UNIVERSITY OF NAIROBI

COLLEGE OF ARCHITECTURE AND ENGINEERING

SCHOOL OF THE BUILT ENVIRONMENT

DEPARTMENT OF REAL ESTATE AND CONSTRUCTION MANAGEMENT

PROPERTY ASSESSMENT FOR RATING PURPOSES IN KENYA A CASE STUDY OF MAVOKO MUNICIPAL COUNCIL.

BY

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B04/24563/2008

A research project paper presented as part fulfillment for the award of B.A (Land Economics) degree in the department of Real Estate and Construction Management, School of Built Environment.

University of Nairobi

May 2012

DECLARATION BY THE STUDENT

I, **NAZALINO JOHN MUGENDI**, do hereby declare that this project is my original work and has not been presented as part of fulfillment of a degree in this or any other university.

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DECLARATION BY THE SUPERVISOR

This project has been submitted for examination with my approval as the designated university supervisor.

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ACKNOWLEDGEMENT

The successful completion of this study has been made possible by the cooperation, assistance and encouragement of many people. First and foremost I am greatly indebted to the University of Nairobi for giving me an opportunity to undertake this research. I would like to give special thanks to my supervisor Mrs. Catherine Kariuki for invaluable guidance, objective criticism and understanding during the entire period of writing this project.

I also wish to acknowledge all other lectures in the department of Real Estate and Construction Management for their moral support and encouragement. Many thanks goes to the Staff of Mavoko, Kiambu ,Nyahururu and Ruiru Municipal Councils and all the Valuers who assisted me with data, without which it would not have been possible to complete this project. Similarly I commend my colleagues of the Taskforce on Delineation of Kenya Outer Continental Shelf who always allowed me time off to attend to this project.

Finally I would like to express my deep and heartfelt gratitude to my wife and children who endured my long absence from home as I worked on this project.

DEDICATION

This paper is dedicated to my wife and children, Dion, Lynn and Bridget and to my parents and friends. For your help, support and love. Every day I realize more, how privileged I am to have you as my family and friends.

ABSTRACT

Property assessment for rating purposes has been practiced in Kenya for over a century. Property taxation is a major source of local authority finance though its full potential has not being realized. The revenue received from property taxes is used for provision of services to residents within a local authority's jurisdiction. Lack of realization of full potential of the property tax is blamed on inefficiencies in the local authorities as a result of poor property tax administration.

This project begins by tracing the rating system in various countries. The particular issues of property assessment for rating purposes in Kenya are looked at in detail. Generally lack of adherence to statutory valuation cycles and non- availability of funds in the local authorities for valuations and revaluations has contributed to long delays in property assessment for rating. This fact coupled with the first growing property market within the municipalities has resulted to greater disparity of the assessed values in the valuation roll and their respective current market value. This has led to problems of underassessment hence loss in land taxation revenue by the local authorities.

Mavoko Municipal Council was chosen as the case study for this project. It is a rapidly growing municipal council within the metropolis of Nairobi City. In order to enable comparisons of some important rating issues data was also collected in Kiambu, Nyahururu and Ruiru municipal councils. Private valuers also contributed valuable data for use in this project. Many writers have looked into the issue of property tax hence emphasizing its importance. Literature has been reviewed to establish the contribution of writers to the issue of property taxation and its administration.

Data from the research was analyzed and presented in tables and graphs so as to make it easy to understand the findings. The findings indicate that the underassessment caused by delayed preparation of valuation roll is a major property tax administration issue in Kenya. *Ad valorem* property tax system can only benefit the revenue base of local authorities if this issue among others are addressed

administratively. Several recommendations have been suggested which if adopted could assist in addressing the issues raised. This would in turn contribute to more revenue for the local authorities which would then result in improved provision of the much needed services.

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CHAPTER 1

1.0 Introduction

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 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 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. Developing countries everywhere are undertaking fiscal decentralization and local government reforms to improve government service delivery, economic efficiency and government accountability.

Kenya has in the last few years initiated reforms at the national and local levels to enhance revenue mobilization, economic efficiency and service delivery to her rapidly increasing population. At the local level, these reforms aim to strengthen local authorities to reform their functions. Resource mobilization through land taxation is a significant component of local government reform in Kenya.

Local authorities (LA's) in Kenya are charged with the responsibility of providing a range of services under the local government regulations (1963). To be able to accomplish the tasks, local revenue has to be generated by making compulsory contributions through paying levies, one of them being the property rates. Land rate is a tax levied on a property owned by an individual, company or public authority depending on the site occupied. The process of assessing the value of the land for taxation purposes is called rating. Property tax is one of the oldest forms of taxation and holds the greatest potential for increasing revenue for the municipalities yet it is the least tapped (konyimbih, 1998 b). It is an important source of revenue for the municipal authorities as it aids in the provision of services and public goods needed by the local residents such as security, provision of water and electricity, street lighting, refuse collection, provision and maintenance of infrastructure among other services.

LA's lack the capacity to systematically maintain and contain their fiscal cadastre information. With the exception of Nairobi, Mombasa, Nakuru and Kisumu, local authorities depend on the Rating Department under the Ministry of Lands and private valuers to create and update their valuation rolls. Most fiscal cadastre information is maintained on manual basis. It is the obligation of the rating authority to cause a valuation roll to be prepared at least once every ten years or such longer periods as the minister for local government may approve, in accordance with section 3 of the Valuation for Rating Act Cap 266. Many of the valuation rolls are not kept up- to-date, with some dating back to 1980s, with sporadic and ad hoc issuance of incomplete supplementary valuation rolls. This delay in preparation of valuation rolls has made very old and not up to date values of properties to be used in assessment of the land rates. Consequently this under assessment has resulted to loss of revenue to the local authorities hence hampering the core mandate of provision of services.

1.1 Problem statement

Local Authority (LA) Taxes are the main sources of revenue for LA's worldwide. These taxes are however faced with myriads of problems which include; collection, coverage and valuation, enforcement, political and personnel issues. These are critical administrative variables that ultimately determine effective tax rates, the tax burden for each property, the total revenue yield, economic efficiency and overall fairness. Kenya must therefore strengthen the LAs capacity to manage and administer all aspects of the property rates in order to increase the collection, coverage and valuation ratios.

According to Konyimbih (2000) value based land taxes in Kenya are levied by various local authorities for local uses. The constitution and local legislations empower both the local authorities and central government various definitive powers over the administration of tax. The revenue from this source hardly ever exceeds 30 per cent per annum of the total revenue for each local authority. According to the annual report and review of local authority financial performance between 1989/90 and 1994/1995 the national average land tax revenue for all local authority was only 16.9 per cent of the total municipal revenue. In the financial year 2006/2007 the contribution of the property rates and contribution in lieu of rates (CILOR) was 27 per cent. This figure can improve tremendously with good property tax administration

According to Olima and Syagga (1996) lack of adequate qualified personnel is one cause for the prolonging of the life of the existing valuation rolls. This is especially so in cases where the local authority does not have its own valuers and has to depend on the government valuers.The existing government valuers are not able to carry out their normal duties as well as preparing rolls for rating authorities. Aritho (1980) identified inadequate qualified personnel to prepare and administer valuation rolls as one of the problem that has always existed.

The Valuation for Rating Act Cap 266 requires every local authority to prepare valuation rolls every ten years as a statutory requirement. In many local authorities this requirement is not adhered to. In many cases the life of a valuation roll is fifteen years or more (Olima and Syagga, 1996). This is again attributed to lack of adequate qualified personnel.

The absence of recent registered property sales has also led to the application of an out dated valuation roll. According to Bahl (2009) the absence of reliable data on the sales values of the properties that are exchanged is a valuation problem. Since the government imposes transfer taxes with high rates, there is a significant incentive to understate values, and there is ample evidence that this understanding does occur. The property transfer tax gives the property owners an incentive to understate taxable value, and so it weakens the database that is necessary for objective assessment of the annual property tax. This problem is not often discussed, but it is a very great drawback to levying the property transfer tax.

According to the Valuation for Rating Act the basis of valuation for rating purposes is the market sales value. Underassessment in the valuation rolls is a big problem in the rating process where the values entered in the fiscal cadastre are way below the market sales value. According to Kelly, (1999) there are few empirical studies that have analyzed the level and accuracy of the individualized property valuations. From the limited information available, it is estimated that the valuation ratio ranges between 20-80 percent of the real market values (Kelly, 1999). In addition it is estimated that the dispersion between the valuation on the valuation rolls and the real market value is high, heavily correlated with the age of the valuation rolls. Although valuations may be accurate when first produced, this accuracy erodes overtime due the shifts in the relative and absolute market values. These low valuation ratios and the variation among the property values create efficiency and equity distortions, which impact the compliance level and the overall revenue yield from the property tax in Kenya. In this regard, the project will look at the valuation ratio study in order to identify the average degree of underassessment across properties.

1.2 Research questions

1. Are statutory valuation cycles adhered to and how often is the supplementary valuation roll prepared?

2. Are financial resources availed for revaluations when required in order to meet the statutory valuation cycles?

3. How does the value on the valuation rolls compare to the real market value of properties on the valuation roll (i.e. what percent of market value is being captured through the valuation process)

1.3 Objectives of the study

1. To find out whether statutory valuation cycles are adhered to and establish the frequency of the preparation of the supplementary valuation rolls

2. To establish whether financial resources are availed for revaluations in accordance with the statutory valuation cycles

3. To find out the accuracy of the property valuation level (valuation ratio)

1.4 Hypothesis

Lack of an updated fiscal cadastre and use of under assessed property values in local authorities has contributed to loss of land taxation revenue.

1.5 Significance of the study

The power to impose taxes and charges are enshrined in the constitution of Kenya 2010 in section 209 and the Local Government Act Cap. 265. Subsection 3 (a) of the section states that a county may impose property rates. Subsection 4 provides for the national and county governments to impose charges for services. Land taxation is further extensively provided for in The Valuation for Rating Act Cap 266 and The Rating Act Cap 267.

The provision of infrastructure and public services often involves enormous costs to local authorities and the benefits, to the local residents, the quality (and quantity) of infrastructure and service provision is often dependent on the nature and buoyancy of the revenue base and careful management of expenditure (Davey, 1993). Local taxes which include businesses and land taxes are some of the sources of income, local authorities use to fulfill their responsibilities. The local authority need to assess the causes of loss of land taxation revenue and therefore institute necessary measures to address the problem. The research aims at addressing some of the causes which make the local authorities collect less land rates than would be optimally realized.

