

# CHAPTER 1: The Context and Problems Surrounding Property Tax and Rates

---

In general, systematic property registration increases income from property taxes/fees and allows the government to regulate tax evasions by utilising accessible information in the property database. Developed countries have realised that one of the important answers to the availability of land information required in collecting property taxes is the construction of a property database that will allow tax authorities to collect significant money for the government (Nengeze, 2018). Available literature suggests a bias toward the efficacy of property taxation systems in less developed countries because of outdated property databases that allows the government to collect more income that aids in improving service delivery. According to Bahl (2009), in industrialised nations, the bulk of property taxes are now collected based on the market value of the property and the revenue generated by the property. Similarly, Norregaard (2013) investigated how property has been taxed in Australia, United Kingdom, United States of America and France have continued to comprise a large component of the national income tax base. Property taxes have been identified as an important source of revenue for governments and local governments in industrialised nations such as the United Kingdom, Australia, and the United States of America. Although, some countries in Sub-Sahara Africa such as Botswana, South Africa, Zambia, and Zimbabwe have more or less extensive studies on property taxes, no comprehensive or collective research on property taxation in this wide sub-region of Africa has been conducted (Nengeze, 2018).

It evident that property tax and rates are underutilised as a source of income in developing countries, and has become prominent on the international development agenda (Moore *et al.*, 2008). Property tax collection is still quite low in less developed countries. Due to the fact that property taxes are levied on immovable property and buildings, taxpayers are unable to move to another jurisdiction to avoid them unless they sell them (Monkam and Moore, 2015). Gradually, but insistently, property taxation is emerging on the international development agenda, amid growing recognition that it is widely under-utilised as a source of revenue mobilisation, local state-building and urban redistribution (Moore 2004). Recent decades have seen widespread

recognition of the importance of tax in general as a tool of state-building and development, both in terms of its role in fostering a fiscal contract between government and the governed, and its capacity to increase self-reliance and self-determination in highly aid-dependent countries (Levi 1988; Lieberman 2002; Moore 2004; Bräutigam *et al.*, 2008).

Many of the tax reforms taking place across the developing world since the late twentieth century have, however, been primarily concerned with indirect taxes, and in particular the simplification and reduction of customs duties, and the introduction of Value Added Tax (VAT) (Moore 2004). Even where direct taxes are concerned, the primary focus has been on the creation of effective national revenue systems and the simplification of income taxation (Lieberman 2002). This makes sense given that the majority of taxation occurs at the national level almost everywhere, particularly in emerging nations with colonial and postcolonial legacies of centralisation. However, the increased attention being paid to tax reform has coincided with a boom in decentralisation measures throughout the developing world (Watson 2014). This is accomplished by gradually shifting more and more duties to local governments, who typically lack the financial resources to carry them out.

In the developing world, local governments frequently rely on a bewildering variety of taxes, administrative fees, payments for licenses and permits, fines, user fees for particular services, and various types of land use fees and rents to generate revenue. A sleeping behemoth among these is property taxation. An urban revolution is taking place in much of Africa, a continent that has traditionally been primarily rural and reliant on agriculture (Parnell and Pieterse 2014). Many of the continent's cities are expanding economically, physically, and demographically. Against a background of economic growth in many African states, cities on the continent have been termed the final frontier for international property development, and being spaces for capital accumulation by domestic elites (Watson 2014). The rapid growth of many economies in Africa and elsewhere in the developing world is in large measure driven by construction and other urban service sectors, especially given the difficulties of pursuing the more conventional forms of economic catch-up through industrialisation (Moore, 2004). Such property-driven development trajectories give property taxes a new sense of urgency since luxury real

estate is snatching up enormous sums of money in a lot of extremely impoverished nations while having unclear developmental effects (Lieberman, 2002; Moore, 2004). Yet despite considerable attention to property taxation by scholars and the development community in recent years with very few lower-income countries have a property tax system that is fit for purpose (Monkam and Moore, 2015).

When the property is sold, the seller may be subject to capital gains tax (CGT), income tax, and value added tax (VAT) in some cases. Despite the potential of the tax, the tax base has been eroded by a number of unreasonable exemptions, valuation inconsistencies, inability to update the valuation database, limited administration capacity and equipment, inaccurate land records and poor record-keeping, collection and enforcement challenges, lack of political support, and government interference in revenue collection (McCluskey, 1991). This study investigates the issues, opportunities, and pitfalls of the property taxation system in low-income neighbourhoods.

