



TAX JUSTICE
NETWORK
AFRICA

WEALTH AND PROPERTY TAXATION



Context Setting

The growth of Africa's towns and cities has outpaced local governments' capacity for service delivery in terms of management, infrastructure, and financing.

As a result, many African towns and cities are now faced with a governance and financial crisis.

Policy makers are increasingly aware of the potential and need to mobilise domestic revenues through broad based property taxation.

Problem

Large tracts of land held under traditional or customary tenure, used for communal grazing and subsistence agriculture.

Botswana – 6% land freehold, 23% state owned and 71% customary

Uganda and Mozambique – 62% and 90% customary tenure



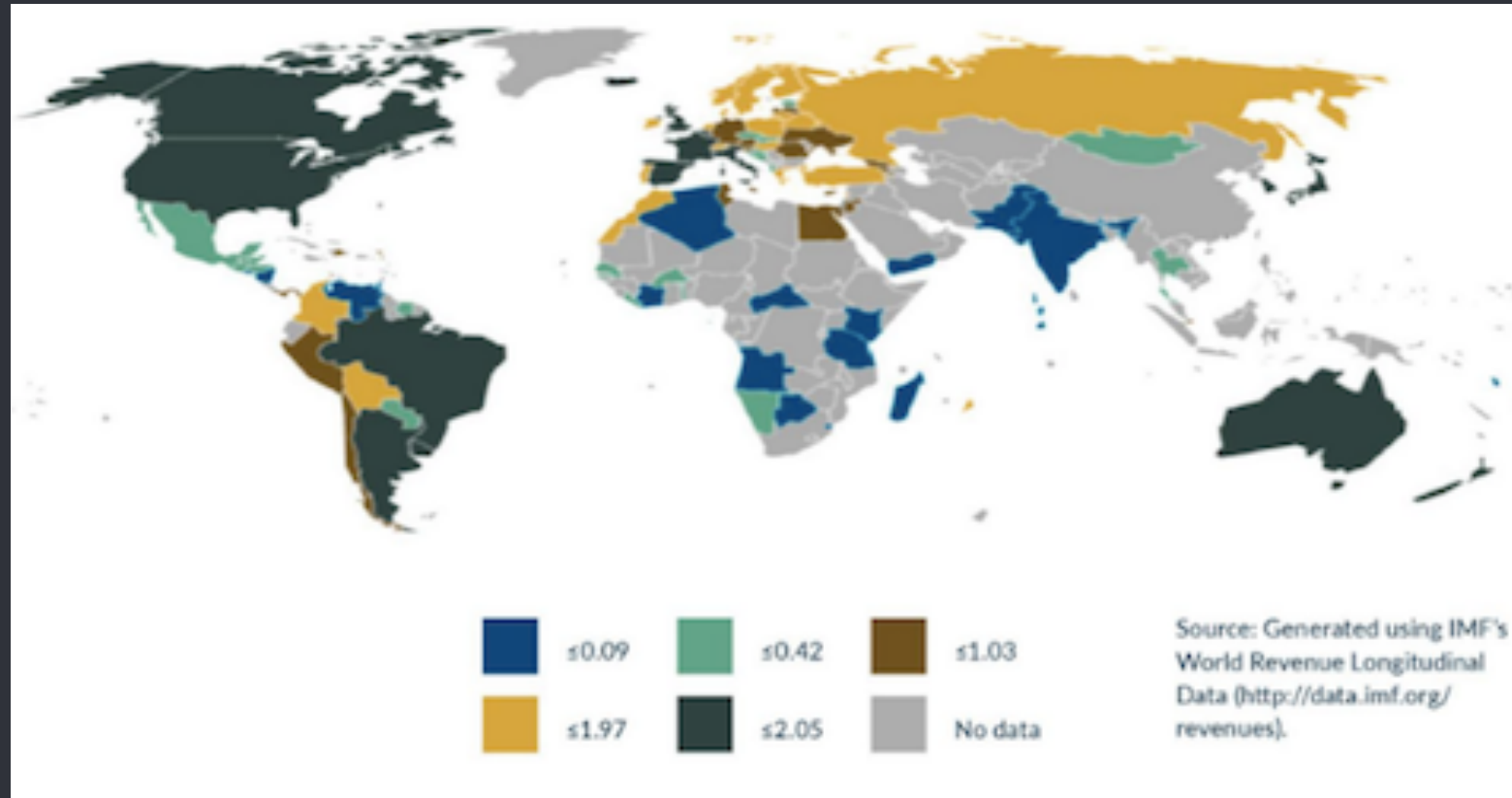
Traditional Forms of Land Tenure are a Problem for Property Taxation

Who is the taxable person?