The study would also help the researcher to enhance skills and field experience and consequently help future researchers to find out more in this area. Land economics professionals would also learn more in this particular field especially in the areas of property assessment for the purpose of rating.

Mavoko Municipality was chosen as the case study as it is a good example of a rapidly growing urban centre in the periphery of Nairobi whose economic and social base is growing tremendously. Its close proximity to Nairobi was also considered convenient in terms of finances and logistics in data collection. For the purpose of comparison on some critical issues on property tax assessment, data was also collected in the municipalities of Nyahururu, Kiambu and Ruiru.

1.6 Research methodology and data analysis

This involved the data collection methods that were used in the course of the research. Primary and secondary data was collected from different sources. Primary sources of data collection entailed the actual field work which included;

- Administration of questionnaires to the officers of Mavoko, Kiambu, Nyahururu and Ruiru Municipal Councils. The questionnaires were open ended or closed (guided) ended. This depended on the specific data requirement.

- Administration of questionnaires to Valuers in private practice who have had land property dealings in Mavoko municipality. These include both sale and valuation of properties.

- There was also oral interviews.

Secondary sources will involve a review of literature on property tax assessment that will be gotten from texts in libraries, journals, reports, statutes, governmental policy papers and abstracts, minutes of the local authorities, thesis among others. It will also involve internet searches.

Data analysis and presentation will be done using descriptive and inferential statistics with presentation being in the form of tables and pie charts for different variables.

1.7 Limitations of the study

This study has been accomplished under various constraints;

1. Estate Agents could not avail sales data, citing confidentiality of their clients
2. Some Private Valuers were not co-operative in attending to the questionnaires

1.8 Organization of the study

The study was designed to evaluate property assessment for rating purposes in Kenya and Mavoko Municipal Council was chosen as the case study. However to get comparative analysis on several rating issues under investigation, collection of data was extended to Nyahururu, Kiambu and Ruiru Municipalities.

Chapter one

Covers the general introduction to the research topic, problem statement, research hypothesis, significance of the study, study methodology, limitations and organization of the study.

Chapter two

This reviews the literature relevant to property tax assessment

Chapter three

This chapter looks at brief description of the case study, research methodology and data collection

Chapter four

The chapter looks at presentation and analysis of collected data

Chapter five

The chapter gives the summary of findings, conclusions and recommendations of the study

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction

Different scholars have written a lot on the area of property taxation in Kenya. Research work has been done by Olima & Syyaga (1996), Gachuru & Olima (1998) who have written on site value rating as an aspect of land tax in Kenya. Others such as Konyimbih (1987), Konyimbih (1996, 1998, 2000, 2001), K'Akumu (1999) have focused on broad reviews of policy and practice nationally and the implementation experiences of particular municipalities within the country.

Land rate is a local charge levied on landed property owned by an individual, group of individuals, company, or public authority with or without improvements for the purpose of collecting revenue (Olima and Syagga, 1996). Also known as rating, property taxation is the process of assessing real property with an aim of ascertaining the property's tax liability as a local government revenue raising tool. Tax on real property is a major source of local revenue and is one of the oldest and most widely used of government revenue measures. The property tax is a potentially attractive means of financing local government in developing countries. As a revenue source, it can provide local government with access to a broad and expanding tax base (Dillinger, 1992)

It has been generally agreed that no real improvement in the quality of rating and valuation can be made without first improving its administration. Proper administration is a crucial factor in the operation of property tax. Good administration can often make poor tax tolerable whereas poor administration will nearly always make an otherwise good tax intolerable. (Lynn Jr. 1969).

Rating practice goes back to the feudal era in England when the Anglo-Saxon Kings delegated to the villages and towns the duties of watching over their local affairs instead of the state (Emeny and Wilks, 1984). Consequently a number of local institutions developed including one form which grew around the church vestry where citizens, chaired by a priest, organized the execution of the works such as road and bridge construction and church repairs. To meet the costs of these activities, a rate was levied on occupiers of land.

According to Olima and Syagga, (1996) taxation of property to provide local revenue is of considerable antiquity. It has over the years developed to be considered the most stable and largest source of local revenue authority revenue and its importance is recognized worldwide (Woolery, 1989). In addition, Woolery states that property taxation in a wide sense is the oldest forms of transferring resources from the private sector to the public sector. The unique characteristics of land namely, fixity in location, impossibility to conceal, and inherent value have contributed to land being an object for taxation.

This project presents an overview of property assessment for rating (i.e. property tax) purposes in Kenya. It reflects on the current status of the valuation profession in the context of producing and maintaining local authorities valuation rolls, highlights a number of key problem areas and tenders possible solutions to some of the problems experienced. This chapter will also look at property assessment practices of other countries with a view of comparing notes to the Kenyan practice.

2.1. Sources of Local Authority finance

The main function of a Local Authority is to provide services. For them to provide these services adequately they need corresponding human and financial resources. For the citizens to evaluate the effectiveness and efficiency of the Local Authorities in the provision of services, they need to know the status of the Local Authorities revenue in terms of types, collection and expenditure.

The purpose of establishing a Local Government financing system is in recognition of the important role played by Local Authorities as agents of decentralization; grassroots democracy; and engines for development. Many countries aware of this potential are transferring more resources and service responsibilities to Local Authorities. Equipped with such resources Local Governments are increasingly taking on more responsibilities to meeting the Millennium Development Goals (MDGs) as well as facing the challenges of globalization" (Basil Morrison 2008).

The challenge in developing countries including Kenya is the fact that there is a slow growth in the revenues for Local Authorities due to limited grants from central governments as well as limited capacity within Local Authorities to collect as well as grow own resources. The Omamo report (1995) cites the second reason for the slow growth as the lack of insufficient taxing authority at the local level and shortfall in revenue collection (Omamo, 1995).

Currently the Kenyan Local Authorities have a number of sources for their revenues.

These include:

Local Authority Transfer Fund (LATF), Roads Maintenance Levy Fund (RMLF), Contribution in Lieu of Rates (CILOR), property rates, single business permit, vehicle parking, plot rents, water and sewerage fees, cess receipts, game park fees, and house rents. As already stated earlier Property rates are the best source due to the special inherent characteristics of land/ land property. These are: - fixity in location, fixity in supply (within certain limits), permanence (within broad limits) and visibility.

2.2 Property Taxes within Local Authorities in Kenya

Land rates provide about 0.25 percent of Kenya's GDP. According to Roy Kelly (undated), property rates in financial year (FY) 2000-2001 accounted for 34 percent of total own source tax revenues for municipalities and only 4 percent of own source revenues in towns and counties. According to LATF (Annual report 2006-2007), land Rates in 2006/2007 provided Ksh 2.99 billion which was about 14.48 percent of the Local Authorities actual revenue for that particular year. As expected, the property tax is a more important revenue source for municipalities due to the existence of valuation rolls that capture the larger, more valuable tax base. Table 2.1 shows the total revenue collected by municipal councils for the period 2006/07-2010/11 (Economic survey 2011). Revenue from rates was expected to record an improved growth of 9.6% in 2010/11 from the 8.4% growth registered in 2009/2010.

Table 2.1: Municipal Councils (Including Nairobi City Council) - economic Analysis of Revenue, 2006/07-2010/11 in Kshs Million

	2006/07	2007/08	2008/09	2009/10	2010/11
Current	8,303.03	9,407.40	12,793.55	12,404.28	13,429.54
Rates	2,050.21	2,365.28	2,883.85	3,127.41	3,428.31
Indirect taxes	853.48	993.68	1,874.17	1,978.49	2,042.39
Income from property	805.65	896.27	900.32	642.17	713.92
Current	1,468.37	1,701.17	2,187.79	1,882.58	2,009.17
Sales of goods and services	3,125.32	3,451.00	3,432.50	4,773.63	5,235.75
Capital	312.96	468.26	514.92	627.13	601.94
Loans raised	309.39	463.99	511.68	624.29	598.75
Loan	3.56	4.27	3.24	2.84	3.19
TOTAL	8,615.98	9,875.65	11,793.55	13,031.41	14,031.48

Source: Local Authorities, Economic Survey 2011(Kenya National Bureau of Statistics) page 121

The land rates were paid by the households and enterprises.

2.3 Property taxation

According to Hefferan and Boyd (undated), a taxation system based on property ownership and use is one of the oldest forms of revenue generation for governments. Even though tax systems have grown and expanded in both reach and complexity, these taxes, typically based on some derivative of property value, remain critically important across countries and represent a key source of revenue for governments, particularly at the state and regional or local authority level.

Property taxes are particularly valuable for developing countries. Provided that the property resources and their ownership can be identified, real property can provide one of the few bases for a reliable and broadly based taxation system. Practically all developed countries use land as a component part of their taxation base. Its relative importance varies, with newer forms of consumption taxing and traditional income and profit taxes becoming proportionally more significant in many areas.

For government and taxpayers alike, such taxes have an attractive simplicity. On the one hand, an equitable, relational base can be established by the assessment of value of all properties using an agreed methodology. The taxing authority has established a budget of funds that must be collected. With those two figures set, it is a relatively easy and transparent exercise to establish the necessary taxation level (as a percentage of assessed value) that relates and balances the two aggregate figures.

2.4 The history of real property taxation

Originally, 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). 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 around 200B.C. 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 during the twentieth century.

2.5 Land Value Taxation

A land value tax (or site valuation tax) is a levy on the unimproved value of land. It is a tax on land that disregards the value of buildings, personal property and other improvements. A land value tax (**LVT**) is different from other property taxes, because these are taxes on the whole value of real estate: the combination of land, buildings, and improvements to the site.

Land value taxation concept mainly has its origins in the 19th century works of David Ricardo, Johan Von Thunen, Adam Smith, and importantly for Kenya, Henry George (Progress and Poverty, 1879). Ricardo and Von Thunen concentrated their efforts more on the theory of rent and showed that rent paid for a parcel of land could be taxed without any adverse impact on the short- term supply of land and consequently, the production of land based goods and services. The objective of the Land Tax was both to raise revenue for the operations of the government (fiscal), to break the power of the land (barons) speculators and to promote development through freedom (socio-economic-equity). In 1890, Henry George visited South Africa, Australia, and New Zealand where he advocated for the site value, single tax system. From South Africa, George advocacy spread to Zimbabwe and Zambia (formerly Rhodesia), Kenya, Uganda and Tanganyika (now Tanzania). Each of these countries uses a particular form of value based tax.

