting the property tax administration system is unequal tax assessment methods. While some properties are taxed on assessed capital values, other properties are taxed on flat rate basis. The subsequent effect is less property tax revenue. Another drawback is failure by the property tax administration system to value all properties in the tax jurisdiction due to prohibitive valuation costs. Not only that property revaluation has not been possible, but also a large number of properties in each municipality are yet to be valued and registered in the valuation roll. While the estimated number of potential rateable properties in Dar es Salaam is 340,000, only 21 percent has been captured in the valuation roll.

The discussion in this chapter has focussed on the identification and valuation components of property tax administration. Property identification and valuation practices in Dar es Salaam have been discussed. In the following chapter the property tax collection process is examined.

Chapter Eight

PROPERTY TAX COLLECTION

This chapter presents the current procedures of property tax collection as practised in Dar es Salaam. Upon completion of the valuation roll the rating authority is ready to enter into another stage of the property tax administration. This is the collection stage at which the outcomes of all preceding processes to prepare for property tax revenue collection are reflected. Property identification, valuation and tax assessment are the foundation of efficient property tax collection. The success of any property tax system is measured in terms of the degree of the level of revenue collection realised by the rating authority.

The collection of revenue from property tax involves billing, actual collection and enforcement. However the volume of revenue from property rates depends partly on rateable value and tax rates, and partly on collection efficiency. It is important for the rating authority therefore to strike a balance between the two functions so as to avoid a situation where the total rateable value established is higher but obtaining low revenue yields due to inefficiencies embedded in collection. In the same way the rating authority may have an efficient collection system in place but collecting less revenue because the total assessed rateable value is smaller than the potential. Discussion on the procedures of issuance and delivery of property tax demand notices as well as actual collection follows in the next sections.

8.1 The billing procedure

Prior to paying the assessed tax amount to the rating authority a property owner must receive a tax bill requiring him to pay the stated amount within a prescribed period of time. It is the duty of the taxing authority to ensure that the taxpayer is served with a tax demand bill. The billing process therefore involves preparation of tax demand notice and sending to property owners. After the valuation roll has been sanctioned and notices made public the municipal valuation office gets involved in preparing tax-billing demands (or demand notices) for each property owner appearing in the valuation roll. Since property tax is also levied on flat rate basis, demand notices are also prepared for properties that have not been valued and therefore not included in the valuation roll.

The Municipal Valuation offices in Dar es Salaam prepare computer processed property tax demand notices that are subsequently distributed to property owners. A demand notice contains information showing property reference number, location of property, date of the notice, name and address of the property owner, tax amount, tax arrears amount plus accumulated interest. The demand notice further specifies that the tax demand should be settled within thirty days of receipt and failure to adhere to that would result in the responsible Municipal Council implementing the full recovery procedures provided for in the Urban Authorities (Rating) Act No. 2 of 1983 and the Municipality Property Rate By-Laws.

The demand notice prescribes also the property tax collection point where the taxpayer would make payment. The property tax demand notice contains also a warning statement with respect to recovery measures on failure to comply with the stated tax liability. While a warning statement is included in the tax bill it is presumed that information about the benefits such as services being provided and the amount of taxes allocated to each service would also be included but this is not the case. Thus if the probable penalties are mentioned in the demand notice with intent to induce the taxpayers to settle their tax bills a mention of the anticipated services would also add to the motivation.

The distribution of tax demand notices is done either through post mailing or through delivering by hand to each individual ratepayer. Post mailing is used for ratepayers whose properties are included in the valuation rolls with their addresses. For properties that have not been valued and entered in the valuation roll demand notices are delivered by hand through ward offices where Ward Executive Officers (WEOs) and Sub-ward leaders are involved in helping the council officers to distribute the bills to the billed property owners. As an example, among the respondent property owners 20% received tax bills by post, 48% had demand notices delivered at home and 32% collected their tax bills from ward or sub ward offices. Local leaders play a very important role in the delivery of tax demand notices especially in informal settlements where hand delivery of bills is considered as most effective in the light of missing or inadequate records pertaining to property ownership and addresses. Valuers also do deliver by hand tax demand notices to the 'big taxpayers' who have large tax amounts.

The post mailing approach has not been very effective as in many cases the posted demand notices did not reach the addressees due to wrong addresses, hence returned undelivered. Where the addresses were correct often the demand notices reached the

ratepayers after the due date. In some instances property owners pretended that the bills never reached them to justify the non-payment. According to the municipal valuers the distribution of demand notices by hand in informal settlements is time consuming and frustrating because properties in informal settlements are too many and haphazardly located. Besides, demand notices distributors are few and have to go around establishing physical address of the property with the owner, and in several cases owners are not found at home making it necessary to pay more than one visit. As a response to the postage problems municipal valuation offices have now opted to deliver the bills to the physical addresses. This is done with the help of WEOs and Sub-ward leaders.

In addition to the preparation of tax demand notices the Municipal Valuers are also responsible for their distribution. Valuers are compelled to leave the office so as to oversee delivery of the demand notices. While they are required to perform all these tasks related to property taxation the same valuers have also to attend to other routine valuation tasks in the office[34]. The small number of valuers employed in each Municipal Council, affects delivery of tax demand notices and subsequently compliance on the part of the taxpayers. But from the survey results in chapter nine, there has been an increase in the number of property owners served with property tax demand notices from 46% of the respondents in 1998 to 83% in 2003. Hence the population of property owners not billed escape liability to property tax. Franzsen et. al (2002) observed that as a result of the inadequacies of the billing procedures there is no statutory date for tax billing; nor is there a statutory date for payment but rather a voluntary payment period is implicitly given to the taxpayer. This voluntary payment period is a resultant of demand notices reaching the property owners after the date of payment specified in the tax bill. Hence in many cases tax demand notices do not receive prompt action from the taxpayers, necessitating the sending of tax bill reminders. On the other hand it could be argued that property owners take late delivery of demand notices as an excuse for late payment or in some cases non-payment of property tax bills.

While in developed societies for example Europe people tend to settle their tax bills promptly, the situation is different in Tanzania. It seems settling bills is not in the culture of the majority of the people in Tanzania. The problem of non-payment affects also user charges for utility services such as water and electricity whereby consumers just don't come forward to pay their bills promptly. Several reasons could be responsible for

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[34] At Temeke municipal council rating valuation has been separated from other valuation activities. A separate rating valuation unit is in place to handle property taxation exclusively.

the situation including failure by the government to institute punishment to tax defaulters, lack of accountability on the part of the taxing authority and weak administrative capacity of the taxing authorities.

The issuance of tax billing demand notices sets the beginning of the revenue collection process and the actual collection follows after delivery of the tax bills. In the following section the procedures involved in the collection of property tax revenue are discussed.

8.2 Property Tax Collection

8.2.1 The current practice

Collection of revenue is a critical stage in property taxation because the effectiveness of the preceding stages in property tax administration is reflected in the amount of revenue collected. Efficiency in revenue collection however is to a considerable degree determined by proper identification of the taxpayers, proper assessment of property values, adequate billing and effective enforcement procedures.

In collecting property tax once the property owner receive demand notices they are expected to make payments to the collection points as specified in the demand notices. Payment of property tax can be made at the Municipal Council office or Ward office where a revenue collector is stationed. The Kinondoni municipal council has gone further to directing taxpayers to deposit the tax payments into bank accounts with different branches depending on individual convenience. Payment through the bank has been introduced so as to simplify remittance of tax payments for the taxpayers.

While the requirement is to have the tax bill settled within thirty days upon receipt of tax demand notice property owners rarely pay by the due date. The reason being, the billing procedure does not guarantee receipt of demand notice in time for the taxpayer to respond within the specified thirty days and to a considerable degree the tax bills are received after the due date. Besides, there is no driving force for the property taxpayer to comply because there is rarely a difference between those who comply and the delinquent ones. For example in the survey, when asked why they did not honour their tax obligation, some of the respondent property owners felt it was not important to pay their tax bills if others were not paying and were not punished. Among the taxpayers, some remain in arrears but the taxing authority institutes no action against them.

In attempts to increase property tax revenue collection property owners are reminded to pay their tax bills through public media such as radio, TV advertisements, newspapers, and also announcements in respective areas by use of loudspeakers. Apparently such reminders are not enough to influence property owners to comply. Given the situation it would be fair to comment that the billing and collection procedures in practise contribute considerably to the low property tax revenue collection levels.

Since the reinstatement of property tax in 1987, collection levels in Dar es Salaam have not been impressive except for the three years when the City Commission was in office. Table 8.1 shows property tax collection records for Dar es Salaam City from 1988 to 1999. But due to lack of records on the amount of revenue that was expected from property tax it is not possible to measure the gap between actual collection and amount that ought to have been collected. From 1988 to 1995 property tax was levied on flat rates only because rateable properties had not been valued. Effective 1996 the tax was levied on the basis of both assessed rateable values and flat rates. It is worth noting that little information about property taxation during the time of the Dar es Salaam City council is available for reference.

Apparently during the commission's term of office there was a remarkable increase in revenue collected from property tax. Property tax revenue rose from shillings 60 million in 1995 to shillings 559 million in 1996 (see table 8.1). The markedly increase was a result of operationalisation of the valuation roll in 1996, which coincided with the appointment of the City Commission to office, replacing the Dar es Salaam City Council. The three years of the City Commission in office witnessed higher property tax collection levels of shillings 1billion, 1.1 billion and 1.08 billion in 1997, 1998 and 1999 respectively. It is assumed that the remarkable increase in revenue collection was a result of commitment by the new administrative body, which also had full support of the central government in levying local taxes. It is also believed that during the city commission term of office taxpayers could see the money they paid was somewhat being used for their benefit. As an example roads in parts of the city centre were rehabilitated and it was the time street cleaning was introduced. This partially motivated people to pay their tax bills.

Table 8.1: Property Tax Collection for Dar es Salaam City 1988 – 1999

YEAR	REVENUE COLLECTION (TSHS)
1888	31,010,000
1989	23,150,000
1990	45,350,000
1991	38,430,000
1992	57,290,000
1993	108,110,000
1994	110,040,000
1995	60,010,000
1996	559,490,000
1997	1,006,000,000
1998	1,134,000,000
1999	1,077,000,000

Source: Urban Sector Rehabilitation Project

The City Commission's term of office ended in 1999 and in 2000 Dar es Salaam City local government was split into three municipalities of Ilala, Kinondoni and Temeke for efficient local administration. Each municipality has its own independent and autonomous local government authority with the Dar es Salaam city council assuming a coordinating role. The municipal councils inherited the valuation roll from the USRP from which they have continued to levy property tax. Property tax collection levels for the three municipalities during the four years are as shown in Table 8.2. Data in Table 8.2 is further presented in form of actual property tax revenue collected as a percentage of the budgeted amounts in Table 8.3.

Table 8.2: Property Tax Revenue Collection in TShs for the Three Municipal Councils: 2000 – 2003

Municipal Council	2000 Budgeted '000'	2000 Actual '000'	2001 Budgeted '000'	2001 Actual '000'	2002 Budgeted '000'	2002 Actual '000'	2003 Budgeted '000'	2003 Actual '000'
Ilala:								
Flat Rate	NA[1]	86,869	100,000	81,205	140,000	49,961	374,811	65,463
Val. Roll	NA	454,746	560,000	467,811	580,000	640,867	740,520	574,823
Total	**NA**	**541,615**	**660,000**	**549,016**	**720,000**	**690,828**	**1,115,331**	**640,286**
Kinondoni:								
Flat Rate	250,000	299,352	120,000	399,915	390,000	351,745	500,000	246,020
Val. Roll	374,099	171,097	400,000	188,239	485,000	290,317	700,000	365,922
Total	**624,099**	**470,449**	**520,000**	**588,154**	**875,000**	**642,062**	**1,200,000**	**611,942**
Temeke:								
Combined[2]	385,505	231,058	385,000	394,856	411,556	330,400	643,930	NA
Valuation Office[3]:								
Flat Rate	NA	NA	785,690	169,207	785,690	194,104	785,690	132,289
Val. Roll	NA	NA	368,935	258,185	368,935	207,143	368,935	197,463
Total			**1,154,625[3]**	**427,392**	**1,154,625**	**401,247**	**1,154,625**	**329,749**

Source: Municipal Councils' Annual Financial Reports

Notes:
1. NA: Data not available
2. Figures of revenue not disaggregated into flat rate and valuation roll basis
3. Budgeted Revenue for all years is based on the estimated number of properties of 2000 (compiled from the valuation office)

Table 8.3: Proportion of Actual Property Tax Collection to the Budgeted Amount

Municipal Council	2000	2001	2002	2003
Ilala	NA	83%	96%	57%
Kinondoni	75%	113%	73%	51%
Temeke	60%	102%	80%	NA
Temeke – Valuation Office	NA	37%	34%	29%

Source: Computed from data in Table 8.2

From the figures presented in table 8.2 there is a noticeable modest annual increase in revenue from property tax. Moreover a comparison of annual revenue collections with budgeted amounts portrays property tax collection levels that appear to be unrealistically high. On the other hand, based on the same figures property tax contribution to total council revenue from own sources is an average of 12.5% for Ilala, 20.8% Kinondoni, and 15% for Temeke.

According to the percentage figures presented in Table 8.3 there have been rather high performance levels in property tax collection for all the three municipalities. But looking back at the real situation the property tax revenue collection levels depict problems associated with budgeting. It appears that the high revenue collection levels are based on annual revenue targets set by the Municipal Authorities and not on property values captured on the roll and properties in flat rate registers. This is why property tax revenue collection levels for the three Municipal Councils are almost the same with revenue collection by city commission but with varying size of the tax base. It is doubtful whether the budgeted collection amount is based on the number of properties captured on the roll and those in property registers. If that were the case why would total property tax revenue collection levels for the three municipal councils be almost the same with revenue collection by city commission but with varying size of the tax base? Data in Table 8.1 indicate property tax revenue collection at an average of TShs. 1 billion for 1997 – 1999 collected from 30,000 properties, which had then been captured in the roll. On the other hand total property tax revenue collection for the three municipalities has been at an average of TShs. 1.3 billion (see Table 8.2) for the period 2000 – 2003 collected from about 70,000 properties on the roll plus 211,000 properties taxed on flat rate basis (see Table 8.4).

Considering the comparison of the property tax revenue figures it remains unclear as to why there would be insignificant change in the amount of property tax revenue collected when taxable properties on the roll have more than doubled and more have been registered in the flat rates property tax register. Circumstances contradict also the high

property tax revenue collection against the budgeted amounts. The data point to a clear misrepresentation of the reality. Circumstances are suggestive that municipal authorities set lower budget targets so that in the end the actual revenue collection is closer to or surpasses the prescribed targets as depicted in Table 8.3.

On the basis of the documentary data there are indications that revenue collected from property tax is very low not withstanding the performance levels appearing in the council's financial reports. It has also been noted (Franzsen & Semboja, 2004) that collection levels for property tax with respect to properties taxed on both valuation roll and flat rate basis are still very low. But if one was to go by collection levels as presented in the council's financial reports, the property tax revenue performance appears rather impressive. However, it is interesting to note the property revenue figures for Temeke municipal council, which provide an example of the disparity of data presented in financial reports and that from the valuation office.

The property tax revenue estimates based on the number of properties in the property tax database by the Temeke Municipal Valuation office are quite high as compared to the revenue budget estimates by the treasurer's office. Based on the property tax revenue projections by the valuation office, on average the council is able to collect only 15% of the property tax revenue that would be realised from the rateable properties captured in the Municipality's property tax database. Conversely the annual financial reports present an average collection level of 80% of the budgeted property tax revenue amount. This is suggestive that property tax estimates for the council's revenue budgets are not based on property values captured in the property tax database but on revenue collection targets that each Municipal Authority sets. The revenue collection targets distort the reality, as Municipal Councils appear to be efficient in collecting property tax whereas the revenue collection levels are far below the potential. At this stage the motives behind such practices remain unclear.

By 2003 it was estimated that there are about 340,000 properties in Dar es Salaam qualifying as rateable properties. It is likely that the number has increased considering new developments coming up. The estimated number of properties in each municipality is shown in Table 8.4. If in a very simplistic way all properties were rateable and a threshold tax amount (of shillings 10,000/=) was levied on each property the minimum annual property tax revenue collection would be Shillings 700 Million for Ilala, 1.5 Billion for Kinondoni and 1.2 Billion for Temeke. Thus if comprehensive records were in place and

appropriate rateable values were considered, it is quite apparent that Dar es Salaam has a potential of raising substantial revenue from property tax.

Table 8.4: Estimated number of properties in Dar es Salaam Rating Jurisdictions by 2003

Council	Estimated Number	Properties on Valuation Roll	Properties on Flat Rate	Properties not on VR or FR
Ilala	70,000	23,500	40,328	6,172
Kinondoni	150,000	37,020	92,008	20, 972
Temeke	120,000	9,437	78,569	31,994
Total	**340,000**	**69,957**	**210,905**	**59,138**

Source: adopted from Franzsen and Semboja (2004)

A more elaborate example can be viewed in an attempt to estimate the revenue potential of property tax for Dr es Salaam (Franzsen and Semboja , 2004) based on the assumptions that there are a total of 340,000 properties such that 40,000 were exempt from property tax liability and only 300,000 were subject to taxation. If out of these 5% (15,000) were non-residential and each paying at least TShs.100, 000 as property tax, and assuming that collection was 100%, a total of TShs. 1.5 billion revenue would be realised. Whereas if the 285,000 residential properties were each to pay the TShs. 10,000/= minimum tax and assuming 100% collection the councils would realise revenue amounting to TShs.2.85 billion. This means the total revenue potential for Dar es Salaam would be TShs. 4.35 billion and is likely to be more if the variations in rateable values and tax rates were taken into consideration. A comparison of the estimated amount for example with TShs. 1.663 billion, the total property tax revenue collection for all the three municipal councils in 2002, provides an indication of noteworthy underperformance in property tax revenue collection.

Circumstances surrounding property taxation in Tanzania have made it difficult for the rating authorities to predict the potential of property tax as a source of revenue, which is widely acknowledged to be quite lucrative. Presently an overview of the actual performance remains somewhat problematic because of unrealistic budgeting and uncertainty regarding key aspects such as the number of properties in Dar es Salaam (Franzsen and Semboja , 2004). In the absence of clear number of rateable properties it becomes difficult to estimate the real potential for property tax and any estimation of revenue potential will inevitably be based on rather crude assumptions.

Available data from the municipal authorities depict unrealistic high property tax revenue collection levels. While realistic data on property tax payment is lacking there are indications that considerable revenue amounts are not collected especially when the increase in number of properties captured in the property tax database is considered. This suggests also considerable property tax amounts in arrears. In this regard municipal councils need to take measures of enforcing compliance if property tax revenue is to increase. As a response to unsatisfactory property tax collection the Municipal authorities are trying to outsource the collection responsibility.

8.2.2 Outsourcing property tax collection

In recognition of the difficulties experienced in collecting property tax municipal councils have decided to contract out the collection function. In 2004 Kinondoni and Ilala municipalities engaged agents to collect property tax revenue on their behalf, and Temeke municipal council was contemplating to commission collecting agents. Outsourcing was envisaged to cut down costs of administering property tax collection and on the other hand increase revenue collection levels. In house collection has been costly and less revenue was being collected. As an example, in 2003 Temeke municipal council spent TShs 35 Million on property tax collection and the actual revenue collected amounted to about TShs. 25 Million. Thus the councils incurred a loss of about TShs. 10 million, as the revenue obtained was less than the money spent to collect property tax. It is assumed that by engaging collecting agents the cost would decline, as agents would be paid about 20 – 25 percent of the collected revenue. Since payment is based on property tax amount collected it was anticipated that agents would collect more as they also gain in terms of the fee they receive with higher revenue collection levels.