How is the land to be valued?

How are the formal local government structures and traditional leaderships or chiefdoms to coexist?





Political, legal and administrative constraints inhibit the development of effective property tax systems (poor tax administration, tenure, limited information, narrow tax base, low tax rates, weak enforcement) - Efforts made: Kenya - iTax and rental taxation

An Unimportant Revenue Contributor?

Country ¹	Total Taxes as % of GDP (2012)	Fiscal Year	Property Taxes as % of GDP	GDP per Capita in USD (2012)	Income Level (2016)
Algeria ²	37.4	2011	0.00	5,584	Upper-middle
Angola	43.8	2012	0.15	5,532	Upper-middle
Benin	15.5	2012	0.24	808	Low
Botswana	26.9	2011	0.06	6,936	Upper-middle
Burkina Faso	15.6	2012	0.10	673	Low
Burundi	13.6	–	No data	244	Low
Cabo Verde	18.3	–	No data	3,498	Lower-middle
Central African Republic	9.9	2012	0.10	470	Low
Comoros	11.8	–	No data	750	Low
Congo	9.5	2008	0.32	391	Lower-middle
Côte d'Ivoire	16.0	2013	0.07	3,191	Lower-middle
Democratic Republic of the Congo	10.2	–	No data	1,281	Low
Djibouti	18.5	–	No data	1,587	Lower-middle
Egypt	13.2	2012	0.83	3,226	Lower-middle
Equatorial Guinea	11.9	2009	0.03	23,278	Upper-middle
Ethiopia	9.7	–	No data	470	Low
Gabon	15.1	–	No data	10,642	Upper-middle
The Gambia	14.5	2008	0.53	505	Low
Ghana	15.4	–	No data	1,642	Lower-middle
Guinea	19.2	–	No data	487	Low
Guinea-Bissau	7.9	–	No data	559	Low
Kenya	15.6	2012	0.01	1,185	Lower-middle
Lesotho ³	54.8	2011	0.70	1,159	Lower-middle
Liberia	21.1	2012	0.15	414	Low
Libya	1.2	–	No data	13,035	Upper-middle
Madagascar	9.1	2010	0.06	445	Low
Malawi	21.4	–	No data	270	Low
Mali	14.2	2011	0.70	642	Low
Mauritania	17.4	–	No data	1,283	Lower-middle
Mauritius	18.9	2012	1.39	9,114	Upper-middle
Morocco	24.5	2010	1.75	2,931	Lower-middle
Mozambique	19.1	2011	0.70	565	Low
Namibia	31.0	2012	0.15	5,680	Upper-middle

Country ¹	Total Taxes as % of GDP (2012)	Fiscal Year	Property Taxes as % of GDP	GDP per Capita in USD (2012)	Income Level (2016)
Niger	14.5	2010	0.06	394	Low
Nigeria	10.2	–	No data	2,740	Lower-middle
Rwanda	13.6	2011	0.1	667	Low
São Tomé and Príncipe	14.2	2012	0.32	1,488	Lower-middle
Senegal	19.3	2012	0.10	1,019	Low
Seychelles	29.6	–	No data	12,845	High
Sierra Leone	10.7	2010	0.05	619	Low
South Africa	23.2	2013	1.60	7,592	Upper-middle
Sudan	5.4	–	No data	1,662	Lower-middle
Swaziland ³	36.0	2012	0.05	3,989	Lower-middle
Tanzania	11.6	2011	0.08	828	Low
Togo	15.4	2010	0.24	581	Low
Tunisia	21.0	2012	0.53	4,188	Lower-middle
Uganda	10.5	–	No data	656	Low
Zambia	15.0	2008	0.03	1,687	Lower-middle
Zimbabwe ²	26.3	2012	0.00	851	Low

Sources: IMF (2015, 2016); Jibao (chapter 25); <http://data.worldbank.org/about/country-and-lending-groups>.