The land tax is one of the most important taxes affecting landed property. Some 130 countries worldwide have some form of land based taxes. The question to the determination of tax base is what object to be taxed whether land alone, land as improved or improvements only or some combination(s). The other issue is whether the tax should be value-based or size (area) based. Land tax being a direct tax and a confiscation of wealth makes it important to determine what policy, administrative and political mechanisms are necessary to implement it.

2. 5.1 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, generating revenue for public expenditure and redistribution of income and wealth in ways considered just and equitable. Others purposes are correcting market system inefficiencies in the allocation of resources and 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 equity, i.e. fairness with respect to the tax contributions of different individuals and certainty, i.e. a lack of arbitrariness or uncertainty about tax liabilities. The others are convenience, i.e. with respect to the timing and manner of payment and 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.

2.6 Rating

Rating is vital in the determination of the amount of tax payable by the property owners. According to Syagga and Olima (1996), rating is the process of valuing real property for the purpose of assessing the land rate with the object of raising revenue for a particular local authority. Property taxation has sometimes been used interchangeably with rating. According to Mukhongo (2011), rating has been said to be a method by which residents of a particular area contribute to share the burden of the cost of providing services to themselves within their area year by year.

2.7 Property rating internationally

Property taxation plays a major role in financing local governments throughout the world (McCluskey, 1991; Youngman and Malme, 1994; Kelly, 1995; IMF, 1996; and OECD, 1997). According to Kelly, 2009 although comparative data is scarce, property taxes account for between 40-80 percent of local government finance, 2-4 percent of total government taxes, and about 0.5-3.0 percent of GDP. In contrast to developed countries, developing countries tend to generate significantly less property tax revenue—typically generating a maximum of 40 percent of local government revenue, 2 percent of total government revenue and about 0.5 percent of GDP.

According to Roy, Sally and Musharraf (2008), a remarkable feature of the practice of the property taxation in developing countries is its wide variation. Some countries have chosen to tax rental value (Columbia), site value, (Jamaica), and capital value (Philippines) and in some cases the local governments are free to decide their own base (South Africa). Exemption policies vary widely, e.g. Thailand exempts owner occupier and Tanzania taxes only buildings. Some countries have progressive rate system while others choose flat rates. Central government levy the property taxes in some countries (Indonesia) State government in some cases (India) and local government in other countries (Hungary). With respects to problems, however, there are some commonalities. Most developing countries are plagued by weak administration, which leads to undervaluation, incomplete cadastres and low collection rates. A commonly cited underlying problem is an acute shortage of skilled staff

2.8 Property taxation in East Africa

Rating is a relatively recent tax in East Africa as compared to other parts of the world. It was introduced during the British colonial rule when the local governments were created and given responsibilities for such services as primary education and public health. These functions required financial resources which is also included pay for the human labour. This necessited additional sources of revenue to be sought. Taxing landed property was therefore vigorously pursued. According to Hicks (1961), the campaign for taxing land spread from South Africa into Rhodesia and later to the three British East Africa territories of Kenya, Uganda and Tanganyika.

According to Syagga (1994), the rating in the region is based on rating laws from other countries; the Kenyan rating law was based on the Transvaal ordinance, the Uganda Local Government Rating Act was modelled on the Australian Queensland's Rating Act and Valuation of Lands Act, while the Tanzanian and Zambian rating laws owed their origins to what was available in south Africa Thus, the rating systems were modelled on codes from different countries and then applied to the East African situation. Different East African countries adopted one of the two basis of assessment, in regards to the taxation of the landed property, either the capital value or annual value of the property. Annual value is rating in which a proportion of rent paid is taken as tax (Syagga, 1994). This basis of rating is modelled on the British General Rate Act and was adopted in the local Government (Rating) Decree (1979) in Uganda. Capital value is a system where the rate is changed on either the sites (site value rating) or improvements on the site (improvements rating) or a combination of the site and the improvements on it. Despite their common heritage, each country has developed a different property tax system. As Table 2.2 indicates, differences exist in their tax base definitions, assessment basis, and rate structure.

Table 2.2: Comparative Property Tax Policy for Tanzania, Uganda and Kenya

	Tanzania	Kenya	Uganda
Tax base	Buildings	Land and building	Land
Is Government Property Taxed?	No although the Urban Authorities (Rating) Act allows Minister to authorize the government to pay a payment in lieu of rates. In practice this has never been done. In 1997 the government issued an order explicitly exempting government buildings among others.	No, although the government is not exempt from paying property rates, the central government does not pay their tax.	Yes, Contribution in Lieu of Rates (CILOR) is mandatory in the Rating Act Although the government has not paid the CILOR in full-they do make some payments each year, since 1998 as part of the Kenya Government Reform Programme, the Government is moving towards payment of full CILOR.
Assessment Basis	Flat Rating (and/or) Capital Value (Cost Approach)	Annual Rental Value	Area Rating (and/or) Unimproved Site Value
Tax Rates	Flat Rate (No Limit but with Ministerial Approval)	Ad Valorem (up to 20%)	Area Rating (No Limit but with Ministerial Approval) Ad Valorem (up to 4%, with override provision subject to Ministerial Approval)

Source: Government of Tanzania, 1983, Government of Uganda, 1979, and Government of Kenya, 1972a, 1972b

2.9 Property taxation in Kenya

Rating is an important source of revenue for Local Authorities in Kenya. It constitutes about 22 percent of county revenues and about 1.3 percent of total Government Revenue (Ministry of Local Government, 1999). Studies over the years on Rating in Kenya however indicate that rates revenue has remained stagnant or declined over the years. Local authorities in Kenya are responsible for provision and maintenance of urban services and infrastructure within their areas of jurisdiction. The capacity to accomplish these tasks in the face of the inflationary forces, and continued rapid urban growth especially in the municipalities within the Nairobi metropolitan is severely constrained by a shortage of revenue. The continued devolution of responsibilities by the Central Government to the County Government with measured supporting resources has worsened the situation. It is against this background, the local authorities should re-examine and review the land rates revenue as a major source of revenue with a view to strengthening and optimizing it to close the gap especially arising from the many subdivisions of parcels of land since it is estimated that the fiscal cadastre and valuation rolls may only include between 20-70% of the total taxable land.

The Rating Act gives the local authorities the power to set the tax rate. The tax rate can be set either as per unit rate in the case of area rating or as per value rate in the case of value rating. The unit area or the value rate can either be uniform or differential. The differential rates can either be proportional or graduated based on land use, value, or size. Local authorities are allowed to choose a valuation rate of up to four percent without central government approval. The Minister of Local Government must approve all taxes higher than four percent as a precautionary measure to protect the interests of the taxpayers.

Local authorities in Kenya tend to use a uniform area rate or a uniform tax rate structure. Jurisdictions with the higher tax rates tend to be those with the oldest valuation rolls. Only a few local governments apply a classified tax rate structure. The most notable is Mombasa, which differentiates tax rates by location: properties located on Mombasa Island are taxed at a higher rate than properties located on the mainland. Nairobi City Council also uses differential rates based on land use (eg, residential, commercial and industrial).

The tax rates used are highly correlated with the age of the valuation roll being used since they are normally dated. To compensate for the lags in valuations, the Government has allowed local councils to increase nominal tax rates. In Nairobi for example, the tax rate for the residential property increased from 2.25 per cent in 1982 to 5 per cent in 1991 and to 14 percent in 2000 (Kelly,2004). This increase has almost equaled the rate of inflation thereby holding the average real tax burden per residential property almost constant over the past 20 years (Kelly, 2004).

2.10. Evolution and development of the rating systems in Kenya

What emerges clearly from literature is the fact that rating in the region was based on rating laws from other countries (Olima and Syagga 1996). Rating in Kenya was imported into the country in the first quarter of the 20th century (Aritho, 1980). During this formative stage, the British colonial administration tried any policy on land use and management. According to Hicks (1961), the campaign for taxing land spread from South Africa into Rhodesia and, later, to the three British East African territories of Kenya, Uganda and Tanganyika (now Tanzania).

The first type of rating to be applied in Kenya was the annual rental value of occupied premises in Mombasa. The rate was charged under the 1900 street cleaning and lighting regulations and in a sense was for the refuse removal. Annual value rating is based on the annual income earned from the property. The sum to be taxed was arrived at after a certain percentage was deducted from the gross income as outgoings. In 1923, annual rating was considered as inappropriate as only few properties had been developed. The Mombasa District Committee therefore recommended the unimproved site value (i.e. rating based on the value of the undeveloped site), although the annual rating continued to be levied until 1928 (Syagga, 1994).

Rating based on annual rental value was introduced in Nairobi in 1901 but was also found inadequate, and in 1920 unimproved site value, (USV) rating was recommended after a considerable debate in which Councilor Orr urged the council to introduce it. The U.S.V was to be implemented in accordance to the system in force then in Australia, New Zealand and West Canada. Rating based on annual rental value was the English Rating system. It was found to be unsuitable for introduction into the new growing townships (NCC, 1950). The Nairobi (Rating of the Unimproved Site Value) Ordinance was enacted in 1921 and a roll prepared, confirmed and was in force for five years. It was not until1956, however, that a single rating system was enacted for the whole country.

2.11. Rating practice in Kenya

The local Government system developed systematically in Kenya and on 30th April, 1963 the Local Government Act (Cap 265) was passed to establish and regulate the functions of authorities for Local Government. Two Acts of Parliament have subsequently been promulgated to empower the local authorities throughout the country to effect rating on land values. These two pieces of legislation are; The Valuation for Rating Act (Cap 266), Laws of Kenya. This Act of Parliament empowers local government authorities to value land for the purposes of levying rates. The other is The Rating Act (Cap 267), Laws of Kenya. This Act of Parliament provides for the imposition of rates on land and buildings in Kenya.

Section 5 (1) of the Rating Act Cap (267) stipulates the forms of rating to be adopted by rating authorities as:-

1. Area Rate- flat rate, graduated rate depending on the size of land, or differential flat rate or differential graduated rate depending on the land's actual or potential use-applicable in the rural areas

2. Agricultural Rental Value Rating- applicable in the rural areas

3. Site Value Rate or Site Value Rate in combination with an improvement rate

Assessment for improvement rate in relation to land, means the residual amount found by deducting the value of unimproved land from the value of the land. Land includes any improvements that are on, in or under it. Section 4(1) of Cap 267 states that where any one of the forms of rating indicated above has been applied in respect of a rating area, no other form of rating should be used for the same rating area. The form of rating and the area to which it is to be applied must be the subject of approval by the Minister for the Local Government.