At the time of collecting data for this study little information about the outsourcing arrangements were available from the Municipal Valuation Office. However, some information was obtained from a property tax collector who worked with IMMA Consulting firm, which was contracted to collect property tax (as a pilot project) in Kawe, Mikocheni and Oysterbay wards in Kinondoni Municipality. According to the property tax collector, a team of collectors was working together with sub-ward executives in distributing demand notices for which property taxpayers were required to pay through the bank. The property tax collector's observations from the collection exercise included the following:

- Poor response by property taxpayers as few paid their tax bills in time.

- On receiving demand notices many people (e.g. in Mbezi Beach and Makongo Juu) expressed unhappiness to pay property tax because the settlements lack roads, drainage, water and other municipal services.

- There is big disparity in property tax flat rates in some cases while there was little difference in quality of the taxable properties.

- Property tax collection agents were experiencing little cooperation from the municipal valuation office and other officials within the municipality and local leaders.

- When distributing demand notices it was noted that some of the taxpayers had already made payments to local leaders based on duplicate demand notices that had been distributed by untrustworthy local leaders. But the collected revenue never reached the Municipal Authority.

These are just some of the early experiences with outsourcing and there is little that can be said about the achievement or otherwise. Thus it is an issue that needs further research as the outsourcing practice is still at an early stage.

8.3 Property tax enforcement

The main objective of any tax system is to generate sufficient revenue from the levied tax. Since tax payments are not voluntary for the taxpayer enforcement of tax compliance becomes an integral component of property tax administration system. It is quite common for example for property taxpayers in developing countries not to honour their tax obligation. As observed by proponents in property taxation (Bird & Slack, 2002; Bahl, 1998; & Dillinger, 1992) property tax systems in many developing countries are confronted with high level of tax arrears. Hence as a safeguard to delinquency enforcement procedures are provided for in the tax law.

A property taxpayer in Tanzania is obliged to comply with property tax liability after receiving a tax demand bill. However, as it has been echoed in the preceding sections the level of property tax revenue collection in Dar es Salaam is very low, suggesting a high level of delinquency as one among the factors responsible for poor property tax collection. Instituting deterrent measures is one way of enforcing property tax compliance practised by the taxing authorities albeit at minimum level.

Instruments for enforcing property tax compliance available to the local authorities are prescribed in the Urban Authorities (Rating) Act 1983 and Local Government

Finances Act 1982. The local government authorities can enforce rates compliance through the following sections in the legislation:

i) Section 47 of the Urban Authorities (Rating) Act, 1983 empowers local government authorities to impose penalty at the rate not exceeding one per centum per month or part thereof on the amount of rates that remain unpaid.

ii) Distrain upon the personal goods and chattels of the rates defaulter as per the provisions of section 26 of the Urban Authorities (Rating) Act, 1983

iii) Institute proceedings for the sale of the premises whose rates are in arrears in order to recover the payable amount in accordance with the provisions of section 29 of the Urban Authorities (Rating) Act, 1983.

iv) Recover rate payable to the local authority from the defaulter's salary, wage and money payable to that employee through wage deductions by the employer; as per Section 30 of the Local Government Finances Act, 1982.

v) Impose a penalty of twenty five per centum per annum of the amount of tax in arrears or imprisonment for a term not exceeding twelve months, or both in accordance with the provisions of the by-laws made under section 13 and 15 (c) and (e) of the Local Government Finance Act, 1982.

Despite the fact that the law is explicit on measures that local government authorities can use in dealing with property tax delinquency the councils rarely implement such measures. A number of problems can be associated with the failure to use the enforcement mechanisms available but the most obvious one is the lack of political willingness and support to the taxing authorities. Even though there are no direct political interventions on property tax collection documented, Municipal Councils have been experiencing difficulties in attempts to apply the enforcement measures. For instance a comment from one Municipal Valuer indicated that even the court brokers, commissioned to collect the unpaid rates have been hesitant to employ the powers they are given by the court. Instead they try to use dialogue in persuading property tax defaulters to pay their dues.

It has also been reported that officials from the three Councils generally agreed that it would not be possible to implement the available enforcement mechanisms given the present political and social-economic conditions in the country (Franzsen & Semboja, 2004). The situation regarding the application of property tax enforcement devices is as shown in Table 8.5. The characteristic of Table 8.5 serves as an illustration of the fact that

Municipal Councils have been inadequately using the property tax enforcement instrument available for the recovery of taxes in arrears. As such little property tax revenue is recovered through deterrent measures. Nevertheless, the outcomes of the enforcement measures instituted could not be established from the Councils.

Table 8.5: Utilisation of Enforcement Mechanisms in Dar es Salaam 2002-2003

Enforcement Mechanisms	Mechanisms utilized in 2002-2003					
	Ilala MC		Kinondoni MC		Temeke MC	
	Yes/No	Number	Yes/No	Number	Yes/No	Number
Civil action (S 26(3) and S 44)	No data	No data	No	0	No	0
Warrant to court broker to distrain/attach goods(S 26 (2))	No data	No data	Yes	1,700	Yes	773
Actual attachment and sale of movable goods (S 26 and S43)	No data	No data	Yes	50	Yes	154
Sale of property itself (S 29)	No data	No data	No	0	No	0
Interest Charged (S 47)	No data	No data	Yes	No data	Yes	154
Action against person entitled to receive rent (S 45)	No data	No data	No	0	No	0
Action against occupier or tenant (S 46)	No data	No data	No	0	No	0
Penalty (S 20 (1) of Local Government Finances Act)	No data	No data	No	0	Yes	154
Deduction from wages paid by employer (S30 of the Local Government Finances Act)	No data	No data	No	0	No	0
Other mechanisms	No data	No data	Reprimand	No data	No	0

Note: References to sections of the Urban Authorities (Rating) Act, 1983 unless otherwise indicated

Source: Adopted and modified from Franzsen & Semboja, (2004)

Another reason hindering the councils to exercise the legal measures against property tax defaulters is the inability of the courts to cope with the big number of enforcement cases. Magistrates have a lot of other pending cases, which they cannot handle and so property tax cases have to wait for a long time. As an example, by July 2003 no action had been taken against defaulters with Temeke municipal council who were taken to court in 2002. There is also lack of transparency on the part of the Magistrates in handling such cases. One Municipal Valuer complained of cases where property taxpayers in arrears colluded

with Magistrates. For instance a defaulter would be allowed to pay tax amount in arrears in smaller amounts for several years for reasons of inability to pay. Under such circumstances the payment period becomes very long and the council loses in a way.

On failing to utilize the legal enforcement machinery during the same period of 2002-2003, Municipal Councils tried also other measures to recover the unpaid rates. The recovery measures involved the following:

i) Announcements in the local media urging residents of Dar es Salaam Municipalities to pay their tax bills as delivery of services and development programmes depended on their fulfilling their civic obligations to pay taxes. The announcements included promises such as improved roads and clean municipalities surroundings and availability of soft loans for business activities from the respective Municipal Council. The city residents were also being urged to pay taxes to avoid penalties.

ii) Involvement of WEOs and Sub-ward leaders in mobilizing ratepayers especially in informal settlements to honour their tax bills. Municipal officers responsible for rates collection moved from house to house, reminding ratepayers in arrears to pay their bills.

iii) Publicizing names of property tax defaulters in local newspapers as a warning prior to taking legal actions against them. Kinondoni and Temeke Municipal Councils had names of rates defaulters listed in local newspapers in October and November 2003[35] respectively. The notice given by the Kinondoni Municipal Council in October 2003 meant to inform the public that the deadline for paying property tax was 30th June 2003. And the council was then implementing the decision to sell all properties for which property tax had not been paid and that court brokers had been appointed to auction the properties. Thus the list of properties to be sold with owner's names and amount of tax in default was made public. Likewise Temeke Municipal Council advertised a list of property tax defaulters in November, demanding compliance before 10th December 2003 failure to which was to force the Council to take legal action.

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[35] Local newspapers: Nipashe of 1st October and Daily News of 28th November 2003

The Kinondoni Municipal Council went on to implement the decision to sell properties as per the provisions under the Urban Authorities (Rating) Act, 1983 and the DSM City Commission (Property Rate) by-laws of 1997. According to the municipal valuer the exercise registered a considerable success in terms of motivating owners of the listed properties to pay their tax arrears, as most of them paid the moment the advertisement of intent to sell the property was affixed on the premises by the court broker. It is estimated that about 15% of the defaulters under the exercise did not pay because some of them were out of Dar es Salaam or out of the country. Given the situation it is worth noting that the success being referred to was temporary and it is not clear whether or not property tax compliance in Dar es Salaam has improved as a result of the attempted measures and therefore will be sustainable.

However the number of property tax defaulters was very small as the council picked five properties in each ward, making a total of 130 properties from 26 wards of the whole Kinondoni Municipality. According to the municipal valuer the strategy was meant to demonstrate to other tax defaulters the punitive actions that the council could institute against them and subsequently it worked as an incentive to pay their property tax bills. As for Temeke Municipal Council a large percentage of the listed defaulters were the privatised public corporations placed under the Parastatal Sector Reform Commission (PSRC). Instead of taking legal action as earlier envisaged the council decided to write to the former respective parent ministries so that the owed property tax arrears could be paid. In view of the fact that the delinquent parastatals are government institutions it remains uncertain if the tax arrears would ever be recovered.

Even though the enforcement mechanisms are clearly stipulated in the law the problem lies with the difficulties in enforcing them. For instance the process of selling properties is complex, too costly and time consuming, and in the end councils don't gain much. For example during the recent enforcement exercise in Kinondoni Municipal Council the appointed Court Broker had at the beginning auctioned 3 properties but owners took the Council to court. The Council lost the case on grounds that evidence of receipt of demand notice by the aggrieved property owners was lacking. In response to this property owners are now made to sign in a dispatch book upon receiving the demand notice while the municipal council retains a portion of the demand notice for reference and as evidence that the property owner received the demand notice.

As earlier observed, property tax revenue performance with the Municipal Councils in Dar es Salaam is generally weak. Unlike other taxes, property tax involves

several administrative processes, which collectively impact upon the ultimate objective of generating sufficient revenue. Thus, weak revenue performance with respect to property tax is a result of several causes. The major factors that are seen to influence property tax collection in Dar es Salaam are discussed in the following section.

8.4 Major impediments to raising property tax revenue

The primary function of property tax as a local source of revenue is to generate sufficient revenue for local government expenditure. The local government authorities partly depend on this revenue for the provision of public services. However, like many local authorities in the developing world the Municipal Councils in Dar es Salaam are failing to adequately exploit the property tax source of revenue. It is evident that property tax collection levels have remained very low over the years the Municipal Councils have been operational. It is unlikely that property tax revenue as a share locally raised revenue would increase to satisfactory levels unless deliberate measures were taken to change the situation. Currently property tax on average contributes less than 20% of the locally generated revenue for the municipal councils in Dar es Salaam.

While records on property tax revenue collection depict a gradual annual increase as compared to the previous years, collection levels with respect to the actual potential should be an issue of concern if the municipal councils in Dar es Salaam are to improve on their financial strength. It is of more concern when the increasing number of taxable properties captured in the property tax database does not bring a corresponding increase in collected revenue. The major factors undermining property tax revenue collection are highlighted in this section.

8.4.1 Weak administrative capacity.

This is an aspect that results from the inadequacy in a number of aspects. With respect to property taxation the absence of adequate and quality data about the tax base and taxpayers (property owners) has resulted in problems associated with valuation, revenue forecasting, inaccurate budgeting, and inadequate billing and revenue collection. Thus with limited information about property tax objects and tax subjects it becomes difficult for the councils to collect sufficient property tax revenue.

On the other hand the inadequate data in terms of quantity and quality emanates from lack of capacity in generating such data. Municipal councils are lacking sufficient number of employees with the requisite skills, proper and adequate facilities and

equipment as well as transport facilities. Moreover the council employees are not well remunerated for them to work effectively in data collection, valuation, billing, revenue collection as well as enforcement. While there is high dependence on local leaders for identification of tax base and taxpayers, data collection, distribution of tax bills as well as revenue collection, there is no prescribed remuneration for them. The sub-ward leaders are not salaried employees and in most cases they are remunerated on daily allowances whenever there is an assignment to follow up. As such there are less incentives for local leaders to provide adequate data, which are central in the valuation and collection of property tax.

There are also problems related with the property tax revenue collection system used by the Municipal Councils. Some revenue finds its way outside the Municipal Council's basket through dishonest revenue collectors who have duplicate receipts that they use to divert some of the money paid by the taxpayers. According to the World Bank report (Franzsen & Semboja, 2004), revenue leakage as a result of fraud and corruption is a problem that has been reported to be happening with the rating authorities.

As indicated in the foregoing sections, weak property tax enforcement is another serious problem impacting negatively upon property tax revenue collection. The councils have little capacity to employ the enforcement instruments provided for in the legislation. As a result substantial property tax amounts remain unpaid and consequently affecting the council's revenues.

8.4.2 Exemption from property tax liability

The estimated number of potential rateable properties in Dar es Salaam appears to be quite large to generate considerable amount of revenue. While the precise number of properties in Dar es Salaam is yet to be established, the problem is also to measure the accurate size of the tax base. Apart from the estimated number of properties that are yet to be captured in the property tax database, the councils have not considered the need to establish the number of tax exempt properties as well as the magnitude of the impact of lost revenue on total locally generated council revenue. Exempt properties are not valued and therefore councils cannot determine their rateable value and the subsequent tax amount that is excluded from the property tax revenue.

Apart from the exemptions stipulated in the Urban Authorities Rating Act, 1983 another exemption order[36] was introduced in accordance with the Urban Authorities (Finance) Act, 1982 by the Prime Minister in 1997 and became effective as from January 1998. As a result of this order the scope of exempted properties has widened. Some business property have been granted exemption on grounds that they are used for public purpose although in reality they are profit making. For instance evidence from Ilala municipal councils show that the Aga Khan Hospital (under ownership of the Aga Khan Foundation) in Dar es Salaam is exempted from property tax by the President's order. Although the institution provides medical services to the public it is only a few who can afford to pay the high medical fees and the majority are excluded. Friendship Textile Mill in Kinondoni Municipality is another example of institutional property exempted from property tax liability. These are just two examples of many high values institutional properties exempted from the property tax base. There is little doubt that Municipal Authorities are losing a lot of property tax revenue through exemptions.

Practically there is confusion with this exemption machinery because there are situations where some property qualifies for exemption while others don't although they may both be for public use. A good example is the private primary and secondary schools category, which are subject to property taxation not withstanding that they are for public use. It is not the intention of this discussion to analyse what property qualifies for exemption but to point out the cloud around exemptions and the fact that the inconsistencies embedded in powers to grant exemptions are potentially eroding the tax base. With the uncertainties surrounding exemption powers and type of properties exempted from liability to property tax Municipal Valuers experience difficulties in following up property tax payments.

Properties under government ownership are in essence not exempted from liability of rates but the rating law requires the responsible government departments and institutions to contribute finances for service charge to local authorities in lieu of rates. However the government departments have not been adhering to this legal provision. Hence the big numbers of government institutions deny local authorities considerable revenue. Furthermore, the proportion of the tax base under government ownership has not been established as the properties are neither valued nor listed in the council's property tax base leaving the councils in the dark about the amount of property tax revenue lost. Even

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[36] The order is referred to as The Urban Authorities (Rating) Exemption from Liability of Rates Order 1997

though the number of exempted properties, which are also not included in the established property tax database, is not known there are enough indications to believe that exemptions considerably erode the tax base. Also the amount of revenue that councils are losing must be significant since most if not all exempted government properties are of high value.

8.4.3 Taxpayer unwillingness to pay

Non-compliance by the taxpayers is another serious problem impacting negatively upon property tax revenue collection. Voluntary compliance is low and this is manifested by the need for the property tax administrators to make close follow up for the taxpayers to comply. Again due to the data inadequacy councils are not in position to come up with accurate numbers of delinquent taxpayers as well as the unpaid tax amounts.

Although property tax is reported to have improved when the city commission was in power 1996 - 1999 (Franzsen & Semboja, 2004) the situation has been different under the Municipal Councils. This is because there were improvements on services and infrastructure, which had, been rehabilitated under the USRP especially in the inner city. But the current service levels are straining the voluntary compliance because many taxpayers are not happy with infrastructure and services situation in Dar es Salaam. This is supported by the study findings in that the majority of the respondent property owners in this study expressed their resistance to paying property tax because municipal authorities were not providing public services and urban infrastructure were lacking in their settlements. Also they suspected that local tax revenue was diverted to other activities that were not of benefit to the taxpayer. Similar findings of taxpayers' unwillingness to pay local taxes have been reported in a study by Fjeldstad (2004). Taxpayers' resistance to pay local taxes is seriously affecting revenue collection. In Fjeldstad's study respondent citizens claimed that they received little in return for the taxes they pay. Apart from poor service delivery they felt public funds were misused, and they were also not happy with dishonest revenue collectors.

The discussion in this Chapter focused on the practice of property tax collection in Dar es Salaam. Among the aspects discussed are related to obstacles that are responsible for weak revenue performance by the Municipal Councils. The issue of taxpayer's resistance to pay property tax is further explored in chapter nine.

Chapter Nine

THE PROPERTY TAXPAYER'S PERCEPTIONS

This Chapter presents results of a survey conducted on property owners who constitute property taxpayers by virtue of their owning property. The rating law in Tanzania puts a liability to property tax on any person owning real property. The purpose of the survey was to obtain property taxpayer's views concerning property taxation. The survey was indented to obtain information from property taxpayers with a view to establishing acceptability of the property tax among the taxpaying public. Data was therefore collected through a questionnaire administered to people owning real property in the selected case study areas within Kinondoni Municipality in Dar es Salaam.

9.1 Case Study Areas.

The survey was conducted in six settlements namely Magomeni, Sinza, Mbezi Beach, Manzese, Kimara and Makongo Juu, all found in Kinondoni Municipality. Kinondoni is one of the three municipalities of Dar es Salaam city as shown on Map 9.1. The case study areas selection was based on the categorisation of planned and unplanned areas in Dar es Salaam as shown in chapter six. On the other hand the grouping of settlements according to income levels was based on the general view that is used to identify low, middle and high-income areas in relation to economic status of the people inhabiting the area and the standard of properties developed in such areas.