3 Broad Categories of Property Taxes

1. **A per unit tax** (tax on residential property, flat tax per property unit)
2. **An area – based tax;** applied where insufficient market data exists to implement a value based system (Burundi, DRC, Sudan)
3. **Value – based tax;** annual value taxes (Ghana & Uganda), unimproved land value or site value taxes (Kenya), capital improved value or market value taxes (South Africa)



Anglophone Africa Property Taxation

Country	Tax Base(s)
Botswana	Capital values of land and buildings, assessed separately but taxed collectively
The Gambia	Annual rental value (buildings only)
Ghana	Depreciated replacement cost of buildings only
Kenya	Land value only in most instances; area or rental value (for agricultural land) allowed by law
Lesotho	Capital value of land and buildings separately (split-rate system)
Liberia	Capital value of land and buildings separately (split-rate system)
Malawi	Capital value
Mauritius	Annual rental value; land value (for some properties)
Namibia	Capital value of land and buildings separately; land value, building value, land and buildings collectively, and area (used in small rural villages) also allowed by law
Nigeria	Annual rental value in some states; capital value in Lagos State
Seychelles	No recurrent property tax
Sierra Leone	Annual rental value (buildings only)
South Africa	Market value (capital value)
South Sudan	Area
Swaziland	Capital value of land and buildings separately; land value, building value, and land and buildings collectively also allowed by law
Tanzania	Depreciated replacement cost of buildings only
Uganda	Annual rental value
Zambia	Capital value
Zimbabwe	Land only (Harare); land and buildings separately with collective capital value as a further option

Country	Rental Income Tax ¹	Property Transfer Tax	Capital Gains Tax	Inheritance and Gift Taxes	Recurrent Property Tax
Botswana	No	Yes	Yes	Yes	Yes
The Gambia	No	Yes	Yes	Yes	Yes
Ghana	No	Yes	Yes	Yes	Yes
Kenya	No	Yes	Yes	No	Yes
Lesotho	No	Yes	Yes	Yes	Yes
Liberia	No	Yes	Yes	No	Yes
Malawi	No	Yes	Yes	Yes	Yes
Mauritius	No	Yes	No	No	Yes
Namibia	No	Yes	No	No	Yes
Nigeria	No	Yes	Yes	No	Yes
Seychelles	No	Yes	Yes	No	No
Sierra Leone	No	Yes	Yes	No	Yes
South Africa	No	Yes	Yes	Yes	Yes
South Sudan	No	No	No	No	Yes
Swaziland	No	Yes	No	No	Yes
Tanzania	No	Yes	Yes	No	Yes
Uganda	Yes	Yes	Yes	No	Yes
Zambia	Yes	Yes	Yes	No	Yes
Zimbabwe	Yes	Yes	Yes	Yes	Yes



Lusophone Africa Property Taxation

Country	Rental Income Tax ¹	Property Transfer Tax	Capital Gains Tax	Inheritance and Gift Taxes	Recurrent Property Tax
Angola	Yes	Yes	Yes	Yes	Yes
Cape Verde	Yes	Yes	Yes	No	Yes
Guinea-Bissau	Yes	Yes	No	Yes	Yes
Mozambique	Yes	Yes	Yes	Yes	Yes
São Tomé and Príncipe	Yes	Yes	Yes	Yes	Yes

¹ The rental income tax is levied separately from the personal or corporate income tax.

Table 34.3 Property Tax Bases in Lusophone Africa

Country	Tax Base(s)
Angola	Annual rental value
Cabo Verde	Capital value
Guinea-Bissau	Annual rental value
Mozambique	Capital value (buildings only)
São Tomé and Príncipe	Capital value



List down the types of wealth and property taxes in your country that you are aware of



PUBLIC GOOD OR PRIVATE WEALTH?

THE WEALTH OF THE WORLD'S BILLIONAIRES INCREASED \$900 BILLION IN THE LAST YEAR, WHICH IS:

\$2.5 BILLION A DAY



EXTREME POVERTY IS INCREASING IN SUB-SAHARAN AFRICA.

This new evidence also shows that 3.4 billion people (almost half of humanity) have barely escaped extreme poverty and are living on less than

\$5.50 A DAY



MEN OWN 50% MORE OF THE TOTAL WEALTH THAN WOMEN.



A recent study of 13 developing countries found that:

SPENDING ON EDUCATION AND HEALTH ACCOUNTED FOR 69% OF THE TOTAL REDUCTION OF INEQUALITY.



GETTING THE RICHEST 1% TO PAY JUST 0.5% EXTRA TAX ON THEIR WEALTH COULD RAISE MORE MONEY THAN IT WOULD COST TO:



Educate all the

262 MILLION

children out of school...