By practice, urban Local Authorities have traditionally adopted the unimproved Site Value Rating (U.S.V.). The value of unimproved land (s.8 (2) of Cap 266) is the market value of the encumbered freehold in possession- ignoring any improvements on it but accounting for comparative lands and factors and statutory restrictions which influence the land value. The U.S.V system of rating is said to discourage land speculation and hoarding because taxing unimproved land increases the cost of holding that land in that state and thus owners will be encouraged to develop their lands. Further, U.S.V system is certain in its revenue generation because all land plots are rated whether or not they are occupied, since land is a tangible visible asset. Both Annual Value Rating and Improvement Rating may lead to revenue fluctuations during the periods of voids which may affect the budgeting by local authorities. However a counter argument is that the U.S.V system is unjust because it fails to tax the ability- to-pay by placing equal burdens on landholders who may have unequal income structures. In areas where developments are substantial, for instance the Central Business District of Nairobi, the U.S.V. system applied on its own may not provide sufficient realizable tax potential. It provides for minimal tax base. It is suitable only for newly established townships with large quantities of vacant land.

2.12 Key problems areas in property assessment for rating purposes

According to Franzsen, (2002) a number of the problem areas are practically common to most countries. These can be summarised as:

Some countries (e.g. Lesotho, Namibia, Swaziland and Tanzania) have only the option of taxing improvements only probably because land is collectively owned or belongs to the king. In these countries only improvements can be legally be possessed. There are Low coverage ratio within jurisdictions of informal settlements and peri-urban developments.

There is shortage of qualified and skilled professionals to survey land, record and maintain an accurate deeds register (proper cadastral information). Also to assess properties and prepare proper valuation rolls, to do interim valuations and regular general revaluations - all of which are usually prerequisites for a legitimate and efficient property tax system. Theoretically sound valuation and rating legislation generally seem to be in place but putting the legal principles into practice in an equitable and sustainable manner is difficult - with political interference reported in some instances (e.g. in Botswana and Kenya).

The retention of properly qualified valuers within the civil service is also a serious problem (Botswana, Kenya, Tanzania and Zambia (Chirwa, 2000)). Statutory valuation cycles are not adhered to. In many instances valuation rolls are hopelessly outdated (e.g. in Maseru (Lesotho), Nairobi (Kenya) and generally throughout Uganda). Outdated rating systems, legislation and practices abound. Assessment for rating purposes is not a priority for government valuers (e.g. in Kenya and Lesotho).Lack of understanding of assessment by municipal officials responsible for rating. There is also lack of appropriate practical training programmes.

There is an absence of statutory-required external quality controls with regard to municipal valuation rolls. Often there is only limited technical and logistical support (such as computer hardware, software, vehicles, etc.) exists (e.g.in Kenya, Tanzania, Zambia). The Collection and enforcement also leave much to be desired. Taxpayer education is an area that has to be addressed to improve public knowledge and perceptions regarding assessment, rating and the provision of local government services.

2.13 Inherent problems and constraints to successful rating in Kenya

According to Syagga and Olima (1996), there are several problems and difficulties that hinder successful rating in Kenya. Rating has encountered formidable technical, social and administrative problems during implementation. These include the following:

Inadequate Qualified Staff

Lack of qualified valuers has been an hindrance to the successful implementation of rating. Many local authorities depend on the government valuers, who are not able to undertake their normal duties as well as preparing valuation rolls for the local authorities. Aritho (1980), identified inadequate personnel to prepare and administer valuation rolls as one problem that has always existed. Both local authorities and central government continue to experience a shortage of valuers.

Outdated Valuation rolls

Lack of adequate qualified personnel is another cause for the prolonging the life of the existing valuation rolls. Many local authorities still do not prepare the valuation rolls every 10 years as statutorily required. In many cases the life of a valuation roll is 15 years or more. This scenario is even worse in towns that rely on government valuers for assessment of rates.

Static revenue base

Since valuation rolls are not revised regularly to reflect rapidly rising market values, a sizable proportion of developable land is kept vacant as the tax is not regressive. This results in low revenue base that do not keep pace with land value increases. Subsequently, poor administration of the rating system is attributed to the low revenue base of the many local authorities in Kenya.

Inequalities and ambiguous assessments

The Valuation for Rating Act does not specify methods of valuation to be used. This has given rise to several conflicting interpretations in valuation methods which in turn introduce uncertainty and complexity in valuations. The Kenyan experience is that these uncertainties in valuations induce unnecessary disputes and costly litigations between the rateable owners and rating authorities.

Poor collection and enforcement machinery

Lack of specific machinery to enforce rate collection has also been identified as a problem in the administration of rating system in Kenya. This is attributed to poor collection methods as aggravated by the administrative bureaucracy in Local Government. Time and again local authorities put advertisement in the local newspapers appealing to rate payers to remit their payments. This is an indication that local authorities are unable to collect all their rates. Small local authorities with weaker administrative structures have proportionate large sums of arrears in rates collection.

2.14. Property Tax Base

According to Kelly (1999), although in Kenya, the Rating Act allows local authorities to tax either land or land and improvements (e.g. buildings and structures), all property rates are currently levied only on land. Improvements are not taxed. Most local authorities exclude freehold agricultural land less than 12 acres and indeed private land in the area rating rolls (Kelly, 1999). Public land (both central government land and council trust land) which is this land should be listed on the public valuation roll and be liable for Contributions in Lieu of Rates. All local authorities in practice limit their assessment to area rating and valuation rating, although variation in rating is allowed under the law. Municipalities and towns tend to rely on valuation rating while counties tend to use area rating or a combination of area and valuation rating (Table 2.3). Area rating is mainly used for rural or agricultural properties while valuation rating tends to be used for more urbanized properties.

Table 2.3: Number of local authorities and forms of rating

Type of Local Authority	Rating Authorities (By Number)	Local Authorities Using Valuation Rating (VR)	Local Authorities Using Area Rating (AR)	Local Authorities Using Both VR and AR: (VR+AR)
Municipalities (Including Nairobi City)	45	37	4	4
Towns (below Municipalities)	48	14	6	4
Counties (Rural)	38	22	28	12
TOTAL	131 (100%)	73 (56%)	38 (29%)	20 (15%)

Sources: Konyimbih (2000) c.f. records of Central government's Ministries of Land and Settlement and Ministry of Local Government,

Fiscal cadastre information in Kenya consists of two components (Kelly, 1999). One, valuation roll that contains land information and values for properties taxed under an ad valorem rate. This covers both private and public valuation roll and typically covers only land located in the established, gazetted area of local councils. Two, Property tax information that is used for area rating purposes for land outside the gazetted area of town and municipal/town councils. This information covers the peri-urban areas that are taxed under a system of area rating. Area rating roll contains both private and public land, but is primarily used for government forests and large farms.

Property tax assessment is the responsibility of the local authority, which must identify a valuer to prepare the valuation rolls. According to the Valuation for Rating Act, the valuer shall be one or more competent persons appointed by the council and approved by the Minister. The Valuer is responsible for gathering land information, ascertaining the value and producing the valuation roll for the local council. The council then tables the valuation roll, informs the public, and handles the objections. The valuation is then certified by the council and used for taxation purposes.

2.15. Property Tax Administration

According to Bahl (2009) they are four key components in property tax administration: (i) identification of all properties, (ii) keeping the records so that the tax roll can be continuously updated, (iii) valuation and revaluations, and (iv) collections, enforcement and appeals. Property tax administration is the responsibility of the Local Authorities (LAs). They are responsible for the construction and maintenance of the tax roll, the valuation, the assessment, tax billing, collection enforcement, appeals, and taxpayer service. The local authority can use in- house staff, other government departments (e.g. Ministry of Lands) or the private sector to assist in any or all of these functions (Kelly, 2004). Most LAs rely on the ministry of Lands for the production of the valuation rolls, with only a few LAs using private sector valuers, all other administrative functions are carried out by the council.

Tax administration is the weak link of property taxation in Kenya (Kelly, 2004). In general, the revenue base information is incomplete, collections are low, and enforcement is virtually non-existent. The basic policy guidelines provide a flexible framework for an effective property tax system. The primary obstacle to successful local revenue mobilization is weak administration. Weak administration, combined with a lack of political will for enforcement, generates a low level of local revenue mobilization performance.

The weakest component in tax administration is collection and enforcement. Collection rates range from 5-60 percent of liabilities (Kelly, 2004). This is attributable to such factors as lack of taxpayer confidence or understanding in how the tax is levied, collected, and enforced, and used. Also lack of legal and administrative collection and enforcement mechanisms and lack of political will. Despite having a variety of options under the Rating Act, the rating authorities have taken a largely passive role in enforcement, relying almost exclusively on rate clearance certificates. This clearance certificate option relies on taxpayer initiative to clear outstanding debt and is thus only effective when the property is being transferred or when a local business license or permit is being requested from the local authority.

Active enforcement (through fines, tax liens and foreclosures) by the government is virtually non-existent. Several local authorities, such as Nairobi and Mombasa, occasionally publish the names of delinquent taxpayers in the newspaper. Other local authorities initiate court cases against delinquent taxpayers, with mixed results. To date, no local authority has applied the legal option of tax caveats to titles or used property foreclosures as a means to enforce tax payment (Kelly, 2004). To improve tax compliance, political will must be mobilized, administrative systems must be rationalized and improved, and local officials must be made aware of the legal and procedural provisions for enforcement.

In general, the fiscal cadastre information and the valuation rolls in Kenya are neither up-to date nor complete. It is estimated that the fiscal cadastre and valuation rolls may only include between 20-70 percent of the total taxable land (Kelly, 2004). Lack of proper incentives to trained valuers and the reliance on individual "single parcel" valuation also contribute to registries being incomplete and out of date. Kenyan valuers tend to allocate their time to non-rating valuation activities owing to the relative lack of renumeration for doing valuation rolls. Kenya also does not use any form of mass valuation, thus making the valuation process both costly in terms of time and resources (Kelly, 2004). All property records (with the exception of only a few LAs) are kept manually and maintained in an ad hoc and periodic manner. The legal basis to ensure an up-to-date and complete valuation roll is adequate—the problem is with administration.