The selected settlements were meant to be representative of other planned and unplanned settlements in Dar es Salaam. Subsequently the aim was to obtain views from property owners in different settlements of both planned and unplanned areas in Dar es Salaam and establish if the variation in settlement characteristics can have influence on their perceptions about property tax. Each of the selected case study area has relatively different attributes even though the disparity is fairly minor. A brief description of each settlement follows in this section.
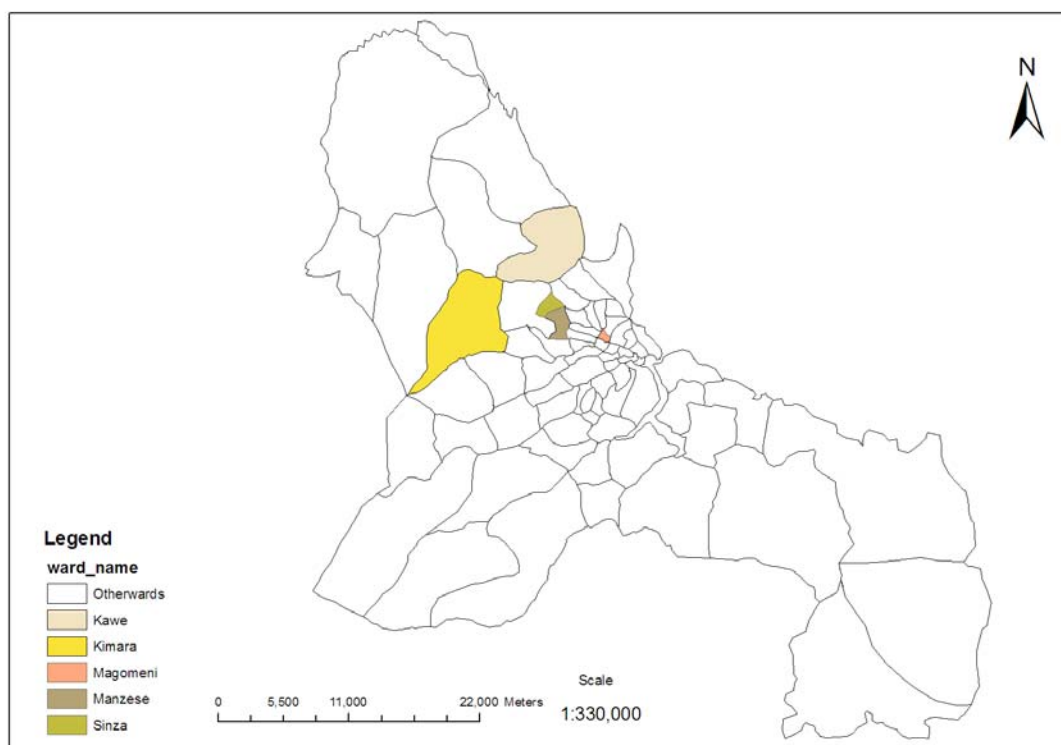
Map 9.1: Location of case study areas in Dar es Salaam

1. **Magomeni : Old Planned Area**

   Magomeni is an old planned area that developed during the colonial era. A considerable population of people residing in Magomeni are of low to middle income class. The majority of the houses in the area were built under a slum clearance programme undertaken by the government after independence. The best that can be seen in Magomeni in terms of infrastructure services are worn out roads and traces of blocked drainage systems that do not function. Also most of the houses look old except for a few that have undergone renovation or replaced with new buildings.

2. **Sinza: New Planned Area**

   Sinza is a new planned area that developed under the sites and service programme undertaken in the 1970s. Initially, under the sites and service programme the settlement was designated as a low-income area but during the implementation of the programme the majority of the plots were taken up by the relatively middle and high-income class of people. Presently relatively low and middle-income earners largely occupy the settlement. The properties developed in the area are of middle

standard (see example Figure 9.2) and the area is serviced albeit the service infrastructure is of poor standard. The roads are very narrow and unpaved, without drainage system and therefore subjecting the settlement to flooding during rain season.

Figure 9.1: An example of a street in Sinza settlement

3. **Mbezi Beach: New Planned Area**

Mbezi Beach is a new planned residential area that has been developing since the 1980s. The settlement comprises a mix of large and small sized plots, largely developed with high quality, spectacular properties (Figure 9.2). However the area has been developed with high standard properties amid lack of infrastructure services but individual efforts have made possible availability of utilities in the settlement. Types of houses developed in Mbezi Beach depict more features of high-income category of people (Lupala, 2002). In essence the settlement is characterised by high value properties in the absence of roads, drainage system and other services that somewhat impact upon property values in the locality.

Figure 9.2: A posh property in Mbezi Beach Settlement

4. **Manzese: Old Unplanned Area**

Manzese is one of the old and densely populated informal settlements in Dar es Salaam. The majority of the inhabitants are low-income earners with a relatively small population of middle income and traders carrying out trading activities to support the local community. Upgrading of the area was undertaken in the 1970s through provision of roads, piped water and surface drainage systems. It is interesting to note that at present major part if not the whole technical infrastructure and services are missing in the area. Manzese is currently one of the areas that have been earmarked for the proposed Community Infrastructure Upgrading Project. The majority of houses in the settlement are of poor quality with isolated good houses (Figure 9.3)

Figure 9.3: An example of houses in Manzese

5. **Kimara: New Unplanned Area**

This is a relatively new informal settlement that has been developing in recent years. The settlement is unplanned with some parts covered with concentrated developments. However there are people holding big parcels of land with substantial property developments. Kimara is developed with majority of middle class and relatively few high quality properties. Most of the inhabitants are middle-income earners with a relatively small population of business people and highly placed government officials. Essentially there has been no public service provision by the government except for individual efforts that have enabled to bring utilities to their property.

6. **Makongo Juu: New Unplanned Area**

The settlement is an unplanned area largely occupied by relatively middle and high-income class of people. By virtue of being close to the University of Dar es Salaam, a substantial population of academicians have developed properties in the area. Furthermore a good number of highly positioned government officials

including ministers are found in the settlement. The settlement is developed with high and middle standard properties (Figure 9.4) although basic infrastructure services are lacking. Proper roads and drainage are missing serve for the main road tracking through the settlement which is gravel surfaced but also in poor condition. However this has been constructed through collective efforts of people living in Makongo Juu settlement.

Figure 9.4: A high quality property in Makongo Juu area

Under normal circumstances it is assumed that a planned settlement is characterised by orderly development guided by planning regulations and availability of urban infrastructure such as public roads, drainage, piped water, electricity, street lighting, parks and so forth. Conversely the unplanned settlement is short of the attributes of the planned area. Since the levying of property tax is highly associated with public services delivery by local government, which is also a taxing authority, it is anticipated that response to property taxation will be influenced by availability of infrastructure and services. It is thus assumed that people in planned areas would be happy to pay property tax than those in unplanned areas owing to the benefits resulting from the taxes they pay.

The settlement categories in terms of planning and income level of residents' status are summarised in Table 9.1a and 9.1b respectively.

Table 9.1a: Settlement categories in terms of planning.

Settlement	Old Planned	New Planned	Old Unplanned	New Unplanned
Magomeni	√			
Sinza		√		
Mbezi Beach		√		
Manzese			√	
Kimara				√
Makongo Juu				√

Source: Field Survey 2003/4

Table 9.1b: Settlement categories by income level

Settlement	Low Income	Middle Income	High Income
Magomeni	√		
Sinza		√	
Mbezi Beach			√
Manzese	√		
Kimara		√	
Makongo Juu			√

Source: Field Survey 2003/4

9.2 The Questionnaire

A questionnaire was administered to a sample of property owners in the settlements. The questionnaire was composed of questions that were structured with intent to obtain taxpayer's views about property tax as a local tax levied by the Municipal Council. The questionnaire was administered to a population sample of 387 property owners in six settlements of the Kinondoni Municipality. Considering the nature of information required and the fact that people are often very slow in responding to self-administered questionnaires it was necessary to take the respondents through the questionnaire. Nonetheless a few individuals opted to fill the questionnaires at their own convenient time and these were collected at a later date. The numbers of respondents in each settlement as well as each settlement category are indicated in Table 9.2a, 9.2b and 9.2c respectively. The questionnaire contained both closed and open-ended questions. The answers to the questions were obtained through asking the respondent and recording the answers given.

Table 9.2a: Respondents of the questionnaire in each settlement

Study Area	Number of Respondents
Magomeni	59
Sinza	60
Mbezi Beach	63
Manzese	64
Kimara	73
Makongo Juu	68
Total	387

Source: Field Survey 2003/4

Table 9.2b: Respondents of the questionnaire in selected planned and unplanned areas

Settlement Category	Number of Respondents
Old Planned	59
New Planned	123
Old Unplanned	64
New Unplanned	141
Total	**387**

Source: Field Survey 2003/4

Table 9.2c: Respondents of the questionnaire according to settlement income level

Settlement Category	Number of Respondents
Low Income Area	123
Middle Income Area	133
High Income Area	131
Total	**387**

Source: Field Survey 2003/4

9.3 Selection of respondents

Selection of participants to the survey was to a great extent conducted through the sub-ward offices. Names of respondents were drawn from property registers kept at sub-ward offices. For the case of Mbezi Beach and Sinza settlements interviewees were identified with the help of ten cell unit representatives by moving around the sub-wards and identifying property owners who were found at home during the time of administering questionnaires. This was necessary because information for rateable properties in planned areas and which are registered in the valuation roll was not available at the sub-ward offices but is kept at the municipal council valuation office. Besides, a good number of houses in Sinza are tenant occupied whereas in Mbezi Beach settlement a considerable number of houses are under the guard of watchmen, as the owners have not moved in yet. Since the target was to interview property owners, then identification of respondents while moving within the settlement was the option that enabled the researchers to obtain the desired respondents in Sinza and Mbezi Beach settlements.

The sub-ward leaders played a very important role in guiding the data collectors to the earmarked properties throughout the survey period. Since a property formed the basis of taxation, then it was necessary to identify the owner using the property, hence holding interviews at the respective rateable houses. This enabled also data collectors to observe the physical characteristics of properties with their surroundings. In settlements where properties are not registered on the valuation roll identification of properties and names of earmarked respondents was done at the sub-ward office and from there, the local leader together with the researchers moved to the houses where interviews were held. Upon

reaching the earmarked property the sub-ward leader accompanying researchers explained to the owner the purpose of the visit while the researcher explained the purpose of the study, the mode of interviewing as well as what was expected of the respondent.

9.4 Situation of local infrastructure and services

The situation of infrastructure and services was established through asking property owners and direct observation while conducting interviews within the settlements. The respondents were asked to state if their houses were connected to water and electricity utilities, the type of sanitation available, and methods of solid waste disposal and whether the houses were accessible by motor vehicles. Although other amenities such as parks, proximity to schools and health centres are important attributes for the quality of a neighbourhood, the selected services have more influence on the quality of the living environment and property values in the context of urban areas in Tanzania. The situation of access to the services by residents in the study settlements is as indicated in Tables 9.3a, 9.3b, 9.4a and 9.4b.

Table 9.3a: Availability of Water, Electricity and Vehicular access according to settlement type

Settlement Category	N	Piped Water		Electricity		Vehicular Access	
		Yes	No	Yes	No	Yes	No
Old Planned	59	52%	48%	93%	7%	95%	5%
New Planned	123	84%	16%	94%	6%	98%	2%
Old Unplanned	64	20%	80%	56%	44%	55%	45%
New Unplanned	141	61%	39%	74%	26%	77%	33%

Source: Field Survey 2003/4

Table 9.3b: Availability of Water, Electricity and Vehicular access according to settlement income level

Settlement Category	N	Piped Water		Electricity		Vehicular Access	
		Yes	No	Yes	No	Yes	No
Low Income	123	36%	64%	74%	26%	76%	24%
Middle Income	133	64%	36%	78%	22%	88%	12%
High income	131	79%	21%	89%	11%	85%	15%

Source: Field Survey 2003/4

Table 9.4a: Sanitation type, and Solid waste disposal method according to settlement type

Settlement Category	N	Type of Sanitation			Solid Waste Disposal	
		Flush - cp	Flush - cs	Pit latrine	Onsite	Municipal
Old Planned	59	17%	0%	83%	3%	97%
New Planned	123	68%	8%	24%	49%	51%
Old Unplanned	64	8%	0%	92%	8%	92%
New Unplanned	141	50%	0%	50%	93%	7%

Source: Field Survey 2003/4
Key:
Cp: cesspit
Cs: central sewer

Table 9.4b: Sanitation type, and Solid waste disposal method according to settlement income level

Settlement Category	N	Type of Sanitation			Solid Waste Disposal	
		Flush - cp	Flush - cs	Pit latrine	Onsite	Municipal
Low Income	123	12%	0%	88%	6%	94%
Middle Income	133	38%	8%	54%	53%	47%
High income	131	79%	0%	21%	89%	11%

Source: Field Survey 2003/4

The survey results show that most properties are connected to electricity and water supply systems except in old planned and old unplanned areas where the population supplied with piped water is comparatively small. For instance 48% of houses in Magomeni and 80% in Manzese are not connected to pipe water supply systems. However, it is worth noting that even though connected to water supply systems some houses do not get water most of the time. On sanitation, again the old planned and unplanned areas have high percentage of population depending on pit latrines, with 83% in Magomeni and 92% in Manzese. The new unplanned areas have 50% flush systems and 50% pit latrine, while in the new planned areas 68% of the houses have flush toilets (with cesspits) and only 8% are connected to the central sewer system.

With the solid waste disposal the majority in old planned and unplanned areas have access to the service provided by the municipal council through contractors at 97% and 92% respectively. Probably this is because the service is provided at a small monthly payment of TSh. 500/= for each house. The amount is affordable as more than one household occupies the majority of houses in these areas, and each household contributes to the payable service charge. The situation is different in both new planned and new unplanned areas where 49% and 93% respectively use onsite solid waste disposal methods in form of burying or burning the waste. In new planned areas the contractor's service is not very

reliable and is therefore compelling people to opt for alternative methods of solid waste disposal. It is also probably because solid waste disposal under Municipal Council arrangements have not been extended to new unplanned areas. Moreover properties in new unplanned areas are built on spacious land parcels that can support onsite waste disposal.

Although a high percentage of the properties are accessible by vehicular traffic, the roads are bad, as they are not paved and passable with difficulties especially during the rain season. Among the settlements included in the survey it is only in Magomeni, the old planned area where there are remnants of paved roads, which are mostly run down. Moreover there are no drains to support the unpaved roads.

An important observation about services in the settlements is a pattern that demonstrates better access to services in new planned and new unplanned areas. These are areas occupied by people with better income levels and therefore have been able to access the service supply systems through their individual endeavour. The services are water and electricity supplied by utility companies for which consumers pay user charges based on quantities consumed. But cost of infrastructure to access the supply sources are quite high for the poor and this is the reason that areas occupied by low income people have relatively less access to utility services especially water. Generally the situation of collective public infrastructure such as roads and drainage is bad in all settlements regardless of the income level status of the inhabitants. Good roads and surface drainage for example are missing elements in many settlements in Dar es Salaam city.

9.5 The situation of property taxation

9.5.1 Justification for levying property tax

As earlier pointed out the intent of the survey was an attempt to ascertain from property owners whether they understood the essence of property tax as well as what entailed having the tax levied on a property. Hence some of the questions in the questionnaire were framed with the view of obtaining answers that reflected their understanding.

The survey showed that a large number of the property owners interviewed had the understanding that property tax is a tax levied by municipal authority and that each individual owning a property within the jurisdiction had the obligation to pay property tax to the Municipal Council. Thus by owning a property an individual qualifies as a property taxpayer. Property owners also demonstrated their understanding that local government

authorities as collectors of property tax revenue had the obligation to pay back to the people in form of service delivery. This conviction was reflected in their responses that largely appeared to link property tax and municipal services. The property owners understand that municipal councils have the obligation to supply public services to the urban community after collecting taxes.

While some of the taxpayers are knowledgeable enough to link property tax with service delivery by the Municipal Council, the majority have come to know through the information provided by the councils when persuading property owners to pay the tax so as to enable the Municipal Council provide services. As a result people have been made to believe that there is an implicitly contractual relationship that requires people to pay taxes so that municipal authorities can provide services. Hence the Municipal Council as the recipient of property tax payments should deliver services to the community. When asked whether it was justified for the Municipal Council to levy property tax two groups emerged from the responses given. A group comprising 42% of the respondents answered yes and acknowledged that it was indispensable for the Municipal Council to levy property tax because the revenue is required for the provision of public services and other development activities. On the other hand 38% of the respondents felt that the levying of property tax was not justified with a contention that, the council was not providing the required services to the people. On similar account 20% of the respondents indicated to have no idea of the importance of property tax.

Although the indifferent respondents indicated that it was not justified to levy property tax, in principle it is agreeable to them that the tax is essential for the Municipal Council to generate revenue required for the provision of public services. The negative response was an indication that the levying of property tax was justifiable only when the municipal council met the condition of providing public services in return. For the discontented respondents it is perceptible that payment of property tax should be reciprocated with services from the municipal council. Conversely, a few property owners in informal settlements viewed property tax as security of tenure for their land holdings. A receipt issued by the tax authority upon payment of property tax would represent evidence of government recognition of their rights over the property they own. For instance, when asked about proof of property ownership, 11% of the respondents showed property tax receipt as a document that authenticated their ownership of real property

9.5.2 Property tax assessment

It was also in the interest of the survey to find out from the property owners if there was awareness regarding procedures undertaken before property demand notices were sent to them. Respondents were asked to provide information on whether their properties were valued before they were served with property tax demand notice. Observation from the responses indicated that there was limited awareness regarding property valuation as a determinant of the property tax liability. Among the respondents 32% had their properties valued and 68% had not been valued. Moreover among the respondents whose properties were valued, when asked if they were satisfied with the assessed values, 70% expressed dissatisfaction, as the rateable values were higher than the values they would attach to their property. It is interesting to note that the respondents felt the rateable values were higher because they were going to pay relatively big sums as property tax. There is little doubt that the situation would be different if the same property values were meant for gain on their part, for example compensation, since the same values would be deemed smaller.

Concerning the taxpayers' legal right to contest the rateable value of a property as assessed by a qualified valuer, only 23% of the respondents indicated knowing the existence of such legal provision that allows one to appeal against the rateable value of the property. Likewise among the property owners who had their properties valued for property tax only 4% said that they appealed against the rateable values. It is worth noting that while more than half of the respondents whose properties were valued seemed not contented with the values ascribed to their properties, most of them did not dispute the values with the rating authority. On the overall it is suggestive that there is not much awareness of the procedures that are involved in property taxation among many property owners.

9.6 Compliance with property tax liability

Low compliance levels as manifested by high property tax sums in arrears are a noticeable feature with the Municipal Councils in Dar es Salaam. In view of the fact that the unpaid tax amounts are resultant of taxpayers' failure to discharge their property tax liability, the intent of the survey was also to understand their position as regards their compliance with the tax. Accordingly, some questions were formulated so as to educe answers that could provide an indication of the taxpayers thinking about property tax compliance, and more importantly the difficulties they were experiencing in paying the tax. The framing of the questions also took into account the situation that respondents would not be at ease to

answer the question if it directly asked them to state why they did not pay property tax. Some of the factors influencing property tax compliance as pointed out by the respondents are presented in this section.

9.6.1 Status of property tax payment

As an attempt to establish whether the respondents have been paying property tax, the question was structured for each property owner participating in the survey to indicate the years in which one received a property tax demand notice and paid the bill. The information was to cover the period starting 1998 to 2003. The reason being that prior to the establishment of the municipal councils in Dar es Salaam the City Commission levied property tax. Nevertheless the City Commission focused on valued properties registered on the roll and high value properties (even though not valued) especially those located in planned areas. From 2000[37] the municipal councils extended the levying of property tax to properties in informal settlements. For instance as an attempt to recover the previous unpaid tax amounts, Kinondoni Municipal Council in 2000 served property tax demand notices that included the preceding tax bills for 1998 and 1999 years. A property owner was required therefore to provide evidence for the previous payments made to the taxing authority. Table 9.5 shows the number and the percentage of property owners served with property tax demand notices while Table 9.6 indicates the level of compliance over the period between 1998 and 2003 for the study areas.

