

Unlocking the Property Tax Potential for Domestic Revenue Mobilization

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EPRN Conference

Kigali, June 27, 2024

Property taxes should be a popular, progressive and easy to collect tax.



High revenue potential, as properties are visible and immovable



Relatively progressive tax linked to wealth, as compared to largely regressive local taxes and fees



Transparency potential through links to observable wealth

- Most underperforming major tax type
- Frequently highly regressive and unfair
- Limited links to service delivery
- Weak accountability
- Various reform barriers



vs



- ▶ **Highly incomplete property records:** Many systems aim to legally register properties before they can be taxed, but this process is time-consuming, costly, incomplete, and difficult to update
- ▶ **Inefficient property valuation systems:** Most countries rely on either (a) expert valuation, which is costly and non-transparent, (b) zonal systems that lack progressivity or (c) incomplete and unverified self-reporting systems.
- ▶ **Lack of automation:** Many systems are still manual, making data management very difficult and limiting opportunities for control and transparency.
- ▶ **Ineffective cooperation** between government agencies, compromising administrative efficiency
- ▶ **Weak links between revenue collected and service delivery**, limiting public trust and tax compliance
- ▶ **Political resistance to reforms, from** administrators, top taxpayers and central governments, which limits reform and effective enforcement of tax obligations

Is the push for capacity development and technology an adequate strategy for reform?

OR

Can reform strategies be simplified and better aligned to existing capacity, institutional and political constraints?

1. Simplified Property Identification

▶ Problems

- Many systems rely on central government registration of land and land ownership prior to property taxation. Such registration is contentious, costly and slow – creating a barrier to property taxation
- Local addressing systems are often complex and incomplete, leading to gaps in registration and undermining delivery and enforcement

▶ Strategies

- Allow properties to be registered for tax purposes *separate from* formal cadaster processes – and use data to support land registration
- Use satellite data to identify and map properties and support simple addressing.



▶ Problem


- Expert valuation is slow, expensive and subjective – and so often out of date, incomplete and prone to collusion and corruption
- Area based systems are highly regressive, undermining revenue, equity and trust

▶ Strategy

- Hybrid valuation models – often called “points-based”
- Build simple models for translating easily observable property characteristics into taxable values.
- Reduced costs, increased speed, very transparent.



Features	Result	Reviewed Weight
Surface Area (in sq ft)	39222.5	198.047
Original Use	Domestic	+ 0 %
Domestic Ground Use	Yes	+ 0 %
Street Quality	Average	+ 0 %
Street Lighting	No	+ 0 %
Number of Lanes	None	- 6 %
Street Access	Easy	+ 0 %
Drainage	Yes	+ 10 %
Features: Beach	No	+ 0 %
Features: Environmental Hazard	No	+ 0 %
Features: Main Road with High Visibility	No	+ 0 %
Features: Informal Settlement	No	+ 0 %
Features: Commercial Corridor	No	+ 0 %
Features: High-valued Area	No	+ 0 %
Potential to Build	Yes	+ 10 %
Water	Yes	+ 3 %
Grade of Design	Traditional	+ 0 %
Wall Material	High-value material	+ 0 %
Wall Quality	Good	+ 21 %
Wall Finish	Painted or Whitewashed	+ 0 %
Fence Material	High-value material	+ 21 %
Fence Condition	Good	+ 0 %
Roof Material	Low-value material	- 17 %
Roof Condition	Good	+ 13 %
Windows	Medium-value material	+ 0 %
Air Condition	No	+ 0 %
Security	Yes	+ 15 %
Garage	No	+ 0 %
Outbuilding	No	+ 0 %
Pool	No	+ 0 %
Veranda	Yes	+ 12 %
Location	Ward: 444	+ 37 %
Constant (Base Value)	211232.99	211232.99




**FREETOWN
CITY COUNCIL**

PROPERTY RATE DEMAND NOTICE 2020

To the owner,
c/o {Contact Name}

You are hereby served this Demand Notice for the payment of the Freetown City Rates Property Rates for the year January 2020 to December 2020. This notice is pursuant to the Local Government Act 2004 Part VIII Section 69. Please read this notice carefully. If you believe that there has been an error in the recording of your property, or relevant contact information, and would like it corrected, you can contact the Valuation Officer at Freetown City Council on 17 Wallace Johnson.

Property ID	{Prop ID}	Address:	{Address}
Ward:	{Ward}	Plus Code [G]:	{Plus Code}




Property Class:	Domestic	Detailed Description of Characteristics and Adjustments	
Roof Line Measure (sq. ft):	675	Feature	Result Adjustment
Number of Floors:	2	Street Condition	
Total Rateable Surface Area:	1350	Street Lighting	
		Street Status	
Surface Area Value (square root of rateable surface area) [A]:	36.74	Car Access Width	
Base Value [B]:	231,859	Property Street Access	
Initial Assessed Value (rounded down) [C]:	8,500,000	Drainage	
		Section	
Total Adjustments [D]: -33%	-2,805,000	Position Special Features	
Assessed Annual Value [E]:	5,695,000	Land Potential to Build	
Mill Rate [F]:	3%	Building Wall	
		Wall Finish	
Property Rate Payable:	Le. 170,850	Wall Condition	
		Fencing and Gate	
Payment Made*:	Le. 0.00	Fencing Condition	
Penalty**:	Le. 0.00	Roof Type	
FY2020 Balance Owing:	Le 170,850	Roof Condition	
		Air Conditioning	
Past Arrears (unpaid amounts from previous years):	Le. 0.00	Windows Quality	
		Garage	
Total Payable:	Le. 170,850	Outbuilding	
		Pool	
		Security	
		Grade of Design	
		Domestic use ground floor	
		Total Percent	

Your Tax Money at Work in {Ward}


The City Council uses property tax revenue to provide vital services all over the city. In {Ward}, your tax payments have allowed the FCC to deliver improved sanitation, roads and bus services, among others. The Council is dedicated to improving service delivery further as part of its ambitious #TransformFreetown Agenda. Pay taxes to help develop our city.