Property taxation and rating presents unique challenges because each country defines land and property differently using appropriate approaches of property taxation differently. Property frequently refers to both land and buildings, but it may also refer to plants and machinery, and specific possessions such as automobiles (Piracha and Moore, 2015). Using land and property in taxation and rating as a fiscal tool has been in practice for many years and is found worldwide (Bird & Slack, Eds. 2004). (Bird & Slack, 2004). The urban property tax is the most important source of revenue for local governments (Bahl & Linn, 2017). Historically, public finance economists have assessed property taxes based on their efficiency, incidence, and simplicity of administration. The primary problem from the standpoint of economic efficiency is the amount to which a tax creates inefficiencies into the economic system, so producing a "excess burden" in addition to the basic cost of tax payment (Keen and Slemrod, 2017). There is now a heated debate on this subject, on the one hand, Kellam and Kew, 2004) claimed that, local property taxes combined with municipal zoning rules, results in a system of benefit taxation that encourages households to make efficient geographical and budgetary decisions. Whereas Martinez-Vazquez and Youngman (2008) argue that, property tax differentials are similar to excise taxes that distort

local decisions and hinder the deployment of capital. As a result, in real practice, the justification for property taxes only on efficiency grounds is not entirely evident in low-income neighbourhoods since there is no established, updated, functional land records.

The previous understanding of the property tax that regarded it merely as an excise tax on housing and commercial buildings, implied that it was a regressive tax: housing expense, it was believed, drew a disproportionate fraction of income from poorer people rather than richer households (McGuire and Dana, 2019). The research done by Mieszkowski and Zodrow (2017) on the income elasticity of revenue generated from residential properties. The discovery that housing spending is broadly proportionate to permanent income showed that property taxation was more equivalent to an income-based tax. The so-called "new perspective" of the property tax regards the average tax rate across communities as fundamentally a tax on capital; as such, its incidence is likely to be extremely progressive (Mieszkowski, and Zodrow, 2017). This strategy predicts that the property tax is likely to be far more progressive than a sales tax, notwithstanding variations in the way that neighbourhoods are built up and the possibility that local governments act as excise taxes on certain traits. The third issue is how the property tax is administered because homes are rarely sold, tax liabilities must be determined using an anticipated or "assessed" value (Mirrlees *et al.*, 2011). Given that the ratio of assessed value to true market worth might differ significantly within a same taxation jurisdiction, many people expressed their displeasure with the tax.

Urban service industries, like construction and real estate, are a major contributor to Africa's current economic growth. This is seen in the continent's fast changing landscapes and the abundance of expensive real estate in its bustling metropolitan cities that is frequently accompanied by rising socioeconomic disparity (McCluskey, 1991). In this regard, national and international officials are increasingly realising the urgent need for local governments to improve their property taxation systems. Despite this, even in states considered particularly 'developmental' and committed to increasing tax revenue, property taxation has fallen by the wayside (Bahl & Linn, 2017). This study argues that, in addition to the usual technical and political

difficulties associated with property taxation, it is crucial in reform-oriented developing countries to understand the nature of land tenure systems and how they are changing, and historical legacies relating to land and housing (Moore 2004). Moves to introduce or improve property taxation system need also to be considered in relation to how contemporary development strategies constrain or facilitate investment in real estate, and the political economy underpinning this sector (Lieberman 2002). The report highlights critical themes for enhancing property taxation systems through an investigation of current property tax systems in low-income neighbourhoods in Zimbabwe and failed, halted, and ongoing land registration process attempts in Zimbabwe.

In Europe, several taxes are levied on the land and property, in 2020, the contribution of revenue generated from such taxes was estimated at 0.3% of the EU's GDP. In some other countries, they range from 0.7% of GDP in Belgium and France to 0.4% of GDP in Spain, with Estonia, Cyprus, Portugal, Romania, Slovakia, and Sweden having approximately 0.25% (Eurostat, 2021). France, Denmark, Germany, the Netherlands, Belgium, the United Kingdom, and the Republic of Ireland have completed or are in the process of completing substantial tax reforms over the previous decade (Kellam and Kew, 2020). Some emerging democracies such as France, Russia, UAE are examining and changing their relatively new taxation systems in response to developments in their property markets. Individual taxes do not exist in isolation from wider fiscal, economic, and political processes (Lieberman 2002). Property taxation, in all of its forms, is no exception to the rule that changing one tax impacts others.

