

CHAPTER 6: Problems to Property Taxation and Rating in Epworth

This chapter presents results from the field about the challenges being faced by Epworth Local Board's property rating and taxation system. The researcher learned about these issues through the key informants.

The research findings revealed that, the absence of land records, immovable property taxes can be evaded because there is no proper documentation of information. By their very nature, immovable assets are nearly hard to conceal. The issue is that since recurrent property taxes demand a complete and accurate inventory of properties, such assets may not be reported to the Local Board. Key informants revealed that, there is absence of a cadastre, where properties are listed, and a register of property ownership that keeps track of transactions and identifies taxpayers. The efficiency of recurring property taxes is based on the standard of land management, as stated by Slack and Bird (2014) in their findings from the study of property taxation in peri-urban areas in Ghana. Findings from residents and Epworth Local Board officials revealed the existence of informal transactions. This suggests that the cadastre may not accurately reflect what actually exists on the ground and that informal construction threatens the accuracy of the land registration that may not be an accurate record of land ownership. The town planner for Epworth Local Board stated that the revenue base for both Epworth Local Board and ZIMRA's taxable income is being impacted by the expansion of the illegal land market that affects the transfer of property rights.

The research findings also indicate that there is inaccessibility of data of the transactions that are happening in Epworth as they are selling properties without the knowledge of the council or without the involvement of the qualified Estate Agents to handle their transactions. This means that, property tax and rates are charged where there is full proof of transaction pricing that is value-based. This implies that, all relevant information on sales prices, rents, and yields is required by the Epworth Local Board depending on the tax base whether it is the yearly or capital value and how the market functions whether access to property is by buying or renting it.

In real practice, value-based property taxes use transaction prices for properties that have changed ownership to estimate comparable property market prices. Statistical models are created from mass valuation systems that are frequently used to determine the key factors influencing pricing and their effects on it. Interviewed ZIMRA Tax Compliance officer acknowledged that, they demand that purchase prices be disclosed when transactions are logged, the register provides an apparent source of transaction price data. Similar to this, declarations made by purchasers and sellers should provide a database of property values if there is a property transfer tax. If notaries are required to handle transactions, they must be aware of how these fees are affected by transaction pricing.

In addition, obtaining thorough and accurate inventories of properties, their features, and high-quality data on transaction pricing is a huge job that necessitates a large initial expenditure. This is prior to working on modelling values, generating assessments using the models, and charging taxpayers. The administrative staff of Epworth Local Board revealed that, once the functional property rating system is in place, economies of scale will result in low administrative costs as a share of tax revenue and low valuation costs per property. The assumption that the tax rate would be set at a level that justifies the system's investment is implicit in the creation of value-based recurrent taxes.

To reduce default rates and collection costs, collection processes may also need to be enhanced. This was highlighted by the administrative staff of Epworth Local Board that, that in order for the transition to value-based recurrent property taxes and the administrative effort required to succeed, and to ensure that resources are made available for completing the tasks, there must be significant political support. Lithuania is a remarkable example of a country that successfully transitioned from an area-based system to a value-based recurring property tax (Almy, 2016). However, 32% of residents revealed that implementing a value-based assessment is not feasible in Epworth due to lack of property title, adequate services and standardised housing patterns. Since it was deemed to be unlawful in 2014, Slovenia has not adopted a well-designed value-based property tax system (Bibrik, 2016). Most rural properties in Moldova were not affected by the reforms since the transition from area-based to value-based property taxes (Chirisa 2013). The

problem was that while local governments would benefit from increased revenue, the central government would bear the bulk of the costs of expanding the system, particularly those associated with completing initial registrations for rural properties. The government has less resources because of financial constraints. At the time, it seemed as though policymakers were unaware of the connection between local government finances and the government's overall finances and the need to invest in raising recurrent property tax income. Epworth Local board reported that, they welcomed the decision that was made by the government to accept a World Bank loan in 2018 to finish initial land registration, enhance the cadastre, and expand the mass valuation system should result in the completion of the switch from area-based to value-based property taxation.