Table 9.5: Property owners served with property tax demand notice: 1998 – 2003

Response	1998		1999		2000		2001		2002		2003	
Billed	177	**46%**	183	**47%**	213	**55%**	314	**81%**	354	**91%**	320	**83%**
Not billed	210	**54%**	204	**53%**	174	**45%**	73	**19%**	33	**9%**	67	**27%**
N	**387**	**100%**	**387**	**100%**	**387**	**100%**	**387**	**100%**	**387**	**100%**	**387**	**100%**

Source: Field survey 2003/4

Table 9.6: Compliance with property tax liability by billed property owners 1998 - 2003

Response	1998		1999		2000		2001		2002		2003	
Paid	159	**90%**	161	**81%**	181	**85%**	250	**80%**	258	**73%**	105	**32%**
Did not pay	18	**10%**	22	**19%**	32	**15%**	54	**20%**	96	**27%**	215	**78%**
Total billed	**177**	**100%**	**183**	**100%**	**213**	**100%**	**314**	**100%**	**354**	**100%**	**320**	**100%**

Source: Field survey 2003/4

From Table 9.5 it can be observed that in 1998 and 1999 more than 50% of the respondent property owners had not been served with property tax demand notices. Nonetheless the

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[37] Before 2000 when Local Government Laws of Tanzania were revised, properties in unplanned areas were excluded from property taxation. Nonetheless individual properties for which certificate of title had been secured were subject to paying property tax.

number of billed property owners increased from 55% to 83% in 2003. Similarly a gradual increase in property taxpayers complying with their tax liability over the period is noticeable in Table 9.6. Although the proportion of taxpayers who complied among the billed property owners appears to be reasonably high, it is important to note that a considerable size of the potential property taxpayers escaped the tax liability, since they were not served with property tax demand notice. This is especially evident when the number of property taxpayers who did not pay property tax is considered as a proportion of the aggregate of the billed and non-billed property owners (see Table 9.7). Thus compliance level measured in terms of all respondents as potential taxpayers was less that 50% in the three years (1998 – 2000) but rose to 65% in 2001 and 2002 and dropped again to 27% in 2003. The empirical investigation has shown that a sizeable population of potential property taxpayers do not pay property tax partly because they are not billed while some of the billed taxpayers decide not to comply. The status of property tax compliance in settlements according to planning and income level categories is as presented in Tables 9.8a and 9.8b.

Table 9.7: Compliant taxpayers as a proportion of all respondent property owners.

Response	1998		1999		2000		2001		2002		2003	
Paid	159	**41%**	161	**42%**	181	**47%**	250	**65%**	258	**67%**	105	**27%**
Did not pay	228	**59%**	226	**58%**	206	**53%**	137	**35%**	129	**33%**	282	**73%**
N	387	100%	387	100%	387	100%	387	100%	387	100%	387	100%

Source: Field survey 2003/4

Another noticeable feature of property tax compliance in the study areas is that there are some systematic variations in compliance level for the billed property owners between planned and unplanned areas as observable in Table 9.8a, with significantly lower shares in old planned areas.

Table 9.8a: Status of property tax compliance for each settlement category: 1998 – 2003

Settlement	1998		1999		2000		2001		2002		2003	
Old Planned												
Paid	57	**97%**	56	**95%**	54	**93%**	55	**93%**	50	**86%**	19	**33%**
Not Paid	2	**3%**	3	**5%**	4	**7%**	4	**7%**	8	**14%**	39	**67%**
New Planned												
Paid	83	**91%**	85	**90%**	89	**90%**	99	**88%**	96	**83%**	43	**38%**
Not Paid	8	**9%**	9	**10%**	10	**10%**	13	**12%**	19	**17%**	70	**62%**
Old Unplanned												
Paid	7	**78%**	6	**60%**	13	**68%**	23	**64%**	28	**50%**	5	**13%**
Not Paid	2	**22%**	4	**40%**	6	**32%**	13	**36%**	28	**50%**	33	**87%**
New Unplanned												
Paid	12	**67%**	14	**70%**	25	**68%**	83	**78%**	84	**67%**	38	**34%**
Not Paid	6	**33%**	6	**30%**	12	**32%**	24	**22%**	41	**33%**	73	**66%**

Source: Field Survey 2003/4

From Table 9.8a it is observable that payment of property tax bills in 2003 was lower for both old planned and unplanned settlements and the change in number of people who paid their tax bills from 2000 – 2002 for old unplanned settlements was not significant[38]

Table 9.8b: Status of property tax compliance according to settlement income level:1998 – 2003

Settlement	1998		1999		2000		2001		2002		2003	
Low Income												
Paid	64	**94%**	62	**90%**	67	**87%**	78	**82%**	78	**68%**	24	**26%**
Not Paid	4	**6%**	7	**10%**	10	**13%**	17	**18%**	36	**32%**	69	**74%**
Middle Income												
Paid	42	**91%**	44	**92%**	51	**89%**	82	**85%**	83	**70%**	29	**28%**
Not Paid	4	**9%**	4	**8%**	6	**11%**	14	**15%**	35	**30%**	75	**72**
High Income												
Paid	53	**84%**	55	**83%**	63	**80%**	100	**81%**	97	**80%**	52	**43%**
Not Paid	10	**16%**	11	**17%**	16	**20%**	23	**19%**	25	**20%**	68	**57%**

Source: Field Survey 2003/4

Likewise there is significantly lower compliance in low-income areas compared to high-income areas (see Table 9.8b). Figures in Table 9.8b reflect differences in property tax payments for low income and high-income areas in 2003, also significant difference in payments from 2000 – 2002 for low-income areas[39]

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[38] t test for difference in year 2003- old planned significantly lower at level 0.005 (t value 2,2); no significant changes between 2000 - 2002

[39] t test: significant difference at 5% level between payment in high and low income areas in 2003. t test: significant difference at 5% level between payment in 2000 and payment in 2002 in low income areas.

In view of the state of property tax compliance in the study areas it is reasonable to conclude that the settlement categories in terms of planning and income level status have limited influence on the property owners' willingness to pay their property tax liability. Thus, there is not much variation demonstrated among the settlement categories.

Another notable aspect from the data presented in table 9.6 is the increase of property owners who did not pay their tax bills. There was an increase of non-compliance for property owners served with demand notice from 15% in 2000 to 20%, 27% and 78% in 2001, 2002 and 2003 respectively. This is an indication that voluntary compliance in time is lacking and is more evident in 2003 financial year. The respondent property owners were interviewed in 2003 to early 2004, the time when property tax bills for the financial year[40] 2002/3 ought to have been settled. But 78% of the billed property owners had not paid their tax bill. Probable explanation could be that less follow up was made on property taxpayers to pay their tax bills.

The survey results suggest considerable property tax sums are hardly paid promptly. Thus substantial property tax payments are received by the Municipal Councils after the effective tax year. It is important to note that late payment of property tax bills affects the revenue of the financial year in which the tax is levied. On the other hand property tax arrears recovered in subsequent years distort the actual revenue collection levels of the year in which they are received. For instance a Municipality is likely to record high property tax collection levels whereas in reality the amounts include also payments that were due in previous years. In addition the need to follow up compliance increases property tax collection costs.

9.6.2 Ability to pay

Among the reasons that appeared to affect the taxpayers compliance is inability to pay and this is more pronounced in low-income areas. The billed property owners especially in low-income settlements are not keen to paying property tax because the majority have no reliable income. When asked if they experienced difficulties in paying property tax, less than 30% respondents in planned areas said that they had problems whereas a relatively higher percentage was noticed in unplanned areas particularly Manzese with 63% finding it difficult to honour their property tax liability. Generally most of the reasons given reflected inability to pay due to inadequate income as the majority have no employment or

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[40] Prior to December 2003 the local government financial year was July to June but was changed to match with the central government fiscal year that runs from January to December.

income generating activities that could earn them income for their livelihood plus other expenses such as discharging property tax liability. For instance one respondent remarked that:

> *Much as I know that I have a property tax liability to discharge I find it hard to include the tax bill in my expenditure priorities when the income to satisfy even the daily basic needs such as food is not readily available.* (Manzese Q# 5)

Table 9.9a: Respondents with difficulties in paying property tax in planned and unplanned settlements

Settlement	Response			
	Yes		No	
	Frequency	Percentage	Frequency	Percentage
Old Planned	17	29	42	71
New Planned	36	29	87	71
Old Unplanned	40	63	24	37
New Unplanned	60	43	81	57

Source: Field Survey 2003/4

Table 9.9b: Respondents with difficulties in paying property tax as per settlement by income levels

Settlement	Response			
	Yes		No	
	Frequency	Percentage	Frequency	Percentage
Low income	57	46	66	54
Middle income	59	44	74	56
High income	37	28	94	72

Source: Field Survey 2003/04

Data in Table 9.9a shows that there is significant difference between new planned and old planned settlements with respect to inability to pay property tax. More people in old planned areas find it difficult to pay their tax bills. Similarly there is a significant difference between new unplanned and old unplanned settlements with more people in the latter category experiencing difficulties in paying property tax. A significant difference is also noted between high income and other settlement categories. A smaller proportion of people in high-income settlements have difficulties in complying with their property tax liability.

The majority of the interviewed property owners in low-income areas were of the view that the taxing authority needs to consider not only property ownership but also the taxpayer's income levels. Owning a property alone is not enough assurance that one has the ability to pay the tax. Most property owners have been compelled to build houses in order to solve the individual housing problem. In Tanzania urban areas it is quite common for individuals to own houses but for many they do not necessarily have reliable incomes to support their livelihood. Sources of income profile of the respondents as shown in

Table 9.10 portray that more than 50% of the respondents have no stable incomes. Even though the employed respondents are considered to have stable incomes, the salary levels are often very low, not even enough for household basic minimum requirements. As a consequence it is quite common for employees to engage in extra income generating activities so as to boost up household income.

Table 9.10: Sources of income profile in case study areas

Source	Frequency	Percentage
Employment	98	25
Trading	98	25
House Rent	52	14
Support from children	31	8
Self employment	32	8
Pension	20	5
None	56	15
Total	**387**	**100**

Source: Field Survey 2003/4

Likewise incomes from trading activities are in most cases uncertain and small. This is because the type of trading activities undertaken are to a large extent petty, predominantly involving selling such items as food, charcoal, fruits, burns and the like but on very small scale. Hence the income generated from such activities is largely subsistence. Besides among the people who own houses some have no source of income and have to depend on support from family members or relatives.

Generally in Tanzania it is not easy to show people's incomes because reliable income data is lacking. Although salaries for the people employed could provide indication of individual incomes, many do not live entirely on salaries since they engage in other income generating activities to supplement their meagre incomes. Experience shows that individuals seldom reveal their incomes. Similarly in this study most respondents were not candid to reveal their incomes. For the few who attempted to disclose what they earn, the information provided was somewhat suspicious. However most people have multiple sources of income but it is not easy to establish such sources and how much is earned from them since people tend to be secretive with the activities they engage in as well as the resultant incomes. It was also not easy to establish the respondent's individual household expenditure pattern, as it is not common for people to keep their expenditure records. Furthermore the expenditure for the majority of the low-income earners is erratic, mostly dependent on availability of finances.

9.6.3 Benefits received

Service delivery has been identified as one of the crucial elements of local government reform and that local government authorities are expected to justify their existence through improved service delivery. Linked with this and the view that property tax revenue is intended to finance expenditure on provision of services, respondents were asked to give their views on the status of benefits accruing to them as property taxpayers. In responding to the question of benefits received in return for the property taxes they pay 90% of the respondents said that they have not benefited from property tax revenue that the Municipal Council has been collecting. The respondents revealed that no services were being provided to the people and to make it worse the municipal council did not seem to be doing anything to improve the situation. The dissatisfaction on the performance of the Municipal Council was largely ascribed to inadequate infrastructure and services in the settlements.

There was much reference to lack of urban infrastructure which has resulted in poor living environment manifested with uncollected garbage, unpaved and broken roads that are passable with difficulties especially during wet season, flooded areas due to lacking storm water drainage, dark streets for there are no street lights and so forth. Inadequate water supply or in some cases complete absence of the service was also mentioned as one of the acute problems experienced by many city dwellers. Even though water supply is a responsibility of a different utility company people tend to associate it with other municipal services provided by the Municipal Council. Thus it is the responsibility of the local authority to ensure that citizens in the jurisdiction received the basic services.

Apart from the above reservations respondents were also concerned with the Municipal Council's failure to regulate land development within the settlements. One respondent remarked that:

> *A good number of individuals do not adhere to development conditions such that some plots have been developed to full site coverage with fencing walls extending to road space. On similar account fencing walls have blocked some streets while some houses have their wastewater discharged on streets, and therefore polluting the environment. The municipal council was expected to ensure good habitable environment for its people as one of its responsibilities.*
> (Sinza R# 362)

Security was another service cited as lacking for the city people. Police protection is inadequate in many settlements save for isolated police posts established in some areas but with very little capacity to serve large communities. It is now normal for individuals to hire security services from private providers, as the service cannot be secured from the government. However the majority cannot afford the cost and therefore have to bear with the state of insecurity in their areas. For instance Manzese was named as one of the settlement where there is high level of insecurity with high rate of crime happening in the streets even at daytime.

Further arguments were advanced against the Municipal Council levying property tax since it takes a lot for one to build a house that turns into a valuable property without any form of facilitation from the government. One buys a plot probably more easily in unplanned areas where infrastructure services are basically missing and has to strive to connect the utilities from long distances so as to be able to build a house and subsequently occupy it.

The situation is not very different in planned areas where the best that the government land delivery machinery does is to demarcate parcels of land and allocate to potential developers without the basic infrastructure services. In the end building a house becomes very costly. Besides, no specific housing finance facility exists for people to borrow and finance property development. People have been developing from personal lifetime savings. With all this done through individual effort property owners question the legitimacy of the municipal council in levying property tax. Questioning the legitimacy of property taxation one respondent had this to say:

> *I bought a plot from my own savings and struggled to build this house. At the time of building there was no water service nearby and I had to fetch it from long distances. After completing the building process I again went through the hassle of accessing utilities for my house. Moreover roads in the neighbourhood are bad and drainage is lacking. Having experienced all the difficulties of owning a house the government demands a tax on my house. I don't see the logic.* (Mbezi Beach R# 237)

Respondents were also of the feeling that, while the Municipal Council was failing to provide services to the people the revenue that is collected is embezzled and mostly spent on activities that were of little benefit to the taxpaying public but to the Municipal Council officials. On expressing his concern on property taxation and service delivery by local government authorities, a highly positioned official in government service history but now

a retired officer serving as a member in various government institutions boards commented that:

> *It is unfortunate that both the local governments and the central government are not keen in serving citizens. We need to reform in government norms relating to provision of public services to the people. There is a possibility that some day people will put up a protest rally to completely refuse to pay property tax because the tax revenue does not find its way back to the taxpayer in form of services. As it is the Municipal Council has failed to justify the legitimacy of levying property tax since no services accrue to the taxpayer.* (Makongo Juu R# 260)

9.7 Treatment by employees of the Municipal Council

The issue of not paying because others don't pay and no action taken against them by the rating authority, also emerged as one of the disincentive to compliance on the part of the property taxpayers. A substantial number of people who own properties including politicians who are expected to be exemplary do not pay their dues. One respondent posed a question in trying to emphasize his position on property tax compliance as follows.

> *Don't you think if I paid my property tax bill while others don't pay it would amount to betrayal to my neighbours?* (Manzese R# 12)

Likewise some taxpayers seem to be taking advantage of the weaknesses of the municipal council in late tax bills delivery as well as failure to implement enforcement procedures such that they chose to remain in tax arrears pending several reminders or threats. On the other hand some taxpayers who have no difficulties in paying property tax blame the bureaucracy at the Municipal Council, causing waste of time when making payments. At times responses by officers at the municipal council office discourage people from paying their tax bills. If one is turned down and is forced to leave the tax collection point with the money that was to be remitted, chances of returning to the same office to conclude the payment within a short while are no likely. One respondent who had an unpleasant encounter with a Municipal Council officer narrated his experience as follows:

> *An officer working with the Municipal Council left a property tax demand bill at my house plus his name instructing me to see him at the office. The next day I called on at the Municipal Council office and requested to see the officer by the given name. The officer instructed me to wait as he was having his tea break but I tried to impress upon him that I am the person who was to see him concerning a property tax issue as per the bill left at my house; and actually I have come to settle the bill. The officer*

> *insisted that I wait until he finished with what he was doing. Being a consultant I was so much time constrained, couldn't wait any longer and decided to leave. However, based on the treatment I received I won't visit the office again for settling my property tax bill. If they want the money let the Municipal Council officials collect it from my house.* (Kimara R # 103).

Respondents were also concerned with lack of fairness in taxing real property. The interviewed property owners registered concern on properties being subjected to tax liability that did not take into account differences arising from factors such as type, quality and location of taxable property. With flat rates some of the high values property bear a relatively smaller tax liability as compared to what is paid for a low value property that has been valued. Furthermore, even among the properties taxed on flat rate basis, the variation in tax bills in some cases is not consistent with the differences inherent in properties. They argued that it was important therefore to have all rateable properties valued so that the tax burden was distributed among the taxpayers on the same basis and therefore equitably.

9.8 What the Municipal Council should do.

Apparently voluntary compliance is very low. Property owners as interested parties were asked to provide their views regarding what should the Municipal Council do if they were to be encouraged to pay their property tax bills. Service delivery emerged as an issue of top priority to the taxpayers. A number of concerns were raised but the majority focussed on service delivery. Of the property owners interviewed, 62% were of the view that the Municipal Council needed to provide public services in order to win back the citizens' loyalty. If property tax revenue is spent on the provision of public services people will be encouraged to comply with their tax liability. One respondent commented that:

> *When the Municipal Council takes money from us in form of taxes we expect them to give back municipal services. This is supposed to be a reciprocate relationship.* (Manzese R# 33)

It is important that the municipal council considered service delivery as an investment so that returns may be realised as a result of the increase in compliance levels. This is in tandem with the taxpayers' perceptions as they see that the tax they pay must bring returns in form of public services.

As a way of addressing the problem of service delivery, one respondent of Makongo Juu was of the opinion that:

The Municipal Council could invest in service infrastructure and recover the cost by levying special rate to the beneficiaries. For instance, if the Council constructed the Makongo road members of the community would be ready to pay back the cost of the investment as well as maintenance cost since there would be tangible results. (Makongo Juu R# 278)

Some of the respondents were of the view that it would be appropriate if community members were involved in planning expenditure of property tax revenue as they are the ones who knew what services they needed most. Moreover they are the ones who felt the impact of living in un-serviced areas. As such if they witnessed property tax revenue allocated and spent on service provision they are likely to be motivated to pay.

9.9 Summary

The discussion in this Chapter centred on findings from the survey. The empirical results have depicted the property taxpayers' dissatisfaction with property taxation. While the property taxpayers acknowledged the importance of property tax they were discouraged by the way the Municipal Council dealt with the tax. Major issues emerging from the survey include the following.

i) Property taxation should be justified by service delivery. Property taxpayers expressed great concern on lack of urban infrastructure and poor service delivery. This has resulted in people living in poorly serviced settlements with less regulated land development.

ii) Property taxpayers feel that there is inequity in property taxation manifested in some property owners not paying their tax bills and no action is taken against them. Also there was variation in assessment of tax liability where some taxpayers have their property tax bills determined on the basis of assessed rateable values and others on flat rates which are somewhat arbitrary as to a considerable degree they do not reflect differences in characteristics of taxable properties.

iii) There are some insignificant differences in terms of complying with the property liability for billed taxpayers in planned and unplanned settlements, as well as among the settlements of different income levels. This could be due to the reason that response to the demand for services by the Municipal Councils is more or less the same irrespective of the planning or income level status of the settlement.

iv)   Property taxpayers would be willing to cooperate by paying property tax as long as the municipal council was responsive to the citizen's demands for public services.