...and provide healthcare that would save the lives of

3.3 MILLION

people.

WHO PAYS?
ON WHAT?
HOW MUCH?



TAX JUSTICE
NETWORK
AFRICA

Objectives of the Session

1. What is property and what is taxed when it comes to properties?
2. Importance of the wealth and property tax as sources of DRM
3. Types of wealth and property taxes
4. Factors to consider in SSA
5. Areas of concern in SSA
6. Innovative solutions



THE WEALTH TAX



01

Difference Between Wealth and Property Tax

 **Dave Weigel** ✓
@daveweigel [Follow](#)

Warren explaining the wealth tax: "How many people here own a home?" Most hands go up. "You've been paying a wealth tax for years. They just call it a property tax. I just want their tax to include the diamonds, the yachts, and the Rembrandts."

2:38 AM - 28 Apr 2019

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Is there a difference?



Wealth Taxation

A wealth tax typically applies to net wealth, i.e., assets less liabilities

It can be levied periodically (e.g., annually) or as a one off capital levy

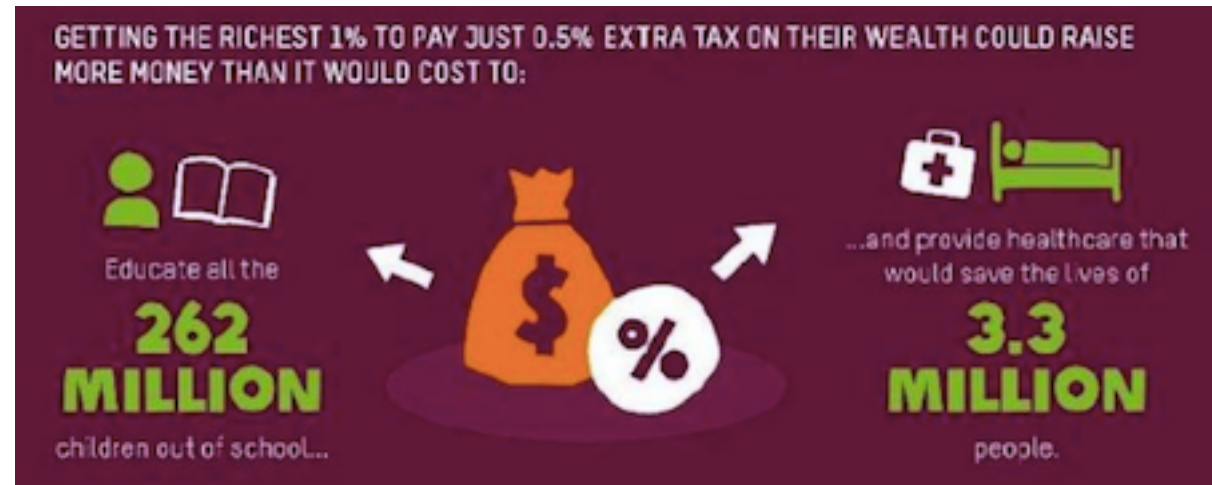
Related to the wealth tax is the property tax, which is levied annually on real property and is typically used to finance local government



A Global Wealth Tax

Call for a 1% wealth tax

World's 26 richest billionaires now own as many assets as the 3.8 billion people who make up the poorest half of the world's population



Research
A new billionaire is created every 2 days

Plan
Widening gap of wealth calls for a 1% wealth tax – can raise \$418 billion a year

Implication
1% of Bezos's (Amazon CEO, \$112 billion net worth) fortune equivalent to the whole health budget for Ethiopia, a country with 105 million people

WEALTH TAX IN/FOR AFRICA



Imposition



Imposed on holding of wealth, transfer of wealth or appreciation of wealth (on net worth, assets minus liabilities)

Potential



Does Africa have the potential to generate wealth taxes?

Challenges



What are the challenges that will need to be overcome?