The research findings reveal that, in Epworth there is weak property tax enforcement which results in low collection percentages. Actual collections as a percentage of liabilities or invoices have been reported by the Local Board 2021 performance report that their revenue has dropped by 5% as compared to the previous year as a result of lack of cooperation from the residents of Epworth. This means that a low collection ratio may result from the tax being collected by local authorities who may have a political incentive to forgo effective collection efforts, and from expected penalties being too low. Additionally, when transfers from the centre account for a significant amount of local expenses, they may have a negative incentive effect on effective local tax enforcement. Any property tax reform that aims to increase the yield of the moveable property tax must take these administrative difficulties into consideration. In this paragraph, present findings from Epworth first before discussing international experiences

According to study findings, income taxes and the VAT are property taxes that are highly difficult to self-assess, with property owners having to provide an assessed value to their own property as shown in Box 4. This involves quite significant administrative costs because of the strict informational and record-keeping requirements, and the need for an efficient valuation system. As previously mentioned, a major issue in almost all developing countries is the lack of certified property assessors or valuers. The administrative challenges might compound one another if they are not adequately addressed, increasing the cost-to-revenue ratio of property taxes. The revenue equation

above makes it clear that a combination of poor coverage, value, and enforcement ratios will worsen one another, further amplifying their negative influence on yield. Additionally, it is sometimes essential to make an upfront expenditure to upgrade the administrative infrastructure required for an efficient property tax (establishing registration procedures, a cadastre, introduction of IT systems, and training programs). Again, in this paragraph, present findings from Epworth first before discussing international experiences

Property transfer taxes can have detrimental repercussions beyond their efficiency costs, perhaps making other valuation concerns much worse. Transfer taxes, sometimes in the form of stamp duties, are common in many countries, including in developing countries, for a variety of reasons. However, high property transaction taxes may encourage buyer-seller cooperation to undervalue properties when they are sold. By 'thinning' the market by reducing the overall volume of transactions, they exacerbate valuation issues and automatically undermine the value of property transactions as a key source of information on current market values for the cadastre. High transaction costs may hinder labour mobility that might have a negative impact on economic performance. Present key Epworth findings compare them with literature

Regular valuation is of great concern as they have a bearing effect on the revenue outcome for the local authorities despite the presented difficulties in low-income neighbourhoods such as Epworth. Once a land information system (Cadastre) has been established means that data will be available and it is crucial to keep updating it regularly for the purpose of property taxation and rating. This is because findings revealed that properties in Epworth have no title hence difficult to deliver market value for such properties coupled with the quality of housing structures. However, valuation issues typically result in tax value estimates that are far below market prices because of lack of centralised land information system. Low assessment ratios, or the ratio of assessed tax base to real market value, appear to be the norm for all of the common valuation techniques used in some properties in other neighbourhoods. According to Bahl (2009), many developing countries are drastically undervalued, with assessment ratios ranging from 25 to 50 percent in some Indian cities (rental value) and a wider range of 10 to 90 percent in

some Latin American cities. Another striking example comes from Fischel (2016), where the tax base for taxpayers who keep business books is the property's book value that is typically much lower than market values; an analysis carried out in one municipality reveals that for 83 percent of the properties, the book value is less than 50 percent of the market value (with 31 percent of properties lower than 10 percent of market values).

In addition, administrative staff at Epworth Local Board revealed that, they do not have a registered valuer to do valuation yet it is one of the key skilled personal who should give advice with regards of the relevance of valuation for taxation for all the properties in their area of jurisdiction. Hence the Local Board requires qualified valuers that are capable of assessing the worth of land and/or buildings at fixed intervals for taxation purposes. Most municipal governments in Zimbabwe such rural District Councils, Goromonzi Local Board, Zvimba Rural District council and others do not have the adequate skills and resources to manage such a model (Chirisa, 2013). Property registers and valuation rolls are frequently out-of-date or non-existent as a result of a bad tax policy and ineffective management. The fact that many cities lack street names and house numbers makes the matter worse. The administrative resources and tools needed to locate, evaluate, and assign a value to the taxable property are frequently few. In general, billing, collection, and enforcement are poor. The main obstacles to the creation of efficient property tax systems, however, are frequently far more political than administrative. Usually, significant legal exemptions reduce the tax base.

In conclusion, this chapter presented findings on problems of property taxation and rating system in Epworth some of the key highlighted problems are poor land records, lack of competent valuers, political interference in administrative operations of the Local Board and lack of sufficient resources to complete the settlement upgrade so that the neighbourhood will meet property development standards so that they can be able to have title. Hence the discussions supported the findings and the available literature with regards to the problems of property taxation system in low-income neighbourhoods in developing countries as presented by several cases and literature in chapter 2.