In the following Chapter issues emerging from the empirical investigation are discussed and possible policy options recommended.

Chapter Ten

DISCUSSION OF FINDINGS, POLICY OPTIONS AND CONCLUSION

This Chapter presents a discussion of the findings and issues that have emerged from the study. The main purpose of the study was to gain an in depth understanding of the real property tax practice with a view to finding explanations for the weak revenue performance of property tax in Dar es Salaam. Findings from the study point to shortcomings with property tax administration, poor relationship among the actors in property taxation and unacceptability of the tax by the tax paying public as broader factors threatening real property taxation in Dar es Salaam. The discussion in this Chapter is structured to reflect upon the implications of the research findings and propose policy options that can help to address the prevailing property tax situation.

10.1 Property tax administration issues

Property tax administration is regarded as a revenue mobilisation function within a tax authority organisation, in this case the Municipal Councils. Property tax administration as a process involves major components of tax base identification or discovery, valuation (and assessment) of rateable properties and collection of taxes. However several processes are embedded in each of the major components and they are all dependent on one another for successful property taxation. In this study the valuation section in each Municipality represents the property tax administration system, which is entrusted with all property tax administration functions. This section discusses property tax administration issues emerging from the study findings.

10.1.1 Property Identification

The study has shown that the process of tax base identification in Dar es Salaam is affected by several setbacks that render it a difficult venture for the property tax administrators. Cadastral maps that are appropriate for property taxation ought to contain vital information including plot size, location and identifiers such as plot and block numbers, name of streets, subdivision and administrative jurisdictions. But such maps are lacking from the property tax environment in Tanzania and the ones available have inadequate information to enable identification of taxable property. However, problems of inadequate land information for property taxation have been noted to be a common feature

of property tax systems in developing countries (Bahl, 1998; Dillinger, 1992). Apart from maps, property ownership information like physical address, property owner's address is also not readily available. Such information is very fundamental for identification of both tax objects and tax subjects and in the absence of that data a property tax authority will experience difficulties in levying property tax. Subsequently the inadequacy and to some degree absence of such important information have had considerable impact on the identification of rateable property in Dar es Salaam.

In the absence of maps showing the necessary information for property taxation purposes the Municipal Valuation Offices in Dar es Salaam have been relying on data generated from field surveys. Rateable properties, and owners' names and addresses are identified at the time of physical inspection of the properties being valued. Thus database for properties captured in the valuation roll have been built from data generated from the field. Identification of properties that have not been valued is identified at sub-ward level with the help of local leaders and the identified properties are listed in property tax registers. However, information on property ownership is in many instances outdated for the reason that it is rarely updated. As an example property information captured in the valuation roll for Dar es Salaam prepared under Phase I and II Rating Valuation in the early 1990s has not been updated since. This is because no revaluation has taken place since the completion of the Phase I and II rating projects, except for a small section of the city centre where properties were valued in 2003 (ten years later) with intent to capture the extensive high value developments that have replaced the most rundown properties in Kariakoo area. On the other hand, once a property has been listed in the property tax register, the information is rarely updated. Even though the rating law requires taxable properties to be valued every five years, the rating authorities have not been able to do so due to inadequate resources and technical capacity.

Good and effective property taxation practice requires that the valuation roll is maintained after it has been established. Hence property identification and valuation should be ongoing and not one-time processes. Maintenance of valuation roll involves identification of new properties not in the roll and valuing those that have undergone changes. In order to include the new properties and reflect such changes a supplementary roll need to be prepared. But the practice with the municipal valuation offices shows that once the valuation contractor prepares the valuation roll no maintenance is done to it. As a result property values remain low over time whereas new properties that are not included in the valuation roll escape liability to property tax.

Maintenance of a valuation roll is important for an efficient property tax administration. It is even more important in the Tanzanian urban areas context in that development control is minimal, and with passage of time rapid physical as well as ownership changes occur to properties. There is little doubt that a lot of such changes have taken place in areas that were covered in the first valuation roll. For instance it would be interesting to compare property information in the roll and what the properties are today for Hana Nassif informal settlement. The reason being that since 1993 when rating valuation was undertaken in the area, a lot of changes have taken place. The settlement has been upgraded with infrastructure services that have subsequently induced property owners to improve the quality of the properties and more new houses have come up. A recent study (Nguluma, 2003) observed remarkable magnitude of housing transformation in Hana Nassif where some single storey houses have been increased to two; some have undergone alterations, extensions as well as quality changes. Apparently such changes are not reflected in the roll since no revaluation has taken place in the area and that property tax liability for individual properties has remained the same over the years. Consequently considerable revenue that would result from increased property values remains unexploited.

Observations from the study indicate that practical difficulties related to tax base identification contribute significantly to the underperformance of the property tax administration system. On the overall a number of identification related attributes negatively impact upon the performance of the property tax administration system as follows

i). Comprehensive data about taxable properties and taxpayers are lacking. Valuation offices have no accurate numbers of properties subject to property tax liability and rely on estimates. Moreover property records on registers created at sub-ward offices contain inadequate information for facilitating easy identification and objective assessment of tax liability of individual properties.

ii). Lengthy valuation process because a lot of time is wasted for fieldwork in trying to locate properties to be valued.

iii). Delays in delivery of property tax demand notices and in some cases the bills do not reach the intended taxpayers.

iv). The potential property tax revenue is underestimated because the size of the tax base liable to property tax is not known and therefore revenue

estimation is based on estimated number of rateable properties. Subsequently several properties are excluded from the tax net.

vi). Properties, which have not been identified, have no tax liability assessed for them and therefore not served with property tax demand notices. In consequence they escape liability to property tax.

In general the inadequate records have contributed to the inefficiency of the property tax system since many taxable units are not known and therefore it becomes difficult for the taxing authorities to collect property tax.

Despite the lack of adequate property information including cadastral maps, house numbers and street names valuers have the obligation to identify and value the rateable property within the respective tax jurisdiction. Hence the use of local leaders in property identification has been adopted as a strategy to address the problem of lack of information and cope with the prevailing circumstances.

As previously pointed out in Chapter Seven local leaders have been involved in identifying rateable properties during rating valuation. While conducting physical inspection of properties being valued, valuers are guided by local leaders of respective sub-wards. This is possible because local leaders know the people and houses in which they live, within the local leaders' administrative areas. In addition the local leaders are used in gaining information in respect of properties registered in property tax registers. Nevertheless identification of institutional properties is not problematic because most of them tend to be found at locations that can be easily accessible.

10.1.2 Property valuation for rating

With ad valorem property taxation, value assessment of rateable properties is one among the key components of an effective property tax administration system. The study results show that the valuation offices with the Municipal Councils in Dar es Salaam have limited capacity to handle the valuation of all properties in the city as well as maintenance of the valuation rolls in place. In Chapter Eight it has been shown that property tax coverage is small as only about 21 percent of the estimated 340,000 potential rateable properties have been valued and registered on the roll. This is attributed to a small number of valuers who are responsible for all valuation works at the Municipal Valuation Offices as well as property tax administration functions. There are less than five qualified valuers at Kinondoni and Temeke Municipalities, while Ilala has seven. The Municipal valuers are responsible for all valuations including rating valuation, billing processes and collection of

property tax. The extensive amount of work which the Municipal Valuation Offices are required to handle results in a relatively smaller number of properties on the valuation roll leaving larger number taxed on flat rate basis.

Apart from the inability to carry out new valuations, Municipal Valuers are not able to conduct supplementary valuation, which is necessary for the maintenance of the valuation roll. For effective property taxation, the identification and valuation functions should be continuous activities of property tax administrators (Dillinger, 1992). New properties must be identified and valued for inclusion in the roll. Also changes of ownership and character of the properties should be reflected in the roll. Even though the practice now is to outsource the valuation function to private valuation firms the tax base coverage is still very low with considerable number of properties yet to be captured in the rolls. Thus valuation output in terms of new properties valued is very low and maintenance of the roll is a non-existent activity.

Furthermore necessary facilities for running a rating valuation office such as transport, office space, and computers that are capable to handle massive data which are generated for property taxation are inadequate. While valuers are required to move within the rating areas so as to keep track of all activities related to property taxation, the valuation units are not allocated with transport facilities to enable such movements. Instead they depend on public transport when conducting field visits. But given the state of public transport in Dar es Salaam valuers can only perform the minimum functions.

Linked to the difficult working environment is the low remuneration to the municipal valuers. As also noted by McCluskey, et al (2003), the municipal valuers are paid low salaries and this impact negatively upon their morale to work. Thus the valuers have less incentive to work for accomplishing the municipal council's goals. This is likely to encourage the Valuers to engage in other valuation assignments for other purposes on private arrangements. As a result of the low performance of the valuation component the Municipal Councils are experiencing smaller numbers of rateable properties captured on the roll, many properties taxed on flat rate basis and also an unknown sizeable portion of the tax base which is not subjected to property tax liability. According to estimates of potential rateable properties in Dar es Salaam, 21 percent are listed on the roll, 62 percent not valued but taxed on flat rate basis, and 17 percent neither on valuation roll nor on flat rate.

The large number of properties that are yet to be valued can be viewed as a reflection of the constraints confronting the property tax administration system in terms of financial and human resource capacity. It has been observed (McCluskey, et al. 2003) that very few municipalities in Tanzania seem prepared to allocate any significant funding towards property tax administration.   Since valuation of property is fundamental to determining the tax liability of individual taxpayers, there is a need for the property tax administration system to think up of strategies that can bring to play all potential property taxpayers and determine the rateable values at affordable cost.

10.1.3 Property Tax Collection

The tax base identification and valuation components of the property tax administration system are basically preparatory functions for efficient property tax revenue collection. The identification and valuation processes largely determine performance in property tax revenue collection. Where rateable properties have not been identified and valued the taxing authority would experience difficulties in collecting property tax revenue as the taxable objects and the tax subjects would be unknown. Likewise if the identification and valuation processes are poorly done the collection of revenue will suffer. Hence success in revenue collection relies on proper identification and valuation of the potential taxable properties.

While property identification and valuation have vital contribution to efficient revenue performance, procedures of revenue collection are also crucial. The practice with the Municipal Councils of Dar es Salaam is such that the taxpayer is supposed to pay the tax bill at the council cash office or at the ward office within thirty days after receipt of the tax bill. But given the difficulties in delivering bills in time, many property owners fail to adhere to the time limit stipulated in the demand notice. Besides, settlement of a property tax bill is not accorded the right priority among many taxpayers and for some of them the payment has to wait for reminder tax bills or threats by the municipality authorities.

To a large extent the collection of revenue is left to the will of the taxpayer in that a revenue collector waits for the taxpayer to call at the collection point to pay the tax. This demands close follow up after the tax bills have been distributed. But valuers who have the duty to ensure tax bills are delivered and follow up payments are all the time engaged in numerous activities of the Municipal Valuation office. As a result follow-ups on property tax payments are done sporadically, mostly when the revenue inflows are at critical levels. These are the times when valuers would be compelled to suspend other

activities and devote more time to closely follow up property tax payments especially from big taxpayers.

Findings from the study have indicated that Municipal Councils in Dar es Salaam have not been collecting sufficient revenue from property tax. Even though records on property tax collection presented in the Council's financial reports depict high collection efficiency levels (see Chapter Eight), revenue from this source has not gone beyond 20%, 30% and 25% of the total revenue from local sources for Ilala, Kinondoni and Temeke Municipal Councils respectively. The actual property tax revenue sums collected are very low if the collection figures are compared with the potential revenue that would be generated from the estimated number of all rateable properties found in Dar es Salaam city. It may also be reasonable to speculate that considerable property tax sums are in delinquency despite the fact that data about the potential revenue based on property captured in the property tax database is lacking.

Given that the valuation office issues the demand notices while a different section receives payment it is somewhat difficult to keep track of the compliant taxpayers and those in arrears. In addition a direct link in terms of a record keeping system that could automatically inform both the cash receiving office and the valuation office on property tax payments is lacking. For this reason it is not easy for the valuation office to establish the extent of compliant taxpayers out of those billed and the delinquent ones. A discussion on some of the factors that have been observed to be responsible for poor revenue collection follows hereunder.

i). Weak revenue collection administrative capacity.

The property tax collection function is partly affected by the inadequacies inherent in the identification and valuation functions. The absence of adequate and quality data about the tax objects and tax subjects has resulted in problems associated with valuation, revenue forecasting, inaccurate budgeting, and inadequate billing. Hence with insufficient adequate information about the taxpayers, delivery of tax bills becomes time consuming and in some cases it turns out to be unsuccessful. In the end these obstacles result in poor revenue collection. The inadequacy of data in terms of quantity and quality however emanates from inadequate capacity by the property tax administration system to generate and maintain sufficient and quality data.

ii). Inadequate monitoring of revenue collection

There are also problems related with the property tax revenue collection procedures used by the Municipal Councils. The collection of revenue is to some extent not centralised,

with some of the payments made at ward offices depending on the taxpayer's convenience. The practice has motivated some dishonest revenue collectors to have duplicate receipts alongside the tax authority receipt books for collecting taxes from taxpayers. In this way some revenue is diverted from the Municipal Council's basket to individual's pockets. As also noted by Franzsen & Semboja (2004), revenue leakage as a result of fraud and corruption is a problem that has been reported to be happening with the rating authorities

iii). Failure to implement enforcement mechanism

As earlier indicated in Chapter Eight, property tax enforcement is another fundamental problem impacting negatively upon property tax revenue collection. While deterrent instruments are prescribed in the rating legislation, the taxing authorities lack the capacity to enforce them. For instance the property tax administrators find it unrewarding to seize a tax delinquent's property because pursuing a case through courts takes very long and in the end the amount of revenue recovered may not necessarily offset the administrative costs incurred for the court case.

Property tax compliance in Dar es Salaam is to a large extent not voluntary. Very few property owners would be considered to comply voluntarily as for many taxpayers the tendency of delaying payment is a common phenomenon. In this study it has been observed that implementing enforcement instruments is seldom done. While enforcement instruments are stipulated in the legislation and council by-laws, they are hardly put into action. This is probably one of the reasons for many property owners to accumulate tax arrears for a number of years.

iv). Lack of employees' motivation.

The council employees are not well remunerated for them to work effectively in data collection, valuation, billing, revenue collection as well as enforcement. While there is high dependence on local leaders in the identification of taxable properties, distribution of tax bills and property tax collection, there is no prescribed remuneration for the work they perform. The sub-ward leaders are not salaried employees and in most cases they are remunerated on daily allowances whenever there is an assignment to follow up. Under such circumstances the council employees are not motivated to work hard while on the other hand the local leaders are less motivated to provide data which is vital for the valuation and collection of property tax.

v). Low rateable values and tax rates

Property tax revenue levels are also affected by the property rateable values and tax rates that have remained low and un-updated for more than ten years now. Even though the situation could be seen to support the principle of stability, which postulates that taxes should not be subjected to dramatic fluctuations year to year, the time length for the case at hand is beyond a reasonable level. The rates of construction used in the valuation of buildings have remained unchanged since they were first applied in the first rating valuation in 1993. While the value of the Tanzanian Shilling has continued to depreciate over the years the same construction rates (see Chapter Seven) have been applicable for all subsequent rating valuations. Likewise property values determined at that time still form the basis of taxation today. Furthermore the same tax rate (of 0.15% of property value) has prevailed for all these years. As such the Municipal Councils are operating in a situation that costs for administering property tax continue to move up upwards but the revenue realised in real terms is on the decrease. Moreover the property values on the valuation roll have not been updated to reflect current values resulting from property appreciating as years go by. With low rateable values and low tax rates, the resultant revenue collection is also low.

However, it remains unclear as to why the taxing authorities have not considered reviewing the construction rates used in rating valuation. While the UARA, 1983 requires that property tax is levied on market value of a rateable property; the estimated rateable values are far below. If the already assessed rateable values cannot be reviewed upward for reasons of lack of resources to revalue the properties, the taxing authorities could have considered indexing them.

vi). Taxpayer resistance to pay taxes

Non-compliance by the taxpayers is another serious problem impacting negatively upon property tax collection. Voluntary compliance is limited as taxpayers feel they get insignificant benefit in return to the taxes they pay. Taxpayers' unwillingness to pay makes property tax collection a difficult undertaking resulting in very low collection efficiency levels. As also argued by Walker (1970), it is always difficult and expensive to collect tax if the people disagree with the system and the level of taxation, which is being imposed.

On the other hand taxpayers find the probability of being caught for not paying property tax too low. In addition even where one was caught for non-compliance the prescribed penalties are generally affordable. This is because the tax liability for

individual property owners is generally very low due to tax rates also being very low. Hence even the prescribed penalties are smaller and can hardly induce the property owners to comply. As a result substantial property tax sums remain unpaid and consequently affecting the council's revenue performance.

It is also worth noting that the taxing authority is less plausible to the taxpayers as it has failed to live up to the expectations of the taxpaying community. The Municipal Councils are perceived to be good at making promises that are rarely fulfilled. For instance public persuasive announcements are made occasionally to remind taxpayers about their obligation to pay taxes as:

> "pay your taxes and: be proud of your clean Municipality, expect improved roads and clean Municipalities surroundings; obtain soft loans for your business from your respective Municipal Council. Please pay your taxes to avoid penalties". (Daily Newspaper, 30th January 2003)

To the taxpayers these are mere words, which are rarely taken seriously because they are not transformed into actions. In reality it is very rare for the Municipal Councils to deliver services and also to institute penalties on the non-compliant taxpayers.

While there have been attempts to increase the number of taxable property registered on the property tax data base through rating projects and property registers created at sub ward offices, limited corresponding increase in revenue collection has been recorded. This is indicative that little effort is directed to enhancing property tax collection as manifested by low revenue yields. The situation of property tax revenue collection with the Municipal Councils in Dar es Salaam supports the claim by Dillinger (1992), that newly discovered and valued property does not yield revenue if the system of collection administration is dysfunctional.

The foregoing section enumerated the factors, which affect the revenue collection efficiency considerably. As a way to address the problem of property tax collection inefficiency, there are attempts to improve the situation through outsourcing the revenue collection function. Even though it may sound too early to evaluate the strategy, there are already indications that the contractors engaged to collect property tax are facing difficulties due to problems inherent in the property taxation practice. Hence outsourcing property tax collection may not amount to immediate solution for improving efficiency in revenue collection as the taxing authority may assume it to be.

10.2 Policy Issues

The taxing of real property in Tanzania is guided by the LGFA, 1982 and the UARA, 1983. While the laws are intended to facilitate efficiency and fairness in levying property tax some of the provisions impede the operation of the property tax system. Findings from the study have shown that policies on property tax rates, exemptions from liability to property tax and fiscal transfers contribute to the poor performance in raising property tax revenue by the councils.

i). Property tax rates

Local government authorities are empowered to set property tax rates specified as a percentage on the rateable value under Section 20 of the UARA, 1983. In addition Section 17 of the same Act empowers a rating authority to levy sufficient rates according to level of revenue required from property tax to cover part of the total expenditure in a given year. Nonetheless, a local government authority cannot levy an annual rate without the prior approval of the Minister responsible for local government (Section 15 of LGFA, 1982).