Key Highlights

- 2015 – India (131 dollar billionaires) repealed its wealth tax, resulted in revenue loss of 10billion rupees (\$150 million)
- 30% of African wealth is held offshore
- Hard to assess wealth taxes in SSA as they either do not exist or are not very effective



Practical Issues

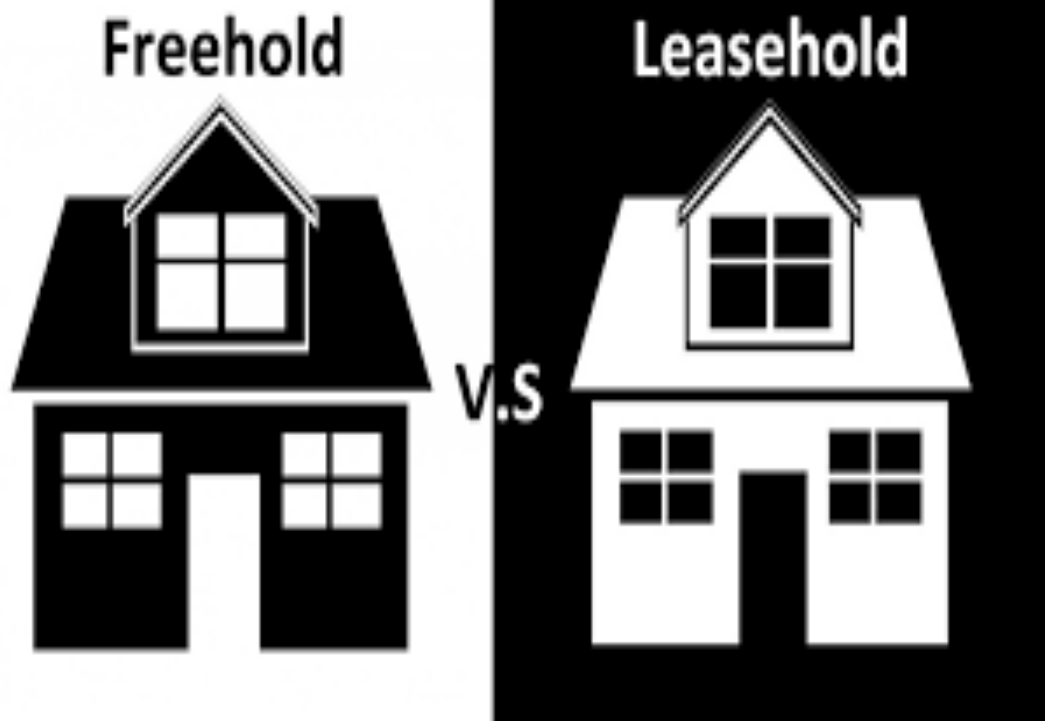
1. Valuation – practically difficult, how do you trace the asset?
2. Administration – if revenue authority can't identify those who should be liable to tax, how will it tax the wealth?
3. Compliance – does data on high net worth individuals in Africa exist? Do countries have a threshold to determine high net worth?