Many nations are taking advantage of this chance to reform and enhance their tax administration systems, and to lower their tax rates to compete with those of other members (Kellam and Kew, 2020). As one of the first signs of the problems caused by traditional national taxation systems, the Dutch Ministry of Finance noted in the early 1990s that businesses were not only locating in the most tax-friendly areas, but also purchasing goods and services from other countries with lower tax rates and other costs (Kellam and Kew, 2020). This study will reveal unique issues for developing-country property taxation systems, but it also increases its effect potential by allowing

comparative analysis to inform future policies targeted at strengthening property taxation systems. This not only simplifies the assessment and collection process, but it also ensures a more acceptable and understandable tax base for taxpayers (Goodfellow, 2015). Furthermore, the local government will evaluate and analyse the money collected by each type of tax in the context of each country's local government and financial system.

After thirty years of committees and studies urging change, property tax reforms were adopted in North American nations in the 1990s. The primary motivation for reform was that the previous assessment method had caused disparities within and between property classes, and across municipalities (Moore 2004). These issues have been discussed for many years, but the situation became urgent in the early 1990s, when the number of successful assessment base appeals increased significantly, resulting in a major loss of the property tax base (Piracha and Moore, 2015). Simultaneously, a new provincial administration was implementing significant local government changes such as municipal restructuring and service realignment between local governments and the province. The revision of property taxes was part of a bigger financial revamp of local administrations of the potential and restrictions of property taxes (Kellam and Kew, 2020).

Property taxes are a significant source of revenue for governments worldwide, particularly at the local level (Norregaard, 2013). This is also true for the majority of the fourteen member states of the Southern African Development Community (SADC). Property tax is defined at the regional level as any yearly property tax charged at the local government level within SADC member states; three property-related taxes levied by different levels of government are briefly addressed (Norregaard, 2013). The revision of property taxes was part of a bigger financial revamp of local administrations. Property-related taxes include value-added tax, any sort of transfer tax on the transfer of immovable property (for example, transfer duty or stamp duty), estate duties and gift taxes, and capital gains taxes (Goodfellow, 2015). Despite the fact that no or limited data for the Democratic Republic of the Congo and the Seychelles could be obtained, it is fair to presume that property-related taxes are levied in some form or another in these two countries as part of a bigger financial reform of local administration.

However, the critical success factors in the region with regards to a potentially useful property taxation system to competent local government is to examine local authorities that function effectively. The determinants of success identified in the study that was done by Piracha and Moore (2015) include; location in an area with an adequate economic base; well-defined responsibilities in a satisfactory legal framework; capacity to mobilise sufficient resources; supportive central government activities; and appropriate management practices, including development of productive internal and external relations and satisfactory responsiveness to constituents. All of these factors are considered to be necessary, but none is independently sufficient to guarantee success that is a multidimensional and cumulative process of achievement of goals of local authorities (Kellam and Kew, 2020).

Due to these limitations, local governments in Ghana have been urged to exhaust all legal options to create their own income and wean themselves from an excessive reliance on subventions from the federal government. Ghana's local governments currently have access to a number of potential local level revenue streams. The Local Government Act (1993, Act 462) provides local governments the authority to levy market tolls, licenses, taxes, and property assessments to fund local development initiatives (Moore 2004). Property taxes are seen to be the most consistent source of income among them, and they help keep local government budgets balanced (Asiama, 2006). Property taxes are potentially revenue productive and revenue income elastic due to their large and quickly rising tax base (Sahari *et al.*, 2021). Particularly in metropolitan regions and cities, property taxes have the potential to generate significant revenue. Property taxes have the potential to bring in a sizable sum of money to improve service delivery for councils. This anticipated growth in developing countries would have an effect on Zimbabwe's urban population and present an opportunity for the country's tax base to increase when new urban infrastructure is needed.

According to Bahl *et al.* (2008), property tax has a sizable and quickly expanding tax base, making it potentially revenue-productive and income-elastic. According to McCuskey and Franzsen (2005), property taxes offer a significant opportunity to generate revenue, especially in urban areas.

Zimbabwe's urban population will be impacted by this anticipated expansion in emerging countries, and the country's tax base may grow as urban infrastructure develops (Moore 2004). More housing will be built as more people move to cities to meet the expanding population. As more homes are built, the tax base grows, increasing the amount of money that may be made.