According to Kelly, (2004) the key to increasing local revenue buoyancy of business licenses and property taxation in Kenya is through improved administration and strong political will. The LAs must ensure that revenue is collected and enforcement undertaken against noncompliance, that all properties and businesses are captured in the respective registries, that property is valued based on accurate relative values, and that the tax levy is assessed accurately. The collection ratio (i.e., the extent to which the liabilities are collected and enforced), coverage ratio (i.e., the extent to which the tax objects are captured on the tax rolls), and the valuation ratio (i.e., the extent to which the tax objects are valued accurately or classified correctly) (Table 4) are the critical administrative variables that ultimately determine effective tax rates, the tax burden for each property, the total revenue yield, economic efficiency and overall fairness. Kenya must therefore strengthen the LAs capacity to manage and administer all aspects of the property rates in order to increase the collection, coverage and valuation ratios, as necessary.

Country	Collection Rate	Assessment Ratio	Selected Exemptions
Philippines (Rosengard, 1998)	50-60% of current billings in 1990	Legal assessment ratios vary from 15% to 80%	Assessment ratios vary by value class and by property use
Jamaica (Sjoquist, 2004)	40 percent in 2004	The median assessment ratio was 11 percent between the general revaluations.	Certain agricultural properties
Chile (Rosengard)	73 percent in 1990		Two-thirds of all property is exempt
Indonesia (Rosengard)	80 percent in 1990	Legal assessment rates of 20 percent	
Kenya (Kelly, 2004)	10-60 percent 2004	Actual rates vary between 20 and 70 percent	
Colombia (Bird, 2004)		70 percent in Bogota, 85 percent in Medillin.	

Table 2.4: Selected Measures of Property Tax Administration

Source: Roy and Jorge 2007

2.16. Annual property tax in practice: Policy choices

Depending on the country, there are four main principles of basing the land tax. These are:

(a) Land taxes based on land sizes

The area-based approach to property taxation in developing countries has caught on, and is now used in at least 44 countries (McCluskey, Bell and Lim, forthcoming). The taxes are simply based on physical geographical size of some land owned by the tax payer as defined by the law. The tax can be levied at a flat rate or at a progressive rate e.g. Kshs 800 per acre per annum tax on flat rate basis or Kshs 800 per acre for the 1st one acre, Kshs 1000 for the next (or remainder) on progressive scale with the rate increasing with increases in size of land or the rate differentiated according to use to which the land is being put or is capable of being put or for which it is reserved or according to Anglo-climatic conditions of the area in which the land is located.

The procedure for assessment for this type of tax base involves the confirmation of the size of land through appropriate survey methods, the confirmation of the legal ownership through appropriate registration method, the selection of the land unit upon which the tax will fall or will be levied. Determination of total number of such units comprising the registered holding and the application of the tax rate to each and every prescribed land unit as is statutorily provided for in the enabling legislation. The resulting figure per annum is notified to the tax payer as his/her tax liability.

Advantages of the area based approach

According to Konyimbih, (2000) it does not require parcel- by- parcel valuation, or it may not require valuation at all. It is easily understood and more easily administered than *ad valorem* (value-based) systems. Offers the possibility of imposing a property tax in countries where there is only a fledging property market or no property market at all. The collection and assessment costs are usually low. The tax rates can be varied across the regions to take into account the location of land or the land holdings location.

Disadvantages of the area based approach

The simplicity of this option is subject to broad generalization and this makes the tax regressive since the tax burden does not reflect the actual productive capacity or value of the land (Konyimbih, 2000). It could punish registered owners of large marginal lands It does not encourage optimal utilization of land. The tax is not related to the principal of the ability to pay because the same burden of tax falls on the same size of land throughout the taxing jurisdiction.

(b) Taxation based on the Rental Value of Land

In this principle the tax is levied on the annual rental income of the land. The assessment procedure involves the ascertainment of the registered ownership of each of the land unit, then determination of the net rental income passing for the individual parcel of land. For the land that is not rented in a particular time, the procedure involves imputation of the market rentals by way of comparison or comparable method and the application of the tax rate to the resulting annual rental value of the land, gross or net. The resulting figure being reported to the tax payer as his/ her liability. Those using the rental value system include such diverse economies as India, Nigeria, Malaysia and Trinidad (Roy, 2009)

Advantages of the Rental Value of Land based approach

According to Konyimbih, (2000) rental incomes are often based on the productive capacity of the land and this encourages improvement in utilization and investment to generate increased income to pay the tax. The procedure for assessment after the initial set up is fairly simple and does not require highly trained personnel who may be lacking in developing countries. The amount of tax will increase when the rent increase due to increases in productivity therefore capturing the general community development in the tax.

Disadvantages of the Rental Value of Land based approach

Initial data collection may present problems in achieving acceptable levels of accuracy since rental details may not be recorded accurately (Konyimbih, 2000). There is always a problem on whether to base the tax on the gross or net annual rental passing. There are inconsistencies of the market land rentals with the economic potential of the land. The assessment option is confined to local application and experience only, ignoring the advantage of having a uniform national system of assessment of property. The assessment option cannot be used in a system where land is (owner-operated) not leased in the market. If rents are pegged on productivity of land it will differ annually according to that productivity and consequently the tax with it, hence affecting planning and budgeting by the tax authority.

(c). Taxation based on the capital value of land

The capital value of land and improvements is the principle form of property tax base in most Latin American countries (Roy, 2009). The base in a capital value system is the market value of the property, i.e., the amount that the land and improvements would sell for in an open market. The capital value is calculated by capitalising the stream of income or rentals that accrue from the land and improvements on such land.

The broad procedure is identifying the legal ownership of land to be taxed and to define it. Next is the identification of the user and determination of the optimal or actual rental going for this user, then arrive at the net income by deducting outgoings from the gross rental, capitalise by an appropriate factor to arrive at the capital value on which the percentage rate of the tax is levied.

Advantages of the capital value of land based approach

According to Konyimbih, (2000) this option of tax base stands to generate high revenue levels for the taxing authority if properly launched and administered. The tax can be levied progressively to capture even the marginal revenue from properties that have high capital values thus linking the principal of the ability to pay with the tax. Tax equity can be achieved at various levels

Disadvantages of the capital value of land based approach

If the capital value is derived from the rental value through a capitalization process then the deficiencies of the rental value system will get entrenched in the capital value of the land so that, if one cannot accurately assess the rental value of a particular holding it will not be possible to arrive at an accurate level of the capital value (Konyimbih, 2000). The determination of the capitalization factor is often fraught with difficulties where the market transaction is not active because of assumptions being made on the rate of return, its variations over time as a result of investment uncertainties. Small errors in judgement, assumptions or calculations of the basic parameters may often lead to highly magnified capital value figures. Taxing land plus improvements (imputed in the rent) may discourage investment in the long term capital resources/improvements. This option requires qualified staff to be put it in place, which is often costly since capacity building takes time and involves money.

(d) Taxation based on unimproved site value (USV)

This option places the tax burden on the value of bare land or site only without considering the improvements on it, although the effect of the improvement on the land is usually recognised in the valuation process (Konyimbih, 2000). The procedure in such an assessment system broadly involves; researching the proprietor of land (registered owner), size and planning of land (Zone). Researching the market to obtain information about transactions. Verifying the information by considering if it is factually accurate and objective. Deducting the depreciated cost of improvements from the sales price of the property if the improvements contribute to the overall value in the market. Determining the relevant unit of comparison (e.g. shillings per hectare). Comparing the subject land being valued to the substitutes that have been recently sold in the market or comparable sold in the open market and adjusting the resulting figure to the valuation date. Lastly calculating the value of the land under consideration and apply the rate struck or percentage rate to this value to get the tax liability for the registered proprietor (to bill the taxable person).

Advantages of (USV) based approach

According to Konyimbih, (2000) the greatest advantage of this tax based option is that it falls on the resource rent and that tax is on the natural characteristics or advantages of the land and that such tax is not shiftable. Taxing vacant land especially if it is not developed encourages development in order to meet the cost of taxation. Land falling on the resource rent does not distort factor allocation within the economy. The tax falls on the land whether or not it is occupied thus ensuring certainty of revenue to the authority. It discourages land speculation

Disadvantages of (USV) based approach

According to Konyimbih, (2000) if this option is used solely to encourage development, it may not achieve its desired objective because land tax liability is only one and rarely, the most important of the factors which influence investment decision of the owner. Market forces which arise from the differences in location rather than land/farm efficiency or entrepreneurship may be a practical source of inequity in land taxation. There is usually the practical difficulty of isolating intrinsic site element from the improvements and entrepreneurship of the farm owner for the highly developed properties.

2.17 Regional practice on property taxes

Different countries within the region of Southern and East Africa have adopted their own principle of basing the land as provided in their respective legislation (Table 2.5)

Table 2.5: Tax bases provided for in legislation

Country	Land value (site value)	Improved value	Site and improvements (as separate objects)	Improvements only	Annual value
Botswana		X			
Kenya	X				
Lesotho		X			
Malawi		X			
Namibia	X	X	X	X	
South Africa	X	X	X		
Swaziland	X	X	X	X	
Tanzania				X	
Uganda					X

Source: Franzsen 2002

According to Franzsen (2002) In Botswana ,although the rate is levied on the (total) improved value, that value is the aggregate of the value of the land and the value of the improvements on the land. In practice Lesotho levies tax on the value of site plus the value of improvements, although the Act seems to provide for a tax on improvements only. A ground rent (collected by national government) may be payable for the use of land.

The Local Authorities Act (section 79) in Namibia provides that with the approval of the Minister, a town council or village council may determine a rate 'upon a basis other than that of valuation'. In practice local authorities use site and improvements as tax base, with a higher rate on land than improvements. In Swaziland although legislation provides four options, it is not clear yet whether all of these options are actually used. The tax base in Uganda is the annual value of the total value of site and improvements whereas Tanzania bases it tax on improvements only.

In Kenya the Valuation for Rating Act provides for the following bases, namely area rating (rural areas), agricultural rental value rating (rural areas) or site value rating in combination with an improvement rate. In practice only land value is used.

2.18 Which is the best tax base practice?

There is no easy answer to this question, and certainly no agreement among either analysts or policy makers. The best system for a given country probably depends on the present state of property markets, housing tenure, and on what that country most wants to accomplish with its property tax. If the goal is to treat taxpayers equitably, then any of the value- based systems can work well, depending on how assessment is done. Area- based systems would not score well on an equity scale (Bahl, 2009).

Capital Value on Land and Improvements works best when there is some objective evidence of sales value, though notional assessment is feasible. If tenure is dominated by owner –occupancy, there is a stronger argument for an (improved) capital value base. Rental Value on Properties would be best when rental is the main form of housing tenure, and when there are no rental controls. Focus would also be on annual rental value if most property is held in leasehold.