THE PROPERTY TAX



TYPES OF PROPERTY



TYPES OF PROPERTY

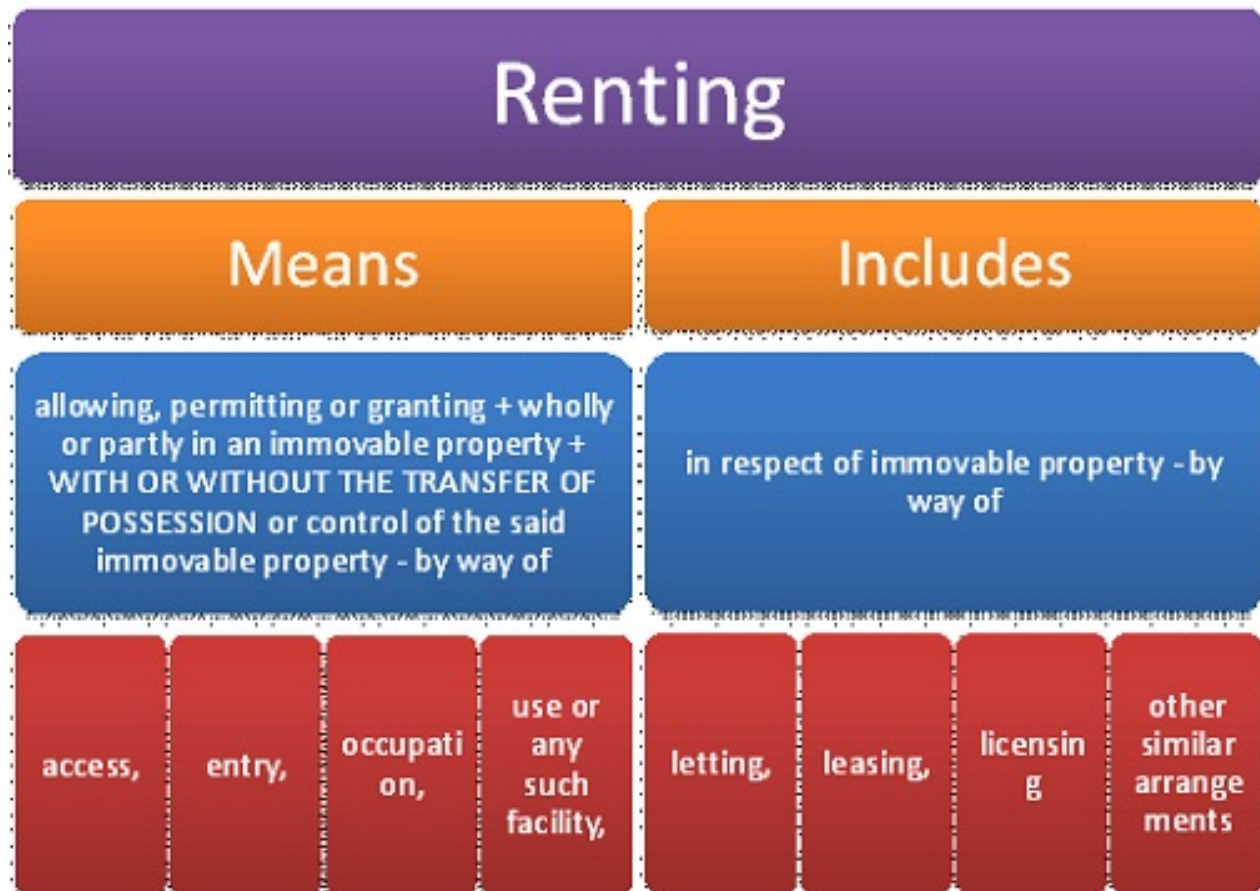
Classification of Gifts

Sum of money received without consideration i.e. "Monetary Gift"	Immovable property received without consideration i.e. "Gift of Immovable property"	Immovable property received at a reduced price i.e. "Immovable property received for less than its stamp duty value"	Specified Movable property received without consideration i.e. "Gift of Movable property"	Specified Movable property received at a reduced price i.e. "Movable property received for less than its fair market value"
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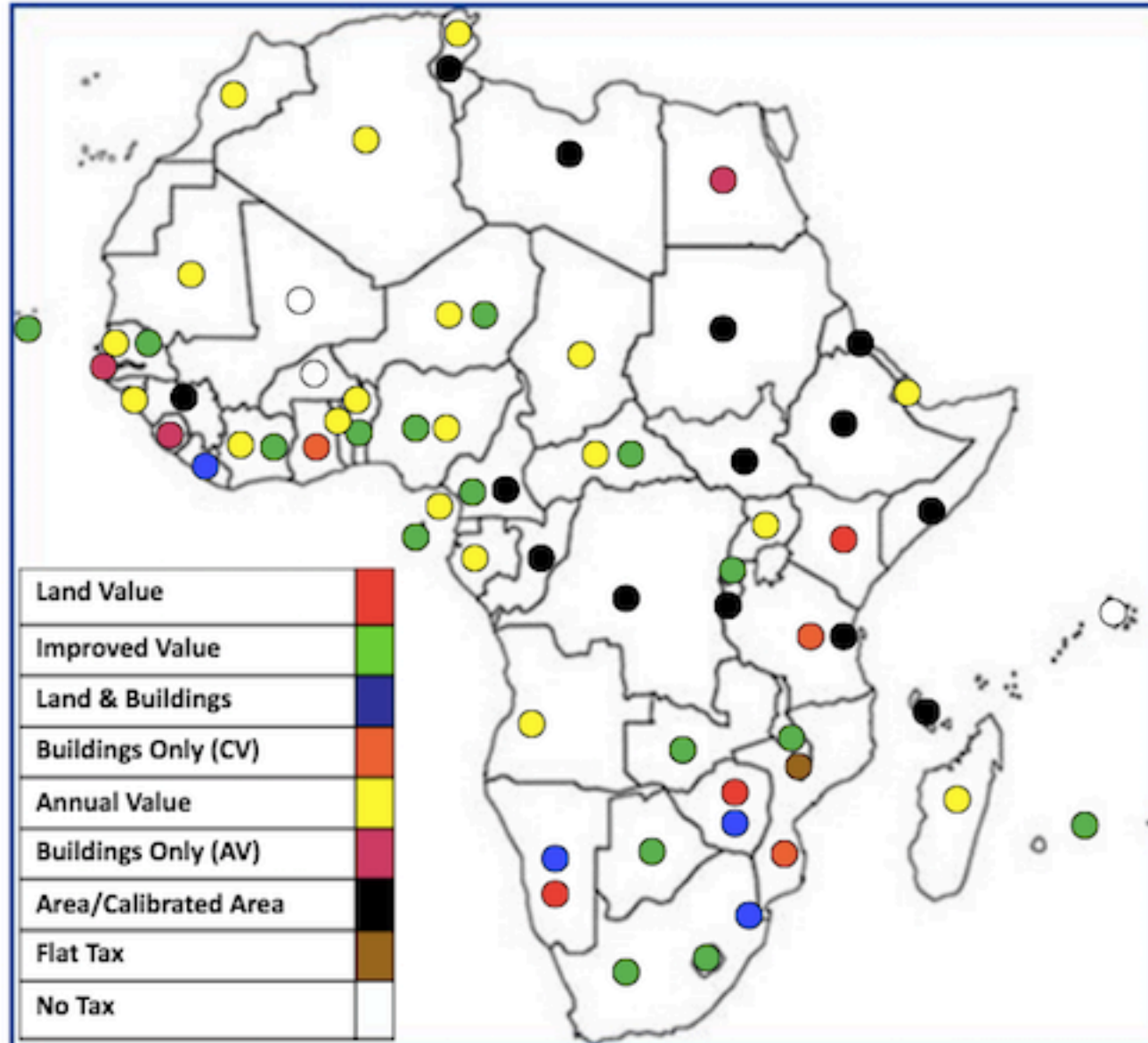
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TYPES OF PROPERTY