Due to the rising complexity of local level development demands and the growing incapacity of central governments to consistently fund local governments in developing countries, local level income generation has assumed a crucial role in advancing local governance (Moore 2004). The central government's payments to local councils are frequently claimed to be insufficient, irregular, and in arrears, and the process of conceptualizing central-to-local level financing is fraught with serious difficulties (Banful, 2007). Property tax is another essential component of fiscal empowerment for local governments, according to Mathur *et al.* (2009). This is why the goal of this study is to determine if and how much municipal infrastructure might be financed by property taxes. Property tax's popularity as a source of local government revenue is not by chance, as it has many characteristics that fit within the framework of a good local government tax system (Moore 2004). Zimbabwe's property tax history dates back to colonial times, when various types of hut and house taxes were levied (Tawodzera and Chigumira, 2019). Following independence of Zimbabwe in 1980, there were almost no statutory powers to support the imposition of a property tax through the Urban Council Act and the act was passed after the Regional Town and Country Planning Act.

Property tax collection is minimal, and as a result of the system, the local authorities have massive debts and tax arrears. Because of inconsistency in rating valuation in Harare, recorded property market values are lower than current market values (Dammak, 2015). To boost revenue from property, it is necessary to restructure the tax base, assessment, collection, and administration systems for local authorities in particular and Zimbabwe as a whole. Due to the fact that many properties are not even registered to collect taxes for the government, nothing has been done to explore the difficulties, possibilities, and risks of Zimbabwe's property taxation system in low-income neighbourhoods. Due to inconsistent property grading and a failure to



take into account the value of upgrades on residential properties, Harare's property taxes are not generating as much revenue as anticipated. There are a number of exclusions, omissions, and reliefs available, and rating valuation anomalies, a failure to update valuation databases, and a lack of administrative staff and equipment. Land records that are inaccurate, inadequate record keeping, collection and enforcement concerns, and a lack of political backing and government intervention are all issues. Epworth is used as a research area because it has the greatest residential property and the largest percentage of informal settlements.

This study aims to explore the opportunities and constraints for property taxation and rating system in low-income neighbourhoods in Zimbabwe. This aim will be achieved through the following specific objectives and research questions:

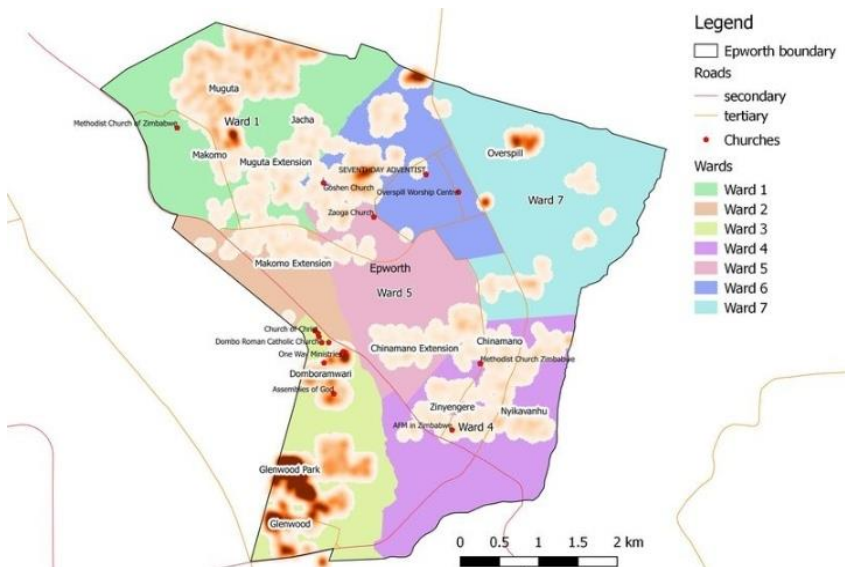
1. To analyse the existing property taxation, rating system and different types of property taxes applicable in low-income neighbourhood in Epworth
  2. To examine the problems of property taxation and rating in Epworth
  3. To explore the possibilities of an improved property taxation and rating system in Epworth
  4. To assess the possible legislative changes required to make effective property taxation system in Epworth
- 
1. What is the property taxation, rating system and the different types of property taxes applicable in low-income neighbourhood in Epworth?
  2. What are problems of property taxation and rating in Epworth?
  3. What are the possibilities of an improved property taxation and rating in Epworth?
  4. What are legislative changes required to make effective property taxation and rating system in Epworth?

The study assumes that the local and national governments are losing a lot of revenue in property taxation because of inefficient property taxation and rating system in low-income neighbourhoods.