Capital Value of Land can be used to encourage more intensive development of land. This approach also avoids the need to value improvements. It works best when there is ample vacant land on which to base value estimates. It is more suitable in urban areas where land is subject to speculation. Also if the property tax is seen as a wealth tax, then a capital value or a land value property tax would seem a reasonable approach.

Area system is best when there is no formal land market, hence no comparative sales data on which to base value estimates. It has the advantage of simplicity, and is a good first step towards a transition to a value –based system

2.19 Exemptions and relief

The exemptions are covered in section 27 of the Valuation for Rating Act (Cap 266) to include property used or to be used in the foreseeable future for; public religious worship, burial purposes, public hospitals, public educational undertakings, charitable purposes (other than residences), outdoor sports, national parks and reserves. The minister in charge of local authorities has the power to determine whether or not some land is deemed public or not. There has to be a periodic review of property tax exemption policy to with the goal of determining whether exemptions continue to serve their intended purposes.

2.20 Valuation

The goals for valuation are clear: to assess properties at all levels as required by the law, to revalue as required by the law, and to maintain some standard of equity in assessments (Bahl, 2009).

There are three basic methods of single property appraisal (IAAO, 1990):

Cost based approach, which assesses the replacement costs of the building and improvements. Sales comparison, where actual sales prices are adjusted for the purposes of appraisal. Rental value based approach, which calculates the capital value of the property by assessing its potential income and assuming a standard interest rate.

The **cost based approach** focuses on the physical factors determining the value of the real estate. This method estimates the cost of building a substitute property, which functionally is similar to the appraised building. This calculation takes into account the depreciation of the real estate by assessing the decline in the value caused by the usage of the property and any changes in the city or the neighbourhood. The detailed appraisal can be replaced or supplemented by using standard data on construction unit costs, that is, by empirical information from construction companies or real estate agents.

The **sales comparison approach** is based on the assumption, that under market conditions similar properties can be sold at approximately identical prices. As this rarely happens, adjustment factors have to be used. The basis of correction is the physical condition of the property (area, materials, facilities, etc.) and the time spent between sales, etc. It is also important to separate the valuation of buildings and land, because it makes the sales comparison based appraisal more accurate.

This comparative method works effectively if there are frequent sales, property units are similar (e.g. apartments, detached family houses) and the information on sales is accurate and reliable. The latter condition can be met when local governments also benefit from property transfer taxes. If they have access to basic information on property purchases and the level of transfer tax does not lead to unlikely low prices, then there is a synergy between the administration of the two taxes.

The **income approach** capitalizes the potential revenue flow at an estimated discount rate. The value of the property is calculated as the quotient of the rent and the interest rate. The information on rent might be available from the market in the case of frequently rented apartments, office space, shops, etc. Rents taken into account could be gross or net, without operational and maintenance costs. The capitalization rate used for assessing the property value should be adjusted to the interest rate of other investments, adding to it the risks of the property market, management rate, etc. This method focuses on the demand side of the property market. If the assessment of rental revenue is based on the highest possible rent, then the owners of the property will be forced to maximize the income from their usage of the property.

Local governments might use simple multipliers for assessing the actual value of the property or they just change the tax rate. Frequently valuations might bring windfall revenues for the local government, while too rare appraisals create inequalities and make the value based property taxation less acceptable for the citizens.

2.20.1 Determination of property tax revenues

According to Kelly 1999, Property tax revenues stagnate primarily because of lags in maintenance and completeness of the tax base coverage, inaccurate valuations, and inadequate collection/enforcement. Although tax policy concerning tax base definitions, exemptions, valuation standards, and collection/enforcement provisions can improve revenue yield, the key to increasing revenue buoyancy is largely improved administration. That is, the government must ensure that all property is on the tax rolls, that property is valued close to market value, that the tax is assessed accurately, and that the revenue is collected and enforced. This relationship can best be illustrated through the following property tax revenue model:

Tax Revenue = Tax Base * CR * VR * TR * CIR

Where,

CR = Coverage Ratio is defined as the amount of taxable land captured in the fiscal cadastre, divided by the total taxable land in a jurisdiction which taxes land only, such as Kenya. This measures the accuracy and completeness of the property information in the valuation roll.

VR = Valuation Ratio is defined as the value on the valuation rolls divided by the real market value of properties on the valuation roll. This measures the overall accuracy of the property valuation level (i.e., what percent of market value is being captured through the valuation process).

TR = Tax Ratio is defined as the "rate struck" for the taxing jurisdiction. This measures the tax amount per value of the property that is to be paid as tax. The tax ratio (or tax rate) is determined through the annual budget process.

CIR = Collection Ratio is defined as the tax revenue collected over the total tax liability which has been billed for that year. This measures the revenue collection efficiency. The collection ratio is affected by the collection of both current liability and tax arrears (i.e., enforcement efficiency).

As this formula indicates, potential tax revenue is a function of the accuracy and level of the coverage ratio, the valuation ratio, the tax ratio and the collection ratio. Unlike the tax ratio (i.e., the "rate struck") which is determined politically once during the annual budget process, the coverage ratio, valuation ratio and collection ratios are affected by the level of administrative capacity and political will continuously throughout the year. Valuation Ratio which is one the researcher's area of study will be looked at greater detail in the next sections.

2.20.2 Undervaluation

The evidence available suggests that properties that are in the tax base are dramatically under-assessed. Unfortunately there are no independent estimates of the property values, so it is not possible to get a fix on the true tax base. Moreover, the government does not carry out an assessment sales-ratio study that would allow calculation of the degree of underassessment. It is therefore not possible to make an objective estimate of the revenue cost of underassessment.

Available data however, suggest that the degree of underassessment is quite large. Evidence of undervaluation can be gotten using data related to sales of property. Declared values for land transfers are notorious for being undervalued and therefore cannot form a basis for analysis of assessment. The ratio for assessed to market values is reported to be 25 percent in Indonesia, and to range between 20 and 70 percent in Kenya , 45 to 85 percent in Chile and 20 to 50 percent in Mexico (Bahl, Martinez-Vazquez and Youngman, forthcoming ; and bird and slack, 2004).

2.20.3 Valuation Ratio

Once tax base information has been collected, a property tax system must determine how this property information will be "weighted" in order to distribute the tax burden among the properties. The most common "weighting systems" are by property physical characteristics such as land area or by property value. The key objective of any weighting system is to determine the relative proportion of total tax that will be paid by each property.

In Kenya, the Rating Act and the Valuation for Rating Act provide extreme flexibility in how the property tax burden will be "weighted" and distributed among taxpayers. In practice, most county councils allocate the tax burden based on area, while the municipal and town councils allocate based on value. For those properties weighted by property value, the law provides that the valuation can on either unimproved site value or a combination of site and improvement value. The Valuation for Rating Act allows the valuer to adopt any suitable method of valuation.

In practice, all local authorities using a value-based system use unimproved site valuation. Except for the four councils of Nairobi, Mombasa, Kisumu and Nakuru, most valuation rolls are prepared with the assistance of the Ministry of Lands Rating Department. All valuation rolls are constructed using a parcel by parcel individual valuation of each property which creates a backlog of out-of-date valuation rolls, due to the lack of trained rating valuers, financial resources for revaluations and the lack of institutional and personal incentives. Mass valuation techniques are not used by any rating authority in Kenya.

Unfortunately there are few empirical studies that have analyzed the level and accuracy of the individualized property valuations. Typically tax departments should conduct assessment / sales ratio studies to evaluate the accuracy in the valuation level and the relative valuations among properties. Ideally, the valuation level should be close to 1 while the coefficient of dispersion (which measures the variation around the median) should be less than 20 percent. From the limited information available, it is estimated that the valuation ratio ranges between 20-80 percent of real market values. In addition, it is estimated that the dispersion between the valuation on the rolls and the real market value is high, heavily correlated with the age of the valuation rolls. Although valuations may be accurate when first produced, this accuracy erodes overtime due to the shifts in relative and absolute market values. These low valuation ratios and the variation among the property values create efficiency and equity distortions, which impact the compliance level and the overall revenue yield from the property tax in Kenya.

The low valuation ratio (and the increasing inequity among properties) is due largely to the tremendous lag in maintaining the valuation rolls. As previously discussed, revaluations are supposed to take place every 5 years (recently changed to every 10 years) Therefore, to compensate for the lag in revaluations, the Government has allowed local councils to increase nominal tax rates. In Nairobi, for example, the tax rate for residential property increased from 2.25 percent in 1982 to 5 percent in 1991 and to 13 percent in 1996. This increase has almost equalled the rate of inflation thereby holding the average real tax burden per residential property almost constant over the past fifteen years.

Although tax rates can be adjusted to maintain increased tax revenues, they do not readjust the relative tax burden distribution among taxpayers. Relative equity is not readjusted to reflect differential changes in property values within a taxing jurisdiction. An analysis of the 1981 revaluation in Nairobi, for example, suggests that residential values increased by 600 percent, commercial values increased by 250 percent and industrial land decreased by 225 percent (Daudi, 1986). From 1982 to 1991, the average tax burden shifted from the commercial and industrial sector to the residential sector. The tax burden for residential land increased by 15.6 percent while the commercial contribution declined by 35 percent and industrial contribution declined by 20 percent. The residential land assessment increased from 64 percent to 74 percent of the total tax burden while commercial land decreased from 20 to 13 percent and industrial decreased from 15 to 12 percent (Rihal, 1991). In addition to differential value increases between sectors, market dynamics cause major shifts in the relative value of different geographic areas.

2.20.4 Mass Appraisal

Local governments are faced with the problem of assessing the value of several property units at a particular year. The large number of real estate units causes the tax administration to be more complicated. Because of the numerous property units, the appraisal can be based on statistical methods. According to Kelmend Zajazi and others members of expert team, NALAS (2009), the mass appraisal focuses on a group of properties and calculates the averages on properties with similar characteristics.

Mass appraisal uses extensive databases and is typically built on sales comparison methods. The valuation process follows similar steps as in the case of single property assessment. Collection of data on economic, social, physical and geographical conditions, together with actual property sales, are the basic conditions for mass appraisal.

This information is then used by the actual valuation model. It is based on all the potential appraisal techniques (cost approach, sales comparison and income capitalization). A large amount of data on the costs and the description of the sold properties are analysed, resulting in statistically valid models. Usually multiple regression is used for the statistical analysis. Mass appraisal models can also be used for the rental income approach and the cost approach.