Property Tax Systems in Africa



Importance of Property Taxes

1. Potential for mobilising revenue
2. Recurrent but modest – property tax generates 0.3-0.6% of GDP for developing countries and up to 2-3% of GDP for OECD countries (Norregaard, 2013)



Case Studies

Property Tax Bases in Different Countries

South Africa and Zambia

Capital value of land as a single taxable object – typically residential property with more transactions

Ivory Coast (non-residential) and Uganda

Annual rental value – property market dominated by rental transactions in both residential and commercial sector

Namibia (urban property tax) and Swaziland

Capital value of land and improvements as separate taxable objects – typically residential property with more transactions

Burundi, Congo, DRC and Eritrea

Area based (non-value)- applied where no formalized real property market exists or where the market is immature with the absence of comparative sales data on which to base estimated market values.

Kenya and Namibia

Capital value of land only – based on sufficient land sales on the open market

Egypt (urban property tax), Mozambique, Sierra Leone and Tanzania

Value of buildings only – where land is deemed to be state owned what is assessed is the infrastructure built on the land.



Areas of Concern

- a. Property taxation is generally poor
- b. Poor coverage and fragmented data
- c. Inequities between taxpayers
- d. Basis of valuation – inappropriate in certain cases
- e. Transparency
- f. Political, institutional and capacity constraints

Challenges

- a. Property taxation is generally poor – agricultural/rural based economy
- b. Poor coverage and fragmented data
- c. Inequities between taxpayers
- d. Basis of valuation – inappropriate in certain cases
- e. Transparency
- f. Political, institutional, legal and capacity constraints

03

Innovative Solutions



One developing country that has widely—and arguably successfully—used betterment levies to help fund public infrastructure is Colombia. According to a Lincoln Institute study of Colombia's use of betterment levies (known as *contribucion de valorizacion*), in 2011 Bogotá had made about US\$1 billion worth of investments in public works from this levy. An additional eight smaller cities combined had obtained another US\$1 billion for public infrastructure. The collection of this fee has been generally accepted by taxpayers. Again, according to the Lincoln Institute study (Greenstein and Sungu-Eryilmaz 2004), it had relatively lower default rates than compared with property taxes. Controversies have surfaced, nevertheless, over how the charge is calculated (Borrero and others 2011).