The research seeks to enlighten various stakeholders on the possibilities of a functional property taxation and rating system since property taxes is a key income generator for the government revenue. Many residential and commercial properties in low-income neighbourhoods in peri-urban areas Zimbabwe are missing from the property register due to excessive informality in land distribution, resulting in local authorities losing income that should be collected and channelled towards service delivery. The literature on the examination of property taxation difficulties and opportunities is limited, particularly in developing countries hence the importance for the study to fill the literature gap (Nengeze, 2018). The research contributes towards expanding the knowledge base of the potential advantages of a functioning property taxation and rating systems in the global South. The study is in support of education 5.0 which aims in providing solutions to the societies hence the study aim is to contribute to the academic world by applying and assessing existing property taxation and rating challenges and proffer recommendations offered by the implementation of a multifunctional cadastre/functional property recordation system. The following stake holders benefit from the study in a different way as outlined below.

The study's findings will assist local authorities in improving their property taxation and rating system by reviewing the current legislative framework to increase income received from land and buildings. This is due to the fact that modifications to the property taxation and rating system may have a number of social and economic implications for the real estate market and other sectors that has an impact on the overall performance of the economy's output. The findings will assist Epworth Local Board and Zimbabwe Revenue Authority to know the challenges and opportunities they are facing in the collecting of revenue from property rates and taxes respectively. The research's suggested remedies to the problems with revenue collection will also be helpful to the management. As a consequence of the research, local authorities will be created that are able to operate profitably and provide services that are up to par. The citizens of Epworth will profit from this. The quality of life for citizens, the economy, and the progress of the country are all significantly impacted by how well local authorities offer services. Therefore, it is essential for local authorities to be able to raise enough money to ensure satisfactory service delivery and, as a result, an improvement in the citizens', the economy's, and the country's standard of living. Finally, this study also

aims to assist policy makers in Zimbabwe to come up with policies that will aid in the improvement of the country's property taxation and rating system, both in the public and private sectors.



The study has key words which will guide in giving a deeper understanding of the study hence they are defined below to give clarity on the meaning of some concepts which are relevant and used in this study. These key words give a basic meaning and relevant terminology used in the study. When conducting a comparative study of this size and complexity, extra care must be taken to ensure that the terminology used in the study is used correctly, understood, and applied consistently. Specific statute and common law terminology may have quite diverse interpretations in various countries, to address that, the following words are used consistently in this study and their key definitions are provided below;

- *“Immovable property”* refers to land, buildings and all permanent fixtures affixed to land that, in some jurisdictions, is generally referred to as “real property” (Norregaard, 2013). In the context of this study immovable properties are regarded as land and anything permanently attached to it.
- *Cadastre-* Barrios et al. (2019); defined it as an official register of the quantity, value and ownership of real estate used in apportioning taxes. There are three types of cadastre namely fiscal, juridical, land use and multipurpose. In this study, it is used to show the extent, value and ownership (basis for use or occupancy) of land.
- *“property/land tax”* refers to a yearly/ monthly tax on the ownership of unimproved or improved land, usually based on the size or value of the land alone, that is omitting all or most of the improvements made to the property (Moore, 2013).
- *Tax/rates Compliance* – Tax/rates compliance refers to the willingness of individuals to abide with tax/rates regulations without enforcement measures used (James and Alley 2012).

The monograph is categorised in five broad chapters delineated below.

**CHAPTER 1** - Chapter one proffers in detail the, introduction, background information of the study, the statement of the problem, goal (aim) of the study, objectives of the study, justification of the study and the scope of the study.

**CHAPTER 2** - We embody the review of related literature which is relevant to the study. This chapter expounds on the conceptual and theoretical framework of the study. The conceptual framework explores the diagrammatic representation of the model relevant to the study while the theoretical framework expounds meanings of various theories relevant to the study and available literature that explains and give a detailed meaning of each and every objective of this study.

**CHAPTER 3** - This chapter explains the methodology of the study, showing the data collection methods and some data analysis methods that were incorporated in the study.

**CHAPTER 4** - This chapter proffers in detail an analysis of collected data from the field as guided by the research objectives. The section concludes the study with a summary of the key findings of the research. All the various reasons for the findings are explained in detail to give a clear picture to readers.

**CHAPTER 5** - This chapter provides the conclusion and recommendations about the study. The recommendations are proffered to both individuals, and institutional real estate investors, and the government and other relevant stakeholders.

In conclusion, the chapter seeks to introduce the research gap of the property taxation system in low-income neighbourhoods in Zimbabwe. The background to the research, the problem statement, the aim and objectives of the research, research questions, research proposition and research justification or significance have been clearly explained in the text. The next chapter seeks to address the critical concept behind the property taxation system, relevant theories of the study case studies and experiences of property taxation process in low-income areas in both developed and developing countries.