Computer Assisted Mass Appraisal

The term computer assisted refers to the calculation necessary to value property by automated computer systems. The term of mass appraisal is defined by the International Association of Assessing Officers as "..the valuation of many properties as of a given date." (Eckert, 1990). Overall, Computer Assisted Mass Appraisal (CAMA) is an automated computer assisted appraisal system which allows mass calculation in a stipulated time with high degree of accuracy. In contrast, the conventional manual assessment is very time consuming and low degree of accuracy. However, this method is criticised because of the high costs of introduction and hiring specialised staff, the need for extensive databases, and the lack of transparency in these often rather complicated models. (McCluskey *et al*)

With the help of CAMA system, the local government can obtain a fair and efficient tax assessment system. The advantages of CAMA system are; less manpower and time consumption, more accurate, quality assurance and cost effectiveness. Other advantages are, data management system, fair valuation and revaluation and good sales and administrative system.

This CAMA system is user friendly and needs less time to master, its computational competence includes performing complex and voluminous calculation which could be quickly undertaken by computer compared to the manual system. It has been proved that the CAMA system is widely used all over the world. CAMA is very efficient in all aspects including valuation and revaluation, data analysis, data selection and keeping the data base. With the use of CAMA system, the quantity of man power can be reduced and the appraisal can devote more time to collect necessary information to value the property.

2.20.5 Valuation for Rating Act (1956), Chapter 266 Laws of Kenya

This Act provides the valuation of land for the purposes of levying rates. The Act deals with methods of valuation for purposes of rating and the procedure to be followed in the preparation of valuation rolls. It provides in section 8 three systems of rating, unimproved site value rating, improvement rating and area rating.

Unimproved site value rating and improvement rating systems apply to urban areas whereas area rating was to be applied to agricultural land. The urban authorities mainly use unimproved site value rating although the law allows improvement rating as well. This was largely because at the time of the enactment large parcels of land with urban boundaries were undeveloped. The other argument was also that site value rating is more amenable to mass appraisal and hence simple to carry out compared to other methods. In applying site value rating, rates are based on the market value of the unimproved bare land and, if the land is improved, ignoring the improvements on it altogether.

Throughout the history of rating development in Kenya only Mombasa attempted to levy an improvement rate. The improvement rating tried in Mombasa in the 1940s was abandoned after a short trial because of defects in law (Aritho, 1980). The system failed due to influence on development and also the fact that by then, many Kenyan towns had low levels of development i.e. building constructed of mud, tin, and paper which could not be valued with certainty. Local authority building by laws regarded such developments as temporary and therefore not falling within the ambits of approved developments. Accordingly unimproved site value still remains the basis of rating in all urban authorities in Kenya today. This however may now need to be reconsidered (Olima and Syagga, 1996)

2.20.6 Preparation of a valuation roll

It is the obligation of the rating authority to cause valuation to be prepared at least once every 10 years (see table 2.6 on regional valuation cycles) or such longer periods as the Minister for Local Government may approve, in accordance with Section 3 of the Valuation for Rating Act (Cap 266). Before the beginning of the work, the rating authority is required to pass a number of resolutions and obtain the minister's approval. The resolutions to be passed include the appointment of the valuer, adoption of the form of rating to be applied (whether improvement, site value or area rating) and declaration of an area within the council boundary to be rateable area. It is stipulated that only one form of rating can be adopted by a rating authority at any time.

The preparation of the valuation roll by the valuers start with collection of all relevant plans and development plans from the planning department. The sales figures available are marked on a map to give the valuer a picture of the land values in the town. Section 5 of the Valuation for Rating Act (Cap 266) gives the valuers power to enter and inspect all properties or call for any data that may be required to enable them carry out thorough analysis so as to arrive at the appropriate site values. The valuation roll when completed will show all the rateable properties in terms of: description, situation and area of land; name and address of rateable owner; the value of whole property if developed; and the value of unimproved land (site only)

The completion of the preparation of valuation roll is followed by a notice published in the Kenya Gazette to the Public for inspection and submission of objectives, if any. The same notice also appoints a valuation tribunal for purposes of hearing objections and determine appropriate values.

Table 2.6: Regional Statutory valuation cycles

Country	Valuation Cycles
Botswana	Max 5 years
Kenya	Max 10 years
Lesotho	3 years
Malawi	Max 5 years
Namibia	Max 5 years
South Africa	Max 5 years
Swaziland	Max 5 years
Tanzania	?
Uganda	5 years

Source: Franzsen 2002

Tanzania has a valuation cycle for every five years or such a period as the Minister concerned may approve.

2.21 Capacity building

Still, a major constraint to good valuation in developing countries is the shortage of qualified valuers working in both the government and the private sector. In some countries, the problem is the absence of good quality valuation training and degree programs for valuers. In many developing countries this lack of qualified valuers shows itself in poor assessment equity and long overdue revaluations. At minimum capacity- building programs, should be put in place to address this this problem.

The World Customs Organization (WCO) defines capacity building as "activities which strengthen the knowledge, abilities, skills and behaviour of individuals and improve institutional structures and processes such that the organization can efficiently meet its mission and goals in a sustainable way." Capacity building is much more than training and includes the following (Carol and Fleming, 2001): Human resource development, the process of equipping individuals with the understanding, skills and access to information, knowledge and training that enables them to perform effectively. Organizational development, the elaboration of management structures, processes and procedures, not only within organizations but also the management of relationships between the different organizations and sectors (public, private and community). Institutional and legal framework development, making legal and regulatory changes to enable organizations, institutions and agencies at all levels and in all sectors to enhance their capacities. Lastly function support development, describes the Information and Communication Technology implementation in processes to increase the productivity, technology adoption to manage data banks, strategic property and facilities management for implementation.

The human development and support function development necessary for the property tax administration can be classified into three sections for capacity building. These sections are process training, technology training and process and technology integrated system;

Process Training

Process training purpose is to strengthen the working process activities. Based on the work functions, the following trainings are necessary as process training: Valuation Methods used to value properties, administration of property tax, Inspection of properties for new staffs and training on manipulating data into useful information for decision making process.

Technology Training

This is necessary while collecting data and mapping the geographical details inside the databank. The necessary technology trainings are as follows: AutoCAD for drawing building plans and maps; GIS – to digitize the digital maps into computer and managing digital database.

Process and Technology Integrated System

Technology is a tool that enable itself to tailor it according to the process, an integrated frame work will reduce the manual errors, processing time, reduced work load and also increase the accuracy, consistency, productivity. In this context, the technology integrated system is referred to the Computer Assisted Mass Appraisal System for property tax administration.

2.22 Conclusions

It is commonly acknowledged that property tax is an important source of revenue for local government. There is much scope for improvement in all of the important aspects that are integral parts and prerequisites for a well –administered property tax system. A crucial element is that of property assessment. Properties on the valuation rolls are inaccurately valued and collection efficiency is extremely poor. The preparation of a proper valuation roll requires accurate data pertaining to rateable property parcels.

Property tax administrative failures can be adequately addressed through procedural reforms including increased coverage, valuation accuracy and collection efficiency. An increase in the effective tax rate places the burden of the increase on those few individuals whose properties are on the tax rolls, accurately valued, and from whom taxes are actually collected. With the introduction and implementation of proper property tax reform, there is little disagreement that the tax can yield much more revenue for local authorities in Kenya than it is at the moment.

CHAPTER 3: CASE STUDY

3.1 Mavoko Municipal Council

Mavoko municipal council was conveniently chosen as the case study of this project. The fact that it is a rapidly growing municipal council and near Nairobi makes this study subjective. In order to enable comparison of some important rating issues questionnaires were also administered to the municipal councils of Nyahururu, Kiambu and Ruiru.

3.1.1 History of Mavoko Municipal Council

The Municipal Council of Mavoko is one of the oldest Councils in the country with its evolution dating back to 1940, when it began as Local Native Council (LNC) then became an African District Council (ADC). Mavoko town came into existence through trading with the main business activity being centred at the old town area next to the railway station. It became an Urban Council, curved from the County Council of Masaku in 1974 and got upgraded to a Town Council in 1987 and to a Municipal Council status in 1993.

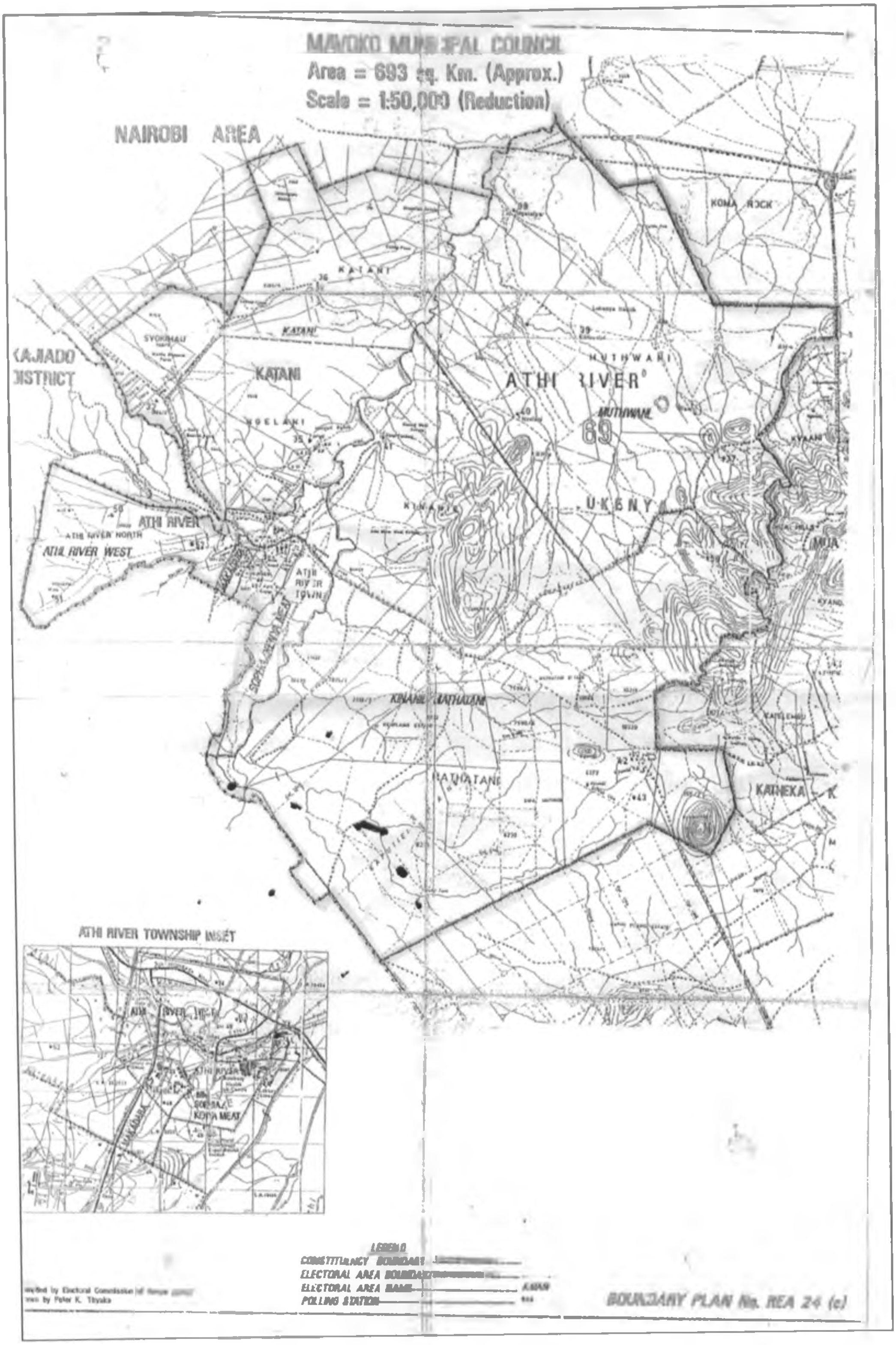
It covers an area of 693 km², with an average population of about 80,000. The Municipality acts as a dormitory town for Nairobi city and other nearby growing centres. Most of the population is hosted at the Municipality's satellite towns of Mlolongo, Athi River and Kyumvi. Mavoko Municipal has many factories e.g. E A Portland Cement, Bamburi Cement, Kapa Oil Refinery, Export Processing Zone Authority (E P Z A), Nation Media, Mabati Rolling Mills, Devki Steel Works Company, Sun-Rose and Primarosa flower companies among others. In total there are over sixty factories. The council being a service provider operates under the Local Government Act. The Council has core functions of planning all development activities within its area of jurisdiction. Currently, the council is served by eight Councillors, of whom six are elected and two nominated.