Despite the provisions in the law the Municipal Councils have not been able to set property tax rates according to the annual amount of property tax revenue they require. The property tax rates have remained fixed at 0.15 percent of the rateable value over the years. The Councils cannot lift up the tax rates without the consent of the central government and it is not likely that the latter would be willing to increase the rates in the near future. This has negatively affected the Council's property tax revenue levels.

ii) Exemption from property tax liability

While the legislation governing property taxation specifies the type of property exempted from tax liability, in implementing property tax a lot more property categories that do not qualify under the law are exempted. For instance in practice property under government ownership is not subjected to paying property tax although the law requires the custodian government departments to contribute to local government authorities for service charges in lieu of property rates. Nevertheless local government authorities have not been receiving such payments from the central government departments.

The scale of the amount of revenue lost as a result of exemptions is not known in view of the fact that the exempt properties are not valued and therefore no tax assessment for such property is done. Even so considering the number of properties under government ownership plus others that are exempt from property tax there is little doubt that a considerable size of taxable property is eroded from the tax base and subsequently

affecting property tax revenue collection. However it is important to note that the issue of exemptions does not only affect local taxation but also taxation under the national government. It has also been reported in other studies (SIDA, 2005; Gray, 2001) that Tanzania's tax-regime allows many tax exemptions, which subsequently affect the tax revenue performance.

With respect to property tax McCluskey et al (2003) argue that the position in Tanzania is rather unique as the current legislation provides an extremely liberal approach to the granting of exemptions. The extremely generous exemptions result in a considerable loss of potential revenue that Municipalities would generate. Moreover the impact of exemptions is more disturbing because substantial high value properties often get excluded from the property tax base.

iii) Central government grants

Property tax is just one of the own local sources of revenue for the municipal councils that has the potential of being the major local source. Apart from revenue from local sources municipal councils obtain financial transfers from the central government. Grants are paid to urban authorities as per section 10 of the LGFA, 1982. The grants are meant to cover the cost incurred in the provision and maintenance of public health services, educational services, construction, reconstruction and maintenance of roads and sewarage, agricultural services and part of part of the total annual salaries of heads of departments of the urban authority concerned. According to data presented in Chapter Six central government grants contribute more than 50 percent of the expenditure budget of the Municipality Councils in Dar es Salaam.

Even though the transfer money is vital for the functioning of the local government authorities, they partly impact negatively upon revenue mobilisation from the local sources. As argued by Aluko (2005), central government grants may boost the provision and maintenance of local infrastructure but experience shows that many local governments in developing countries may abandon the exploitation of local revenue sources. But for the case of the Municipal Councils of Dar es Salaam, the central government grants so provided are not enough to support the provision and maintenance of local infrastructure. The grants largely cover employees' salaries and very little is channelled to local infrastructure. Evidence from the study has revealed that very little is done to the provision and maintenance of local infrastructure as many settlements in Dar es Salaam lack basic infrastructure facilities.

From the study findings it has been observed that the Municipal Council's financial budgets are to a large degree dependent on the central government grants. The grants are not adequate to finance the envisaged Council's expenditure especially on provision and maintenance of local infrastructure. But there is not much effort by the councils to increase revenue from local sources so as to cover that expenditure. On the other hand the budget deficit is compensated with grants. As such it can be reasonably argued that the assurance of central government grants especially employees salaries result in disincentive for the Municipal Councils to improve revenue from local sources, property tax inclusive.

10.3 The taxpayer's perceptions of property tax

As an attempt to answer the question on taxpayer's responses to property taxation, the study undertook to investigate the views of property owners about property tax. The following discussion focuses on the study findings about the taxpayer's perception of property taxation.

10.3.1 Public acceptability of property tax

Taxpayer satisfaction is a vital element for effective operation of a tax system but it has often been omitted from consideration. A tax that is not acceptable by the taxpaying public is likely to be difficult to administer. Illustrative of a tax that lacked public acceptability is the Community Charge (or Poll Tax) of 1990 in the United Kingdom, which resulted in public hostility and civil unrest (McCluskey, et al, 1998). The tax was subsequently replaced with a different system. This study has indicated existence of indirect public unacceptability of the property tax manifested by taxpayers' resistance to pay.

Even though data to measure the level of non-compliance in property tax is lacking, there are enough indications that suggest existence of the problem with the Dar es Salaam property tax system. The study findings have shown that a sizeable population of taxpayers does not comply with their tax obligation. A good number of property owners interviewed confessed not to have been paying property tax albeit for a number of reasons. Even among the compliant property owners' remittance has not been in time and in many instances after several reminders. Some of the property taxpayers have been paying after the municipal councils threatened to institute coercive enforcement measures. The empirical investigation has shown that property owners chose not to comply with property tax due to a number of reasons, which are discussed in the following sections.

Despite the unwillingness to pay, property owners recognise the importance of the tax to local government authorities. The study revealed that the taxpayers were not against paying property tax but wanted to see local government authorities that were responsive to the local community needs in terms of infrastructure and service delivery. Even among the compliant taxpayers, some admitted to be paying their property tax bills not because they received any benefits from the Municipal Council but rather to avoid problems that may arise if the taxing authority decided to take action against defaulters.

The study on the other hand has shown the existence of the problem of inability to pay property tax. While in some societies owning a house is regarded a sign of wealth, in the Tanzanian context the situation is different as some people especially the poor own houses but have no other reliable source of income. The problem is more noticeable in the poor informal settlements where most of the poor have built houses just to solve their housing problem. Much as they would wish to comply with their tax liability, lack of income stands to be a drawback.

On the other hand the reason for inability to pay due to lack of income could only hold with the poor because some taxpayers have been cheating that they have no ability to pay property tax. According to one Valuer with the Municipal Council, several applications for property tax relief have been received by the Municipal Director's office. But upon visiting the applicant so as to assess the situation, the valuers found that the information given by the applicant did not reflect the reality. Experience with the valuation office shows that, many of the applicants for tax relief are in fact well to do people but pretend to be unable to pay due to some other reasons such as health problems.

10.3.2 Unequal treatment of taxpayers

The study revealed some ill feelings among some of the property owners resulting from unfair treatment by the tax authority that taxpayers were subjected to. Some of the compliant taxpayers find it disheartening to see that the municipal council was not taking any action against property tax defaulters while on the other hand the compliant ones were not rewarded. Failure by the municipal council to punish the delinquent taxpayers is in a way being translated as legitimising non-compliance. Consequential to this is the increase of non-payment of property tax bills. Some respondents wondered as to why they should continue to pay property tax if others were not paying.

The laxity of the municipal council in enforcing property tax compliance can be viewed as a replication of what was taking place at the national government level. Income

tax evasion is quite substantial in the country and the government has not been very keen to punish the culprits. In a study on tax administration in Tanzania, Gray (2001) noted that the government has rarely instituted deterrent measures, such as prosecution against any firm or individual tax defaulter. This being the case then it would not be easy for the subordinate government to adequately enforce local tax compliance. Consequently people feel that the probability of being caught and convicted for not complying with the tax liability is minimal.

Additionally taxpayers expressed concern on inequitable tax burden distribution resulting from the inability by the property tax administration system to have all properties valued so that the tax rates are based on the assessed rateable values. Taxpayers are subjected to tax liability assessed on different basis, with some properties on rateable value and others on flat rate. For instance with flat rate taxation there are some cases in which there is not much difference in the tax amount ascribed to properties of significant characteristic disparity. It is quite common to find properties of different sizes and quality are subjected to a threshold tax liability of TShs. 10,000. This is because the properties are not valued and the flat rate assessment is done based on information provided to the valuer who in most situations would not have seen the house. Such inequitable tax liability becomes obvious to the taxpayers especially those living within the same neighbourhood in that they make comparison of their properties in terms of size and quality. A property owner with an inferior property would feel being overcharged if he or she is to pay same amount of tax like a neighbour who owns a comparative superior property.

Inequitable property taxation is also seen in terms of taxing only properties, which have been identified. The identified taxable properties comprise properties captured in the roll and those registered in a property register generated at sub-ward office. Property owners whose properties have not been identified safely escape the property tax liability. Data on rateable properties established at municipal councils show a sizeable estimation of about 59,000 properties (Franzsen & Semboja, 2004), which are neither on valuation roll nor on flat rate register. Hence owners of these properties go untaxed. This enhances the level of inequity embedded in the property tax system.

10.3.3 Misappropriation of revenue

There is a strong feeling among the taxpayers that collected revenue was being embezzled. The taxpayers felt they had the right to know how their money was being spent since no

money was committed to providing services for the local community. Survey data show that among the interviewed people a sizeable population in high income areas like Mbezi Beach, Makongo Juu and Sinza paid their tax dues but the money was not coming back to service the settlements. This suggests that the money was being spent on items that were not beneficial to the taxpayers. In one government report (URT: PO-RALG, 2002), it is acknowledged that there was low yield revenue, which is not enough to provide services to the majority of the citizens. The report states that:

> "The local authority revenue from tax payments is used to pay for administrative costs of the authority and there is little or no link between tax payment and services rendered. In this environment, voluntary tax compliance will remain at a minimum level".

This kind of observation confirms the taxpayers' worry that their tax money is not spent for their benefit but on other administrative functions within which embezzlement cannot be ruled out.

The study has shown that property taxpayers would wish the Municipal Councils to treat them as partners in property taxation. Thus, if they are to pay property tax they expected the Municipal councils to reciprocate by providing the required local infrastructure and services. In addition, the taxpayers concerns extended beyond the tangible infrastructure and services as they wished to see local government authorities, which were able to manage urban areas properly. The inadequate development control has resulted in urban areas that are developed with less attention paid to planning requirements.

10.4 Theoretical reflections

A number of theoretical premises that are essential for a property tax system to function efficiently have been reviewed in this study. While there are numerous considerations that can be used to scrutinise a property tax system in practice it becomes difficult to satisfy all the criteria for a good tax structure. This makes it desirable to choose criteria that may lead a tax system to achieve the intended tax objective. In this study the Dar es Salaam property tax system is examined in the context of the concepts of efficiency and fairness, as well as the principal-agent and game theories.

10.4.1 Efficiency in raising revenue

Efficiency in taxation is achieved where higher revenues result from a tax that is easy to administer coupled with low administrative and compliance costs. However, judging the

efficiency of a property tax system is complex because the administration of property tax involves several lengthy and costly processes. As such efficiency in property taxation is attained where each stage of property tax administration is effective at limited budget. For instance a cost-effective property tax system is one in which virtually all taxable property is discovered, valuation and other assessment errors are minimised, tax collections are close to 100 percent of the total amount due, and the cost of administration (including taxpayer's compliance cost) are maintained at the minimum level (IAAO, 1997). Thus efficiency in property taxation assumes a property valuation process that covers a large number of properties with a limited operating budget; collections of high levels of property tax revenue at lowest possible cost, and also achieve all other administrative procedures at minimum cost.

In this study it has been observed that with the property tax system in Dar es Salaam not all properties have been discovered and valued. Only about 21 percent of the taxable property has been valued and at high cost. On the other hand a small percentage of the potential property tax revenue is collected with minimum attempts to enforce compliance. It is also assumed that administrative costs are very high and this is partly the reason for the property tax administration system failing to perform the functions of the property tax administration adequately.

In view of the fact that the elements of efficiency criteria are hardly fulfilled, and then it can be fairly argued that the property tax system of Dar es Salaam is inefficient.

10.4.2 The principle of fairness based on benefits received.

As earlier pointed out, the theoretical justification for property taxation rests on the benefits received. According to the benefits principle, individuals should pay property taxes according to the benefits gained from government expenditures, which are funded by the tax revenue. The study has shown that the property tax system in Dar es Salaam has failed the test of the benefits received principle

The empirical results of the study indicate that non-payment of property tax is strongly attributable to failure by the Municipal Council to provide local infrastructure and services. In line with this unwillingness to pay local taxes due to lacking public services is also reported in a recent study by Fjeldstad (2004). In this study the noncompliant taxpayers conceded that they were not paying property tax because the settlements lack services infrastructure such as good roads, street lights, police protection, drainage and so on. Correspondingly most of the compliant taxpayers, not withstanding that they paid

their tax bills expressed concern on the municipal council's failure to provide services. Such responses point to the reality that taxpayers expected the local authority to provide services to the local community after they had discharged their tax obligation. The taxpayers consider that there was an implicit contractual relationship and by not providing services the municipal council was not fulfilling its obligation. As such they found it quite in order for them not to pay the taxes since little or nothing was given in return.

The benefits received criterion has relevance to the property tax system investigated in this study. While property taxpayers access the services for which they pay user charges, they do not gain from property tax revenue. The local infrastructures which property tax revenue is expected to finance are lacking. As a result the taxpayers seem to be unwilling to tolerate the property tax system because it does not support the provision of infrastructure and public services. This is in line with the view in Chapter Two, that people in democratic society will not be willing to tolerate a fiscal system from which they did not benefit directly.

10.4.3 The principle of fairness based on ability to pay

The principle of ability to pay advocates distribution of tax burden according to individual's ability to pay in terms of both horizontal and vertical equity. The amount of tax that a property owner pays is the product of assessed property value and the tax rate (Owens, 2000). Accordingly a property tax system can achieve horizontal and vertical equity where taxable properties are valued regularly. It is through valuation that properties of similar values would be subject to similar tax liability and properties of different values would bear varying tax burden.

The study has observed that horizontal and vertical equity are far fetched for the Dar es Salaam property tax system. First, only a small proportion of the rateable property is taxed on the basis of assessed capital value because not all properties have been valued. On the other hand property that has not been valued is taxed on flat rate basis, with the tax liability determined according to property size, use and in some cases location. The rating of factors assumed to influence the property tax flat rates is somewhat arbitrary. Size of the property for example, is an aspect that is considered in estimating a flat rate tax amount for a rateable property. However it is interesting to note that properties taxed on flat rate basis are not measured to ascertain the size of each property. In addition under a dual property tax structure of value based and flat rate it becomes difficult for the taxing authority to attain equity in the distribution of the tax burden.

Second, regular and frequent revaluation is not practised. Besides it takes a long time between property valuation in one locality and the other. For instance within the same rating jurisdiction some properties have been valued after five or more years since the previous valuation took place. In view of the prevailing circumstances it is unlikely that horizontal and vertical equity in property taxation would be achieved in the near future.

For the property tax system in Tanzania increasing property tax revenue assumes higher priority. It is for this reason that all properties in a rating jurisdiction, whether valued or not are subjected to property tax liability in order to increase property tax revenue levels. Hence efficiency in raising revenue (although not achieved) is sought with little recognition of the importance of fairness.

10.4.4 Property tax administration in a principal-agent framework

Under the principal-agent framework it is assumed that the principal's goal is to maximise performance through the agent but in the course of trying to achieve the goals the agent may engage in opportunistic behaviour at the expense of the principal. In the present study principal-agent problems have been observed at different levels of agency relationship in property taxation as shown in the relationship framework in Chapter Two. First the Municipal Council as the taxing authority is the agent implementing policies of the Central Government (principal). By devolving responsibilities and power to generate revenue to local government, the principal's goals in this case are to increase locally raised revenue so as to increase efficiency in service delivery among other responsibilities. Second the Municipal Council fulfils the property taxation responsibility through the property tax administration system, which is charged with undertaking all property tax administration functions.

Findings from the study indicate that the municipal councils in Dar es Salaam are not doing well in terms of generating property tax revenue. Low levels of property tax revenue are realised when considered in the context of the amount that ought to be generated from the established potential property tax base. However it is interesting to note that the Municipal Authorities' financial reports have been portraying high performance levels in raising property tax revenue. But the municipalities have not been able to practically demonstrate the high levels of revenue collection in terms of service delivery to the people.

In the same vein performance by the property tax administration system has been limited on account of insufficient resources allocated for property tax administration. As a

result of insufficient resources the working environment is poor characterised by inadequate facilitates and workspace as well as low pay to the valuers. This is a disincentive to the property tax administration system as manifested by low property tax coverage and low levels of property tax revenue.

Apart from the resource constraint the municipal authorities are confronted with power relations problem. Even though local authorities are given powers to generate revenue from local sources most decisions are still under the control of the central government. For instance in the case of property tax the rating legislation provide more powers to the central government to decide on several matters pertaining to property taxation. For instance Central Government Officials mostly grant exemptions from property tax liability. On the other hand property tax rates are very low but the rating authorities cannot lift them up until the central government decides so.

On the other side there has been no intervention by the central government to address the failure of Municipal Authorities on service delivery. Although there have been attempts by the central government through donor funding to improve property taxation particularly rating valuation little is done on how the revenue is collected and spent. The property tax revenue collected is fully retained by the rating authority. But information to taxpayers on the amount of property tax revenue collected and how it is spent is lacking. Without adequate information on property tax revenue collection and expenditure of the same, taxpayers can hardly hold accountable the taxing authority. As such the Municipal Authorities in Dar es Salaam have not been accountable to the citizens.

Observations from the study indicate that property taxpayers were concerned with lack of transparency on the part of the Municipal Councils. For instance respondent property owners in the survey for this study wished to know what their tax money was being spent for before they were ready to pay more money to the Municipal Council. With the misdeeds by the Municipal Authorities it remains unclear why the situation remains unchecked if it is in the interest of the Central Government that efficiency in service delivery is increased.

Relationship between the taxing authorities and the taxpaying public appears to be strained. Property taxpayers have shown some resistance to paying property tax because of little or no benefit in return for the taxes they pay. This has been affecting the flow of revenue into the municipalities' locally generated revenue.

In general there is limited supportive relationship among the key actors in property taxation. As it has been observed from the study Municipal Authorities have limited

support in implementing property tax from the central government. Controls by the Central Government partly impact upon the ability of the Municipal Councils in raising property tax revenue. Likewise the municipal councils do not provide enough facilitation for the property tax administration system so as to adequately exploit the property tax potential and generate sufficient revenue. While the flow of property tax revenue depends also on the willingness of the property taxpayer to pay there is not much cooperation from the taxpayers. Consequently the Municipal Councils are not collecting much of the anticipated property tax revenue whereas more resources have to be spent on following up compliance.

Given the situation, levels of property tax revenue are likely to improve if the agency relationships are enhanced. In order to make the agents work they need to be provided with both resources and incentives. On the other hand monitoring of the Municipal Councils operations by the Central Government is important. If the municipal councils are left unchecked there is a possibility of divergence from the intended goals. But for the proposed measures to work it all depends on the real goals of the political system. It is also important for the Municipal Authorities to enhance their relationship with the property taxpayers by being responsive to their demands for infrastructure and services.

10.4.5: Tax authority – taxpayer relationship from a game theory perspective.

Property taxation under a game theory framework posits that by levying property tax the given Municipal Council aims to raise revenue for provision of public services, while property owners pay taxes and expect public services delivery from the council. Two property tax situations that are observable with the taxing authority in Dar es Salaam are discussed in a game framework. One is the "taxpayer – taxpayer situation" (Illustration 1) and the other is the "tax authority – taxpayer situation (Illustration 2)". These are described below.

Illustration 1

Problems related to the supply of public goods have been studied both theoretically and experimentally within a game theory framework based on the Prisoners' dilemma game (see for example Fehr & Gächter, 2000).

A simple example using just two taxpayers A and B can illustrate the ideas. A starting point with a public good is its special characteristic that every subject can use it. It is in the self-interest of individuals to free ride on public goods produced from contributions made by others and to contribute nothing. That means that if A pays his/her tax share then B will also gain without even contributing to the public good. Similarly, A will gain if B pays the tax.