In practice, betterment levies have proven challenging to implement. The main challenge comes from the fact that it is difficult to quantify the land value increment resulting from infrastructure investments. Even in countries with up-to-date property data, recorded land values commonly account for two-thirds or less of the observed variation in the prices of land parcels (Peterson 2009). It is even harder to identify the portion of value increase due to infrastructure investments. Different studies and ex post analyses by academics to determine increment land value increases can differ by as much as 300 percent. These variations are attributable to differences in the way aggregate land value changes are distributed among different parcels. Overall, it seems that the cost of administering parcel-

Drawing Lessons /Best Practices

- Netherlands – flat tax of 1.2% on the total value of savings and investments above a specific threshold
- France – Solidarity Tax on wealth, various thresholds starting from 0.5%, maximum 1.5%.
- Rural land, commercially farmed is taxed in Namibia, South Africa, Sudan and Zimbabwe. Not in Kenya.
- Betterment tax

Inherent Considerations

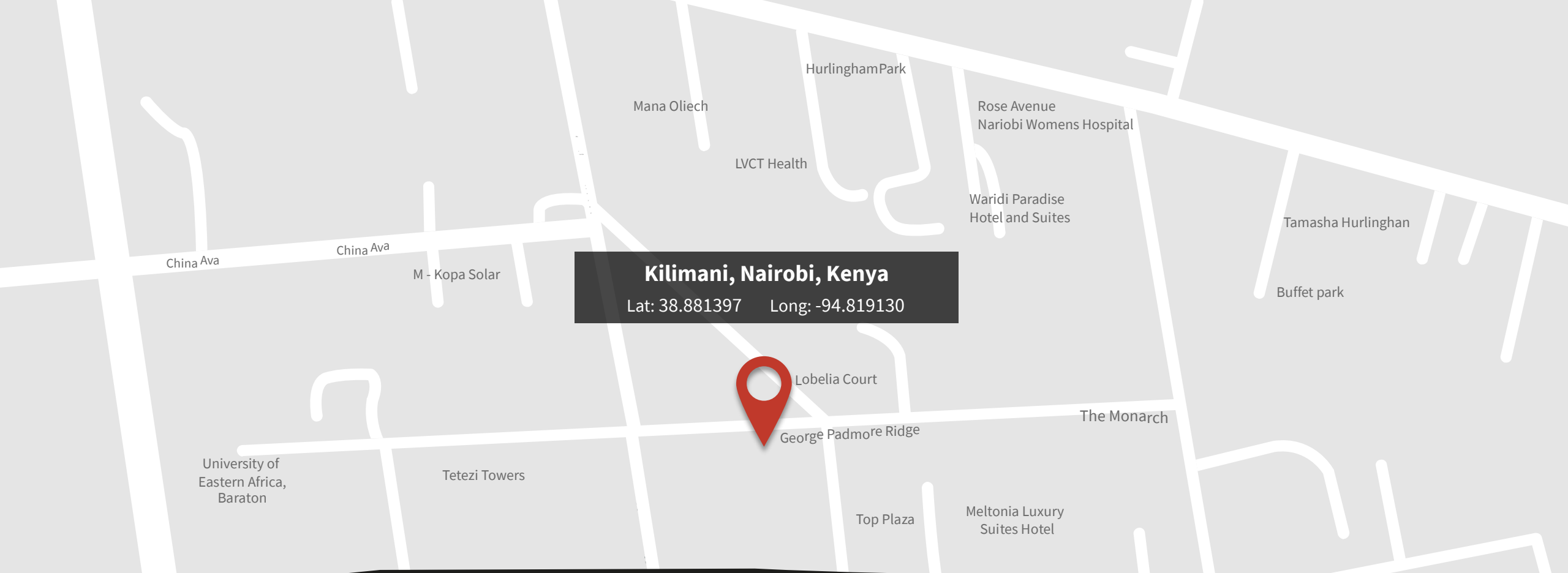
- Balance between government's need for maximum available resources and financing for development in the context of DRM
 - Public interest, public necessity
 - Public capability & individual savings capacity and growth
- Market, inequalities and restrictions
- Shifting tax burden
- Right to housing and affordable housing



Innovative African Solutions

1. Improve collection on existing base
2. Taxing fractional shares
3. Zakat - Islamic wealth tax
4. Widen definition on property to capture digital economy, betterment tax
5. Parking spaces – leases provide for separate purchase of space on same land reference, no stamp duty, VAT
6. Service charges – apply VAT? Regressive or progressive?
7. Trusts and Foundations





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