Ms. Yvonne Aki-Sawyer



Mayor of Freetown

Mr. Festus Kallay



Chief Administrator

Further Information

How Your Property Was Assessed

The FCC used high-resolution satellite images to precisely and reliably measure the square footage of every roof in the city. The larger the roof and the more floors a building has, the higher the property rate. We also visited every single property in Freetown to measure and record 26 property and location characteristics that were used in adjusting your property tax. This process of valuation was the same for every property owner in the city. If you believe that there has been an error in the recording of your property, contact or owner information, please come to the Enquiries Desk at Freetown City Council on 17 Wallace Johnson. If you would like to confirm the name of the property owner please also bring a Certified Copy of Conveyance and/or Probate Document. Note that this RDN notice does not constitute proof of ownership.

Why the FCC Collects Property Taxes

Property taxes are an important revenue source for city governments around the world. At the FCC, we worked hard to modernize our property tax system to make it as fair and equitable as possible, and ensure that every property owner in the city contributes their fair share. These revenues are essential to fund expanded services, and develop our city, as part of the Transform Freetown agenda. Property taxes are especially important this year to finance our response to the challenges of COVID-19, including improved sanitation services and flood prevention—together we can confront the crisis and protect our most vulnerable citizens.

Explanation of Terms

[A] Surface Area Value: The surface area value tells you how much the size of your property increases its rateable value. It is calculated as the square root of the surface area. The value of a property increases as it gets larger, but that increase is proportionately smaller as properties get larger—an extra 100 sq ft of surface area matters more for smaller properties.

[B] Base Value: The base value is used to capture the average rateable value of a square footage in Freetown. As property values in the city increase over time the base value will also increase.

[C] Initial Assessed Value: The initial assessed value is based on the total area of your property, and is calculated as $Surface Area Value \times Base Value$. The larger your roof and the more floors your building has, the higher the initial assessed value.

[D] Total Adjustments: The adjustment is based on 26 characteristics of your property. The less valuable these characteristics are, the more negative is the adjustment and the lower is the property tax.

[E] Assessed Annual Value: The assessed annual value is equal to the initial assessed value adjusted for property characteristics: $Assessed Annual Value = Initial Assessed Value \times (1 + Total Adjustments)$.

[F] Mill Rate: This is how much property tax citizens in Freetown are required to pay for every unit of the assessed annual points value. This rate is 3% for domestic properties, 4% for commercial properties and 2% for government properties.

[G] Plus Codes: These are codes that identify your property, in order to ensure that every property has a unique identifier and is included in the tax system.

A Valuation Example

For a property with a roof line measurement of 1,250 sq ft and 2 floors, the total surface area is 2,500 sq ft. The $Surface Area Value$ is the square root of 2,500 = 50. The $Surface Area Value$ is multiplied by the $Base Value$ to get the $Initial Assessed Value$: $50 \times 200,000 = 10,000,000$.

If the 26 property characteristics are below average—e.g. an undesirable neighbourhood, lack of access to roads, or poor construction—then a negative adjustment will be applied. If the negative adjustment is -50%, then the $Assessed Annual Value$ will be the $Initial Rateable Value$ of 10,000,000 multiplied by 0.5 = 5,000,000.

This assessed annual value is then multiplied by the mill rate of 3% to arrive at the $Property Rate Payable$. In this hypothetical example, the owner is required to pay Le. 150,000 as property tax.

▶ Problem

- Automation is critical to improvements, but many systems are complex, very expensive, unsustainable and/or create “lock-in” with providers
- Procurement is subject to significant risks of corruption and, at minimum, very limited market transparency

▶ Strategy

- Adopting simplified and lower-cost systems, putting more emphasis on interoperability, flexibility and sustainable local support, avoiding “lock-in” with providers

4. Building Trust and Political Support

▶ Problem

- Very limited public trust leads to low compliance and limited political support for reform
- Low trust reflects (a) lack of transparency and equity and (b) weak reciprocity/accountability, reflected in limited and poorly communicated service delivery

▶ Strategy

- Substantial outreach to taxpayers
- Reform strategies that provide transparency and evidence of fairness and equity
- Establish strong revenue-services linkages, potentially including participatory budgeting or earmarking of funds for visible public services

- ▶ Doubled assessed properties, fully mapped and automated
- ▶ Five-fold increase in revenue potential, driven by large increases in assessment for previously undervalued high-value properties

	Existing System	New System	Average increase
Average Rates Payable			
1st Quintile	138,948	41,846	-70%
2nd Quintile	153,700	91,917	-40%
3rd Quintile	156,184	168,780	8%
4th Quintile	226,748	358,198	58%
5th Quintile	403,853	1,379,520	242%

- ▶ Actual revenue tripled in the first full year of implementation, with compliance highest among higher-value properties
- ▶ Success in responding to political resistance by building popular and political support through transparency, participatory budgeting, clear evidence of impact

- The approach presented is not a one-size-fits-all but a template for thinking about the best strategies for reform
- Local strategies should reflect
 - Legal institutional constraints and settings
 - Technical capacity and resources
 - Administrative organization
 - Political dynamics

**Thank you
Murakoze**