Assuming that if A pays 5 units in tax then both A and B will gain a utility from the public goods of equal 4 units. Producing the public good then increases total welfare as an "investment" of 5 units gives a utility of 8 units for A and B together. If both pay their taxes, the total "investment" of 10 units, then the utility from the public good would be 8 units for each of A and B and the net gain from a social point of view would be 6 units (i.e 16-10=6). In this illustration it is assumed that the money paid is actually used to provide public services. From this example four possible situations can be observed:

1. Both taxpayers A and B are paying their tax (Square 1 below):

Each pays 5 units, and both get a utility from the public good of 8units. The net utility for each of them is +3 units, and the total net utility is +6 units.

2. A is paying, B is not paying (Square 2 below):

A pays 5 units, both get a utility from the public good of 4 units. The net utility for A is –1 unit (i.e pays 5 units and gets only 4 units back in utility). For B the net utility is +4 units (i.e pays 0 tax and get 4 units in utility). The total net utility is +3 (i.e -1 + 4)

3. B is paying; A is not paying (Square 3 below):

B pays 5 units; both get a utility from the public good of 4 units. The net utility for B is -1 (i.e pays 5 units and gets only 4 units back in utility). For A the net utility is +4 units (i.e pays 0 tax and gets 4 units in utility). Total utility is in this case also +3.

4. No one is paying (Square 4 below):

The net utility for both in this case is equal to 0 as no one is paying tax and no one gets any utility from the public goods. The total utility is equal to 0.

		Taxpayer B	
		Pay	Do Not Pay
Taxpayer A	Pay	*Square 1* A: net utility +3 B: net utility +3 *Total utility +6.*	*Square 2* A: net utility -1 B: net utility +4 *Total utility +3*
	Do Not Pay	*Square 3* A: net utility +4 B: net utility -1 *Total utility +3*	*Square 4* A: net utility 0 B: net utility 0 *Total utility 0*

Figure 10.1: Taxpayer – taxpayer game model: Net utility for A and B and total utility.

According to Figure 10.1, if everyone paid taxes the total payoffs would be highest (+ 6 units in Square 1). Thus the highest level of social welfare is likely if every individual contributed to the public good. However this might not be a stable situation. Considering the situation from each taxpayer's perspective the free rider gets the highest net utility (Square 2 for B and Square 3 for A). On the other hand the net utility of each of the taxpayers would give the highest utility (Square 1). Again this might not be stable. If one of the taxpayers suspects that others were not paying then the suspicious taxpayer may also stop paying. Once both taxpayers stop paying tax the total utility becomes 0 unit as each gets net utility of 0 units. As a consequence of both taxpayers not paying tax the net utility for A is higher in Square 4 than Square 2. Similarly utility for B is higher in Square 4 than in Square 3. Thus from the individual's point of view it is more advantageous not to pay than paying. Given the free riding problem, even if the "game" starts in Square 1 where every one pays it might end up in Square 4, even though the total net utility is lowest there.

As reported for example in Fehr & Gächter (2000), the outcome in many public goods experiments is that the number of subjects who contribute to the public goods falls for each round the situation is repeated, so that after a while only a small number pay.

From this perspective it is interesting to note that the population of people paying their property tax bills might be falling if data in Chapter 8 is considered, in the sense that the number of established taxable properties increase but with no matching increase in property tax revenue.

A situation where every one would try to be a free rider might be an extreme case. When it reaches a point that no one paid taxes the machinery of the government would break down and there would be no supply of public services. But a practical situation is that of many people choosing not to pay their tax bills and only a smaller number pays. Under such circumstances what should be done to change the situation? In public good experiments, for example, people can be motivated to make some contribution for the public good if others also contribute or by punishment (Fehr & Gächter 2000).

The theoretical example in Figure 10.1 is meant to show the property taxpayers' situation in Dar es Salaam. While it would not be correct to conclude that no one was paying property tax, it would be reasonable to comment that a considerable population of property taxpayers are tax delinquent. Considering that individual taxpayer's tend to act according to what others do, the study (Chapter 9) has shown that some property owners are not keen in paying their tax bill for reasons that others do not pay and no punishment was being instituted against them. This has consequently affected the Municipal Councils' revenue performance and their ability to supply local infrastructure and services.

Illustration 2

In this example the tax environment is modelled to illustrate the tax authority – taxpayer game situation. In this case the focus is only on the tax payer's expectations about what happens in different cases. If a taxpayer thinks that others will not pay their tax bills or that the tax authority (municipality) will not provide the services, then the expected payoff will be as in Figure 10.2 below.

		Tax Authority	
		Provide	Do Not Provide
Taxpaer	Pay	Taxpayer payoff: 15 Probab. = 0.10	Taxpayer payoff: -15 Probab. 0.90
	Do Not Pay	Taxpayer payoff: 30 Probab. = 0.05	Taxpayer payoff: 0 Probab. = 0.95

Figure 10.2: Tax authority – taxpayer game model

Expected payoffs:
If taxpayer Pay = 0.10 *15 + 0.9 (-15) = -12
If taxpayer Do Not Pay = 0.05 * 30 + 0.95 * 0 = 1.5

In this case the payoff from paying the tax will be lower (-12) than the payoff from not paying (1.5). Thus from the taxpayer's point of view it is more profitable not to pay the tax as the payoffs under this option are higher than if one paid. Given the situation the government cannot provide public services because people don't pay taxes, whereas people are unwilling to pay taxes because the government does not provide services. Figure 10.2 illustrates the property tax situation being experienced in Dar es Salaam.

In this illustration it is assumed that if a specific group of taxpayers honoured their tax liability there would still be only 10% probability for the government to provide services. As many taxpayers are assumed not to pay taxes the probability for the government not to provide services would be 90%. The worst situation is when every taxpayer decides no to pay taxes. Under such circumstances the probability for the government not providing services would increase to 95%. The outcomes in this game represent a "vicious circle", because each player is justifying his/her actions based on expectations about what others are doing.

Again the question is how do players get out of this conflict? Should the tax authority introduce threats in the tax environment to induce cooperation from taxpayers since the interactions are repeated? Should the government opt for a more optimistic strategy by signalling its intent to cooperate with the hope that the taxpayers would respond by cooperating? It is argued that signal of intent to cooperate by one player could lead to a cooperative outcome when the opponent also decides to cooperate (Davis, 1983). As an example attempts by the city commission to provide services during its term of office can be seen to amount to signal of intent to cooperate. It has been reported (Franzsen & Semboja, 2004) that there was improvement in service delivery and subsequently local taxes collection levels increased. Thus the taxpayers decided to cooperate in response to the City commission's actions.

Like the first model, the tax authority – taxpayer game reflects the property tax situation with the Municipal Councils in Dar es Salaam. The study has revealed that taxpayers are resistant to paying taxes because the municipal councils do not supply public services. On the other hand the Municipal Councils are unable to provide public services because they do not collect sufficient revenue from taxpayers. The dilemma confronting

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Municipal Councils in both cases is how to tackle the revenue performance issue. The question is what kind of incentives would induce the taxpayers to paying their tax bills? Do enforcement instruments in place have a role to play in changing the situation or do Municipal Councils have to think of other options. The discussion in Chapter Nine indicated that the enforcement mechanisms available for the municipal councils have not been effective in inducing property tax compliance. The situation calls for a combination of both incentives and coercive measures. In the section about policy recommendations, possible ways of changing this kind of situation are discussed.

10.5 Recommendations and Possible Policy Options

On the overall the property tax administration system is critically hampered by the inadequacy of resources. While it is acknowledged that the cost of administering property tax is high, there is little indication that the taxing authority is devoting enough resources to increase revenue performance. The costs of administering property tax include costs of monitoring data in the fiscal cadastre, cost of valuation, costs of property tax collection as well as general and administration costs. Observations from the Municipal Council Financial reports indicate that resources allocated for property tax administration are far below what would enable satisfactory performance of property tax functions. As an example one municipal council had budgeted TShs. 28, 36, 92 million in 2000, 2001 and 2002 respectively for the valuation office. Out of the budgeted amount a larger proportion is committed to salaries for staff working in the valuation office and a smaller amount is left for other activities.

Budget for rating valuation is not regular but occurs in a specific year when new properties are to be valued. Proposal by the government to retain 10 percent of the collected property tax revenue for property tax administration is not a regular practice. It has been observed that even if this amount was made available it would not be enough to cover all property tax administration functions especially when one considers that the property tax revenue collection is low and a larger proportion of rateable properties have to be valued. Other activities are regarded more pressing than for example increasing valued properties in the roll. Given that property identification and valuation must be continuous processes it is important therefore for the taxing authority to consider improving the property tax administration system for improved revenue performance.

Apart from property tax administration issues the weak revenue performance is also attributable to taxpayers' unwillingness to pay local taxes including property tax,

which has the potential to contribute substantially to the council revenue. While the taxpayers resist paying taxes the situation of services in the city is wanting. The challenge is how to get the taxpayers to pay their tax bills. The crucial issue for the Municipal Councils is to increase property tax revenue and one possible way of achieving this may be to motivate the taxpayers to comply with their tax liability. Kelly & Montes (2001) argue that voluntary compliance is dependent on taxpayers who are satisfied with local service delivery, revenues that are collected fairly, and also overall financial management and governance conducted in a transparent and acceptable manner.

In view of the situation confronting the municipal councils regarding weak revenue performance and the resultant inability to deliver municipal services, and considering the potential of property tax in generating revenue, a number of possible policy options are recommended. The policy options are aimed at improving property tax revenue performance of the councils. The improved revenue performance might result in increased efficiency in service delivery, which would further result in increased property values and subsequently property tax revenue.

10.5.1 Investment in property tax administration.

One possible way of addressing the challenge is recognition of the important role played by the property tax administration system and that revenue performance can only be realised where the system is enabled through substantial resource investment. Thus it is important for the taxing authority to provide funding for enhancing the property tax database system, property valuation and property tax collection. More revenue can be generated when there is adequate information about taxable properties, majority of properties are listed on the valuation roll, and collection strategies are improved. The investment could be done through the Municipal Councils considering setting aside a certain proportion from annual property tax collections for property tax administration. The amount to be set aside should not be optional but rather treated as a cost like other expenses deducted from the gross amounts of the collected property tax revenue. This will act as a guarantee that the revenue amount is reserved to cover property tax administration costs every financial year. Thus the municipal councils should think in terms of investing money in property tax administration for increased returns.

Apart from increasing resources for property tax administration there is a need for the municipal authorities to provide incentives for the property tax administrators.

Incentives could be in form of increased remuneration or introducing bonus schemes tied to property tax revenue levels or both.

10.5.2 Opt for minimum cost approaches

There is a need for the taxing authority to adopt approaches that would lessen property tax administration costs. For instance on identification and registration of rateable property the Municipal Councils could institute a self-declaration approach, which would require each property owner to furnish the tax authority with information about his or her property. Standard declaration forms would be designed for each property owner to provide information about ownership, location, house type, size, and construction type. The filling of the forms should be made statutory and attached with a mechanism for detecting false reporting so as to minimise cheating. The property information provided in the standard forms would enable creation of property database and property categories. Furthermore this information would provide a basis for assessment of tax liability for individual properties using the flat rates before resources for proper valuation are made available. However property tax administrators would need to carry out research in order to categorise the taxable properties and determine property tax flat rates that would be applicable to different groups of properties. The major groups could be categorised as residential, commercial, industrial and institutional properties.

The proposed approach is to be treated as a short-term solution while research on suitable method for mass appraisal in the obtaining environment is undertaken. Even though property banding has been proposed in other studies (McCluskey, et al, 2003), it might not be so easy to establish a manageable number of value bands given the characteristics of the property market in Tanzania. Nevertheless it remains a proposal for long-term consideration. On the other hand individual parcel valuation should be reserved for high value properties such as industrial and institutional properties, hotels, fuel stations, housing estates, office complexes and houses in high property value areas.

As a way to enhance property database management it is important that municipal councils created a link between the property tax administration system and the units that handle property related information. For example the property tax administration system should be linked with the land survey unit responsible for subdivisions, a development control unit responsible for issuance of building and occupancy permits, and the lands section responsible for processing and registration of titles. With this kind of coordination

the property tax administration system would be in a position to obtain some of the property information useful for updating data in the established property database.

10.5.3 Property census, streets naming and house numbering.

Physical counting of properties should be a starting point for establishing the property tax base size of Dar es Salaam. Just knowing the number of properties found in each jurisdiction would be an opportunity for estimating the potential revenue, even if the flat rate benchmark were used. By comparing the revenue amount collected with the potential revenue, the revenue gap established could act as incentive for the tax authority to increase resources for property tax administration functions for increased revenue collection.

Furthermore, Municipal Councils in Dar es Salaam should seriously consider assigning names to streets, which have remained unnamed for years. For some areas it would be just a matter of adopting and making official the street names already identified and recognised by community residents. It is also important that the authorities numbered all houses. For planned areas the council could pass a by-law that requires each house owner to identify his or her property by affixing a plot number on a conspicuous part of the house. On the other hand the authorities would have to design unique identification numbers for individual properties in each sub ward.

10.5.4 Enforcement of property tax compliance

In order to address the revenue collection inefficiency issue, the taxing authority should look into ways of making effective the non-compliance deterrent instruments in place. The taxing authority could start by acting on big defaulters among the taxpayer community for others to appreciate that the enforcement machinery is likely to work when the authority is determined to do it. However, punishment alone cannot succeed in motivating property owners to meet their tax liability. It follows therefore that penalties need be accompanied with non-coercive measures. One possible way is for the municipal councils to improve on their image to the taxpayers by performing their service delivery obligation. Thus response to the taxpayer's outcry on the lacking service delivery could motivate property tax compliance.

10.5.5 Exemption from property tax liability

The level of exemption from property tax liability also affects property tax collection. A considerable number of properties though not known with certainty are property tax

exempt. These exemptions constitute a sizeable share of revenue eroded from the expected tax collections. It is important therefore that the level of exemptions is checked for enhanced property tax revenue collection. Local authorities need to conduct studies to establish the magnitude of exempted tax base from liability to property tax and the revenue that is lost as a result of exemptions. The established level of lost revenue as result of exemptions would form a basis for local authorities to lobby for review of policy on property categories that qualify for exemption from property tax and also the liberal practices in granting exemptions.

10.5.6 Capacity building at local administrative level

The study has demonstrated the far reaching role taken up by local leaders in facilitating some of the crucial property tax functions like tax base identification and property tax collection. Local leaders especially sub-ward leaders have been assisting valuers with identification of rateable properties at property inspection stage. Likewise they have also been involved in the distribution of tax demand notices to the taxpayers. Furthermore sub-wards are assigned the duty to keep property registers while considerable part of the property tax revenue is collected at ward offices. Nevertheless the local leaders' facilitation arrangements are not prescribed within the property tax administration system but have worked for the convenience of the property tax administration system.

The situation calls for the taxing authority to seriously consider formalising the role of the local administration system within the property tax administration process. Considering the important property tax functions performed by the local offices, it becomes necessary to improve their capacity in handling such functions. Employing technicians to be stationed at ward offices and work with the local leaders could enhance their capacity. The technicians would act as main data collectors who would be guiding the local leaders in handling property tax related functions assigned to them. Furthermore the assignment of duties to local leaders should be accompanied by formal remuneration.

10.5.7 Understanding the taxpayers concerns

It is quite apparent that municipal councils need taxpayers' cooperation in increasing property tax compliance. This can only be achieved if the councils established a clear understanding of the taxpayers concerns that need to be addressed. Council's response to the concerns could be one way of motivating the taxpayers to comply. The taxpayers

feeling that they get little or none in return for the taxes they pay desires considerable attention by the Municipal Councils.

From the study the lack of municipal services has emerged as a major incentive for property owner's resistance to pay property tax. There is a need for the Municipal Councils to devise means by which municipal services are provided in order to justify the levying of property tax. It came out quite obviously from the respondent property owners that they were willing to pay property tax if they would be assured of municipal services availability. Some of the respondents further argued that the individual tax liability is small but an increase would only be justified when the Municipal Councils were ready to spend the tax money for the benefit of the taxpayers.

As a way of addressing problems related to service delivery the Municipal Councils should work towards involving civil society participation. The municipal councils could exploit the initiatives and potential already existing in local communities where people have organised themselves through formal registered CBOs or informal unregistered groups to address municipal service related problems they were facing. Examples of success in improvement of basic infrastructure services by community organisations in some settlements in Dar es Salaam are well documented in a recent study (Kyessi, 2002). The approach is in line with the challenge of urban governance relating to the need to involve all stakeholders in addressing issues of community concern. Hence there is a need for the Municipal Councils taxpayers, CBOs, NGO and civil society to work together towards improving property taxation for increasing local revenue.

There is sufficient evidence that property owners have been financing connections to infrastructure service systems individually. Based on the practice there is a lot of potential to cooperate if they were assured that the taxes they paid would be directed to the provision of basic infrastructure services in their local areas. This could be attained through establishing property tax collection system at community level where considerable part of revenue collected would be retained for financing investment and maintenance of infrastructure and part of it paid to the Municipal Council. In this way the taxpayers would be able to participate in the planning and implementation of expenditure of the revenue they contribute to, and subsequently see the results. Through their participation the community members would be informed about the amount of revenue collected and how it is spent. Where the taxpayers are informed about the taxes they pay the local politicians would be made to exercise more care in spending the money. On the other hand the taxpayers would be more vigilant in observing the behaviour of their local

authority. Thus activities conducted in a transparent manner would improve accountability.

For the proposed strategies to be effective, collaborative efforts are required between the community organisations and the local leaders. The local leadership system would be entrusted with revenue collection and overseeing implementation of infrastructure projects. On the other hand representatives of community organisations would participate in the implementation activities and act as watchdogs for the interest of the community members. The outcome of such actions would be generating revenue that would be spent on the maintenance of infrastructures that have been put in place and ultimately improved physical environment in the settlements.. The amount of trust that community members have invested in local leaders plus the various functions they perform for the benefit of the community have also been acknowledged in a number of studies (Mwasumbi, 2003; Kyessi, 2002; Kombe, 1995)

Nevertheless, such arrangements can require substantial initial capital investment, which the local community cannot raise within a short period of time. Thus one possible way of addressing the problem of initial capital would be the use of a 'special rate' levy. Special rate is provided for under the Urban Authorities Rating Act and may be imposed and levied on properties located in an area where a capital work scheme has been undertaken by the local authority and has benefited property owners in such a rateable area. But initially the local authority would need to borrow funds to finance the project and then recover it from the special rate revenue. The special rate arrangement however, would be appropriate in high-income areas where it is assumed that people have the ability to pay. This supports the fact that people in these areas have been financing their private utilities provision arrangements and yet honours their tax liability.

For the areas where the majority of residents are poor a worthy option would be to explore a possibility of accepting property tax payment in kind in place of cash. This could work if infrastructure service provision was made a priority by local government authorities such that people who could not pay their tax liability in cash would be made to provide quantifiable labour input to the construction of infrastructure project or maintenance works. In this way each property owner would be made to pay property tax instead of the taxing authority counting on tax arrears that may not be recovered. Contribution in form of voluntary labour has been tried in urban infrastructure provision through community participation in informal settlements in Dar es Salaam where the poor were made to contribute labour in place of cash (Kyessi, 2002). However, the introduction

of payment of property tax in kind needs prior research for establishing the size of the property owners' population who have no ability to pay in cash and subsequently would be subjected to paying their tax liability in kind.

10.5.8 Effecting provisions in the local government legislation.

While investment in infrastructure services is costly, Municipal Councils operate under severe financial constraints. On the other hand the legislation that empowers local authorities to generate revenue from taxes does not state the proportion of revenue collected that should be devoted to provision of municipal services. For instance the law says that rates levied under the rating act should be distributed among various levels of the local government authority in accordance with the regulations made. The Local Government Finances Act on the other hand authorises a local government authority to incur all expenditure necessary and incidental to the proper carrying out of the functions or duties entrusted to it by law. Moreover under the same piece of legislation it is stated that; instead of providing any service, which it is authorised, to provide a local government authority may make a financial contribution or management to the service board so that the board may provide the service within the authority's jurisdiction.

Considering the legal provisions it appears that local authorities are given powers to decide on expenditure priorities, which may not necessarily accord due priority to the taxpayers' interests. This is illustrative from the study as service delivery is given the least attention not withstanding that it is of highest priority to the taxpayers. Furthermore municipal councils' expenditure budgets allocate insignificant amounts for infrastructure development and municipal services provision. Under such circumstances therefore it becomes evident that service provision is given the least attention. But if a local government authority is to justify its existence by improved service delivery as prescribed in the ongoing local government reform programme there is a need for the government to look into the enabling laws. It is important that the law made it mandatory that a proportion of revenue collected should be committed to municipal services provision. Such provisions in the law would provide guidance to the actors in the local government authority when determining expenditure priorities.

10.6 Conclusion

This study has provided empirical demonstration of how property tax is implemented in Dar es Salaam. The empirical findings depict serious administration problems confronting

the property tax practice. The findings also show that the property tax administrators are trying hard to work within the difficult conditions, as the support from the Municipal authorities is not sufficient enough to facilitate the whole property tax administration undertaking. For instance lack of or inadequate property information is a critical problem confronting property tax systems in developing countries, Tanzania inclusive. The study findings have revealed that property tax administrators in Dar es Salaam have adopted the use of the local administrative machinery as a means to addressing the problem of inadequate property information. Although it might not be the best option the strategy has helped in increasing the size of the identified property tax base.

Findings from the study have also shown that property tax revenue performance requires recognition of the importance of the role of all actors in property taxation. The Dar es Salaam property tax system does not accord the taxpayer demands the right priority and this has consequently affected the Council's revenue performance.

Understanding and acceptability of a property tax system by the taxpayers are crucial for efficient property taxation. The findings of this study have put into light the perceptions of taxpayers in Dar es Salaam as to their understanding and acceptability of the property tax system. The taxpayer concerns have indicated their understanding of the importance of property tax in that it is imposed with intent to contribute to the locally generated revenue. The revenue is meant to finance local government expenditure and more importantly provision of local infrastructure and services. While they are not against property taxation they want the Municipal Authorities to provide services in return for the taxes they pay. The taxpayers also want to be regarded as customers who expect value for their money, and are respected as partners in making property tax a success. Thus property tax revenue performance stands a chance of being improved if the local government authorities were ready to gain the cooperation of the taxpaying public through infrastructure and service delivery.

Investigating the views of sample property owners in this study has been a methodological contribution in studying property tax systems. Information obtained from property owners (property taxpayers) was useful for analysing and understanding the property tax practice in Tanzania. The taxpayers' views about property tax provided lessons on what was expected of taxing authority by the taxpayers.   Perceptions of property taxpayers as to the acceptability of their property tax system are an element that has rarely featured in previous studies on property taxation.

10.7 Further Research

This study has touched upon just some of the property tax issues that need more in depth understanding. Further research needs to be conducted on property information generated at sub-ward offices so as to come up with possible methods that can best capture and document such information. The property information should be able to facilitate assessment of flat rates. This study could not cover the outsourcing of property tax collection function, a strategy that has been recently adopted in the property tax administration in Dar es Salaam. A study on the outsourcing approach will help to inform other rating authorities about the impact of contracting out the collection function on property tax revenue.

While lack of local infrastructure and services has emerged as a strong factor causing non-payment of property tax, more understanding of whether there was a link between compliance with property tax and infrastructure delivery is needed. Thus research should be conducted in areas that have been upgraded so as to establish if the provided infrastructure has had any influence on the level of compliance with property tax.

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Appendix 1

Schedule of property tax flat rates

S/NO	DESCRIPTION OF RATEABLE PROPERTY	MAIN BUILDING GEA	TAX ASSESSMENT CATEGORY (TSHS)
1	Residential Low Density	Up to 100 m^2	30,000
2	Residential Low Density	100m^2-150 m^2	45,000
3	Residential Low Density	Over 150 m^2	75,000
4	Residential Medium Density	Up to 75 m^2	23,000
5	Residential Medium Density	75m^2-100 m^2	25,000
6	Residential Medium Density	Over 100 m^2	30,000
7	Residential High Density	Up to 50 m^2	10,000
8	Residential High Density	50m^2-75 m^2	15,000
9	Flat Prime Area	Up to 50 m^2	25,000
10	Flat Prime Area	Over 50 m^2	30,000
11	Flat Secondary Area	Up to 50 m^2	20,000
12	Flat Secondary Area	Over 50 m^2	25,000
13	Commercial Prime Area	Up to 50 m^2	75,000
14	Commercial Prime Area	Over 50 m^2	100,000
15	Commercial Secondary Area	Up to 50 m^2	50,000
16	Commercial Secondary Area	Per 50 m^2	75,000
17	Office Prime Area	Up to 50 m^2	30,000
18	Office Prime Area	Over 50 m^2	45,000
19	Office Secondary Area	Up to 50 m^2	23,000
20	Office Secondary Area	Over 50 m^2	30,000
21	Heavy Industry	Up to 400 m^2	375,000
22	Heavy Industry	Over 400 m^2	750,000
23	Light Industry	Up to 250 m^2	300,000
24	Light Industry	Over 250 m^2	450,000
25	Service Industry	Up to 150 m^2	100,000
26	Service Industry	Over 150 m^2	150,000
27	Residential Complex	Up to 500 m^2	450,000
28	Residential Complex	500m^2-700 m^2	475,000
29	Residential Complex	Over 750 m^2	600,000
30	Commercial Complex	Up to 200 m^2	600,000
31	Commercial Complex	200m^2-400 m^2	625,000
32	Commercial Complex	Over 400 m^2	675,000
33	Industrial Complex	Up to 600 m^2	600,000
34	Industrial Complex	600m^2-800 m^2	750,000
35	Industrial Complex	Over 800 m^2	1,125,000
36	Un-surveyed /Semi-Permanent Residential	Over 100 m^2	10,000
37	Un-surveyed /Semi-Permanent Commercial/Residential	Over 100 m^2	15,000
38	Un-surveyed /Semi-Permanent Commercial	Over 100 m^2	30,000
39	Un-surveyed/Permanent Residential	Over 100 m^2	12,000
40	Un-surveyed Permanent Commercial/Residential	Over 100 m^2	18,000
41	Un-surveyed/Permanent Commercial	Over 100 m^2	45,000
42	Surveyed/Semi-Permanent Residential	Over 100 m^2	12,000
43	Surveyed/Semi-Permanent Commercial	Over 100 m^2	45,000

44	Surveyed/ Permanent Commercial/Residential	Over 100 m^2	25,000
45	Surveyed/ Permanent Commercial	Over 100 m^2	45,000
46	Cinema	Up to 100 seats	75,000
47	Cinema	Over 100 Seats	150,000
48	Bank	Secondary Branch	750,000
49	Bank	Main Branch	1,000,000
50	Petrol Station	Filling Point	75,000
51	Petrol Station	Filling Station	150,000
52	Petrol Station	Service Station	225,000
53	Institution	Up to 500 m^2	750,000
54	Institution	Over 500 m^2	1,500,000
55	Hotel/Rest House	Up to 10 beds	75,000
56	Hotel/Rest House	11-20 beds	100,000
57	Hotel/Rest House	Over 20 beds	200,000
58	Guest House	Up to 10 beds	50,000
59	Guest House	Up to 20 beds	75,000
60	Guest House	Over 20 beds	100,000

Source: Dar es Salaam Municipal Councils Bylaws[41]

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[41] Local government authorities are authorised to make bylaws to generate revenue under Section 13 and 15 (c) & (e) of the Local Government Finance Act (No.9), 1982

Appendix 2

Interview guide: Municipal Council Valuers

Topic	Questions
Tax base and taxpayers identification	• How do you identify taxable properties? • How do you identify your property taxpayers? • How many taxable properties have been captured in the jurisdiction's property tax database? • Do you have an operational property registration system? • What proportion of the tax base is exempted from property tax liability?
Real Property Valuation and rate assessment	• What can you say about the rating valuation assignments undertaken by private valuation firms? • How is quality of valuation output ensured? • The valuation procedure in tender documents specified rates of construction per square metre and depreciation rates when carrying out rating valuation. • Do you think it is necessary to restrict valuation consultants to stick to the specified the rates? • What criteria do you use to determine the rate of construction per square meter for different locations and different types of properties, as well as depreciation rates? • What problems do you encounter in administering the whole rating valuation process? • Who determines the tax rates? • Flat rates are levied on properties, which have not been valued. What criteria do you use to determine the flat tax rates? • What do you think should be done to increase property tax coverage
Billing and Collection	• What procedure do you follow to get the bills/tax demand notice to the taxpayers? • How do you ensure property tax demand notices are delivered to the taxpayers? • What methods do you employ in property tax collection? • What is the actual revenue collection as compared with the revenue potential based on the number of properties captured in property tax database? • Would you know the average cost of collecting property tax revenue per property? • How much of the collected revenue is allocated for the collection task? • Would you know what proportion of the property tax revenue collected goes to service delivery and local expenditure beneficial to the taxpayer? • Can you give a detailed description of the problems you encounter in property tax collection? • What do you consider to be the most significant factors affecting property tax collection? • Why have you been involving local leaders in the distribution of property tax bills? • Has the involvement of local leaders had any influence on property tax revenue collection? • Is there a mechanism to ensure that the local leaders act within the specified boundaries?
Compliance, appeals and enforcement	• In following up non-compliance what reasons do taxpayers give for not paying property tax? • Could you describe the appeals process? • How do you facilitate the appeals process? • Could you remember the number and interval of sittings held by the appeals tribunal to hear objections? • What is your assessment of the effectiveness of the Appeals Tribunal? • How do you enforce property tax compliance? • Do you have examples of measures that your council have instituted to enforce property tax payment? • How do you measure the effectiveness of your enforcement strategies?
Municipal Authority and Taxpayer relationship	• What are the responses of property owners when you follow up payment of the tax bills? • To what extent is the Municipal Authority committed to the local community demands for infrastructure and services?

Appendix 3

INTERVIEW GUIDE: REAL PROPERTY VALUATION FIRMS

Company name…………………………………………………………………….

Director/Valuer …………………………………………………………

Topic	Questions
Valuation Process	• Which local authority did your firm work for? • How many properties did you value in a single assignment? • How much time was given to accomplish the job? • How many valuers were engaged for that assignment? • Could you describe the duties that the engaged valuers assumed in the course of undertaking the rating valuation contracted to your firm? • What was the average amount paid for valuing one property? • What administrative procedures did you follow to finally produce the valuation roll for the council you worked for?
Property information	• Does the local authority you worked for, have comprehensive property data base to facilitate identification and easy accessibility to the properties being valued? • How were properties identified during the property inspection stage? • How did you ensure the obtaining of the right information about each property considering that it is difficult to find people at home when carrying out property inspection?
Valuation Procedure	• What approach did you adopt in valuing real properties for rating? • The recommended valuation procedure in the tender document specified value ranges and depreciation rates applicable to different property categories. Did you find the specified values per square metre and depreciation rates useful in the whole rating valuation exercise? • How realistic were the specified value and depreciation rates? • How did you ensure quality control in your work? • Given the choice would you be comfortable to be left to estimate real property values independently instead of using the specified value rates? • What are your views on the possibility of introducing Mass Appraisal Techniques in our rating valuation environment?
General	• What limitations did you encounter in the process of undertaking the rating valuation? • Is there anything that you think the local council should do to improve the situation? • What are your views about rating valuation in Tanzania?

Appendix 4

QUESTIONNAIRE FOR PROPERTY OWNERS/TAXPAYERS

Questionnaire Number……………Urban Area Category…………………………….
Name of Interviewer……………………………………………….
Date of Interview………………………………
Name of Respondent………………………………..Birth Date………………………

Q1.   Property Identity
      1.   Plot No…………….....…Block…………………………………………..
      2.   Property Tax Number………………………………………………
      3.   Mtaa (Sub-ward) …………………………………………………….
      4.   Ward…………………………………………………………………..
      5.   Municipality…………………………………………...………………
      6.   Owner………………………………………………………………….
      7.   Ownership evidence……………………………………...…………….

Q2.   Tenure
      1.   rented……………………………………………………………..
      2.   owner occupied…………………………………………...……..
      3.   parly rented, partly owner occupied…………………………………
.
Q3.   How did you acquire the property?
      1.   Bought with loan
      2.   Bought without loan
      3.   Self constructed with loan
      4.   Self constructed without loan
      5.   Inherited

Q4.   Use of property
      1.   Residential
      2.   Commercial
      3.   Residential/commercial

Q5.   Property Characteristics
      1.   Building type……………………………………………………………
      2.   Construction:
      2.1.   Roof material……………………………………………...………….
      2.2.   Walls………………………………………………………………
      2.3.   Floor………………………………………………………………….
      3.   Accommodation Size (rooms)
      3.1.   Bedrooms……………………..

3.2.	Sitting room	1. Yes	2. No	
3.3.	Kitchen	1. Yes	2. No	3. Outer unit
3.4.	Toilet	1. Yes	2. No	3. Outer unit
3.5.	Shower room	1. Yes	2. No	3. outer unit

      3.6.   Other………………………………………………………………

4.	Condition	1.	Very good
		2.	Good
		3.	Average
		4.	Poor
		5.	Very poor

      5.   Services:

5.1	Piped water	1. Connected	2. Not con.	3.Conn. no water
5.2	Electricity	1. Yes	2. No	
5.3	Sanitation type	1. W.C. CP	2. Pit latrine	3. WC Cent. sewer.
5.4	Garbage disposal	1. Onsite	2. Municipal service	
5.5	Vehicular access	1. Yes	2. No	

Q6.   How much did it cost you to get connected to?
        1.   Water (TShs.)…………………….…1.2.Year of connection………….
        2.   Electricity (TShs)………………...…2.2. Year of connection…………

Q 7.   What has been the assessed property tax you pay?
        Year   Assessment (T. Shs.)   Paid/did not pay
        1. 1998 …………………………...   1. Paid   2. Did not pay
        2. 1999 …………………………..   1. Paid   2. Did not pay
        3. 2000 …………………………….   1. Paid   2. Did not pay
        4. 2001 …………………………….   1. Paid   2. Did not pay
        5. 2002 …………………………….   1. Paid   2. Did not pay
        6. 2003 …………………………….1. Paid   2. Did not pay

Q8.   What property related taxes are you supposed to pay per annum?

Year	Land Rent (TShs)	Property Tax (TShs)	Other (TShs.)
1. 1998			
2. 1999			
3. 2000			
4. 2001			
5. 2002			
6. 2003			

Q9.   What is your source of income that you spend on paying property tax? ………...
………………………………………………………………………………………………

Q10.   How do you get to know that you are required to pay property tax in respect of your property?
        1. Received bill from local authority by post
        2. Bill delivered home
        3. Information at public meeting
        4. Radio
        5. Newspaper
        6. Informed by Ward Executive Officer/ Mtaa Leader
        7. Other…………………………………………………………………..

Q11. Have you had problems in paying your property tax bill?
        1. Yes **(Go to question 12)**
        2. No **(Go to question 14)**

Q12.   What problems do you face in paying your property tax bill?
……………………………………………………..………………………………………………………
…………

Q13.   If you have found it difficult to pay the tax, what action has the Municipal council taken?
        1. issued reminder
        2. took legal action
        3. denied me other services (e.g. trade license)
        4. fined
        5. Other (specify)………………………………………………….

Q14.   Where do you pay your property tax dues?
        1. at Municipal Council Offices
        2. at the Bank
        3. at the Post Office
        4. collected by local leaders from home
        5. at the Ward/Mtaa office

Q15.   Is the mode of payment convenient to you?
        1. Yes
        2. No **(go to question No. 16)**

Q16.   What mode of payment do you think would be more convenient to you?
……………………………………………………………………………………………..

Q17.   How would you like to make payments of your property tax bill ?
        1.   one instalment
        2.   in more than one instalment
        3.   monthly

Q18.   What do you think about the amount of property tax that you have to pay?
        1.   too low
        2.   just about right
        3.   too high

Q19.   If you are unhappy with the amount of tax you pay how much would you be willing to pay per
        annum? T.Shs……………………………………………………

Q20.   Was your property valued before a tax bill was sent to you?
        1.   Yes **(go to question 21)**
        2.   No **(go to question 25)**

Q21.   Who answered questions asked by valuers regarding your
        property?………………………………….

Q22   How much was the value of your property as established by the valuers?
        TShs………………………..

Q23.   Were you satisfied with the assessed value of your property?
        1. Yes (go to question 30)
        2. No
        3. If No give reasons…………………………………………………………………..

Q24.   What do you think would be the correct value of your property?
TSh.……………………………………………………………………………………
(go to question 26)

Q25.   If your property was not valued, were you told the basis of the property rate you had to pay?
……………………………………………………………………………………………………….

Q26.   Do you know you have the right to object if not satisfied with the value of your property as
        determined by the valuer?
        1. Yes

        2. No.

Q27.   Did you lodge an appeal to the taxing authority objecting the value assessment of your property?
        1. Yes
        2. No

Q28.   If you filed an appeal how many months did it take the taxing authority to respond to your appeal?
……………………………………………………………………………………………

Q29.   What were the results of the appeal?
…………………………………………………………………………

Q30.   Do you think it is justified for the Municipal Council to levy property tax?
        1.Yes (give reasons)………………………………………………………………………..
        2. No (give reasons)…………………………………………………………………………

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Q31.   The Municipal Council has been demanding property rates from property owners.
        How have you benefited from the property tax you pay?
        ……………………………………………………………………………………..

Q32.   What in your opinion should the Municipal Council do to motivate taxpayer's
        compliance?…………………………………………………….…………………

Q33.   Generally what are your views about real property taxation? …………………………
        …………………………………..…..

Q34. Sex of Property owner
        1.   Female
        2.   Male

Q35.   Education
        1. Primary
        2. Secondary
        3. Higher Education……………………………………………………
        4. Other (Specify)……………………………………………………………

Q36.   Marital Status
        1. Single
        2. Married
        3. Divorced
        4. Widowed
        5. Separated

Q37. Economic Activity
           1. Employed
           2. Trade
           3. Other (specify)…………………………………………………………..

Q38. Monthly Income (TShs)

        1.   0 - 50,000/=
        2.   51,000 – 100,000/=
        3.   101,000 – 200,000/=
        4.   201,000 – 300,000/=
        5.   301,000 – 400,000/=
        6.   401,000 – 500,000/=
        7.   Over 500,000/=

Q39.   Monthly Expenditure (T. Shs.) on:
        1   Food……………………
        2   Energy:
            2.1 Electricity……………….
            2.2 Charcoal………………
            2.3 Kerosene………………
        3   School fees……………………….
        4   Transport………………………….
        5   Clothing……………………………
        6   Other………………………………..