3.1.2 Boundaries of Mavoko Municipal Council

Mavoko municipal council lies in Machakos district, Eastern Province. There is rapid increase in the ratio of population to the total land area of (693 sq. km). Mavoko Municipality extends from KAPA/Airport area where it borders with Nairobi City Council and covers Katani, Ruai on Kangundo road through Muthwani-Lukenya, Makutano (Kyumbi) where it Borders Machakos Municipal Council. It covers Kapiti plains to the south west towards Kitengela area where it borders with Olkejuado County Council, then to Embakasi at Nairobi City Council border. The Council is divided into 6(six) electoral wards namely Makadara, Athi River West, Mlolongo/katani, Kinanie Mathatani, Muthwani and KMC/Sofia Ward. Map 3.1 Shows the Locality of Athi Town where the Mavoko Municipal Council offices are located. Map 3.2 shows the extent of Mavoko Municipal Council.

Map 3.1 Location of Athi River Town within Mavoko Municipality.

Source: Google earth Maps



Map 3.2 Mavoko Municipality

Source: Mavoko Municipal Council

3.1. 3 Population

According to the 1999 population census, the population within Mavoko Municipal council was 47,971 people while according to a physical development research project of 2004 the total population was 61,809 people. The population of the town according to the 2009 census was about 80,000 people. The population growth rate for the Municipality is about 1.7% and for Athi River Township is 5.2%. About 50 per cent of the population is concentrated around Athi river town (Machakos district development plan, 2002-2008).It is observed that the population grows in the evening because of workers from Nairobi and other surrounding areas who reside within the town. Most of this population is hosted at the Municipality's satellite towns of Mlolongo, Athi River and Kyumvi.

3.1.4 Land use analysis

Land use analysis within the municipality is divided into nine categories namely residential, commercial, industrial, recreational, educational, public purpose and public utility. The allocation and character of land use in the town is explained below. The land use as per the Athi River Development Plan prepared in 1970 is quantified in this summary of the land use analysis.

3.1.5 Residential

The municipality acts as a dormitory town for Nairobi city, other nearby growing centres and also provides housing for the local industrial workers. According to the 1970 land use plan residential use was divided into three sub-categories namely low, medium and high density and allocated approximately 2722 Hectares of land comprising 27% of the total land area. There has been a lot of development since 1970 that did not conform to the planned land use.

3.1.6 Industrial

The area is primarily industrial in character with factories employing three quarters of the town's residents. There are many factories such as Kenya Meat Commission, E A Portland Cement, Bamburi Cement, Kapa Oil Refinery, EPZA, Nation Media, Mabati Rolling Mills, Devki Steel Works Company, Athi River steel rolling plant, Sun –rose and Primarosa flower companies among others. In total there are over sixty factories. The factories are mainly steel, cement manufacturing, flower farms and textile manufacturers. The Export Processing Zone employs a majority of the women population.

According to the 1970 land use plan industrial use was allocated approximately 2007 Ha covering 20% of the total land area. The development since 1970 did not conform to the plan.

3.1.7 Commercial

The area is characterised by a number of wholesale and retail businesses, small and medium scale enterprises and commercial service providers. According to the 1970 land use plan, commercial use was allocated approximately 102 Ha. comprising 1% of the total land area.

3.1.8 Educational

The area is served with nursery, primary, secondary and tertiary educational services. According to the 1970 land use plan, educational use was allocated approximately 348 Ha comprising 3% of the total land area.

3.1.9 Recreational

Recreational use was allocated approximately 818 Ha. according the 1970 plan, this comprised 8% of the total planned area. The recreational activities provided according to this plan were parks, playing fields, public open spaces and a proposed stadium.

3.1.10 Public purpose

The 1970 plan provided for public purpose activities such as a social hall, Ministry of Works land, churches, land for administration and a proposed cemetery. The plan allocated approximately 250 Ha. Comprising 2% of the total land area.

3.1.11 Public utilities

Public utilities consisting of water, sanitation and waste facilities had an allocation of approximately 76 Ha. comprising 1% of the total land area according to the 1970 land use plan.

3.1.12 Transportation

According to the 1970 plan, approximately 510 Ha. of land comprising 5% of total land area was provided for transportation. This included land set aside for roads, railway, petrol services stations, lorry parks and car parks.

3.1.13 Deferred land

Deferred land was allocated approximately 3230 Ha. Comprising approximately 32% of the total planned area.

Table 3.1: summary of land use analysis

Land use	**Allocation in 1970 plan (Ha)**	**% total area**
Residential	2722	27
Industrial	2007	20
Educational	348	3
Recreational	818	8
Public purpose	250	2
Commercial	102	1
Public utilities	76	1
Transportation	510	6
Deferred land	3230	32
TOTAL	**10067**	**100**

Source: Mavoko Municipal Council

3.1.14 Infrastructure and services

There are huge demands on the Mavoko Municipal Council as indicted in their 2005 – 2010 Strategic Plan. The following key strategic issues affecting the delivery of efficient services to the residents; Low satisfaction of community with the council's services, Low accountability of Mavoko Municipal Council to revenue contributors, Insufficient personal; and Inadequate specialized skills and inadequate revenue collections and allocation procedures.

3.1.15 Rating practice in Mavoko Municipal Council

The council began to levy land rates as early as 1987 as a town council. Before then land rates were collected but under the greater Machakos county council. It was subsequently upgraded to Municipal Council status in 1992 and continued to levy. rates. The first valuation roll under the banner of Municipal Council became effective from 2008. This roll was prepared by valuers in private practice. The rate struck has remained at 2.1 percent since the Council began to levy land rates. For this council the revenue collected from land rates is higher than other revenue sources

3.1.16 Land values and the property market

Land values in Mavoko have gone up drastically in the last few years this has been as a result of a number of factors such as; the rapid industrial growth within the Municipality, Close proximity to Nairobi city centre leading to urbanization, the development of the property market in Kenya and the rapidly growing population. Other factors are closeness to Jomo Kenyatta International Airport, Its location at the junction of a regional road network and availability of key natural resources.

3.2. Comparative Municipal Councils

In order to have a wider perspective of the valuation for rating problem in Kenya comparative information was sought in three other municipal councils. These are Nyahururu, Kiambu and Ruiru

3.2.1 Nyahururu Municipal Council

Location

Nyahururu Municipal Council is located in Nyahururu division, Laikipia district in the Rift Valley Province of Kenya. The town is situated 190 Kilometres (Km) Northwest of Nairobi, 160 Km south of Maralal and 56 Km West of Nakuru town. The town is situated at the intersection of two major roads – the Nairobi-Maralal and Nyeri-Nakuru roads. The size of the Municipal Council is 104sq Km having grown from an area of 16.2sq Km.

Population

According to 2009 Census the Town has a population of 57,466, compared to the population of 24,000 in the Census of 1999. This translates therefore to an increased demand of services to the residents. However the town has a greater population during the day, estimated at 120,000 persons than at night. This is due to the influx of people from the surrounding settlements who are farmers and businessmen in town and reside outside the Municipality. There was also an influx of people after the general elections held in 2007 and a significant number seems to have settled within the municipality.

Administrative function of the town

The town has undergone various stages of development shifting from one level to the other as the population grew and services improved, for instance it was gazetted as an Urban Council in 1954. When Kenya attained independence in 1963, the council became second tier authority of Laikipia County Council in Laikipia district.

Through a presidential decree in 1967, the town became the headquarters of Nyandarua district and was administratively transferred to Nyandarua County Council. In 1974, the town became a Town Council and was later elevated to Municipal status in 1982.The town has six electoral wards represented by six elected and two nominated councillors and one public officer. The Council Chief executive is the Town clerk, who is supported by departmental heads who form the four departments within the Council namely: Town clerk's office, Engineering, Treasurers and Public Health. One of the outstanding function the municipality plays is that it hosts the Law courts which serve Nyandarua and Laikipia districts. The Municipality has also being proposed to serve as headquarter of one of the Counties in the devolved government.

The Council began to levy Land rates in 1982. The first valuation roll was prepared in 1982. Other rolls were prepared in 1987, 1996 and lastly 2006. Private valuers were consulted in the preparation of the valuation rolls.

3.2.2 Kiambu Municipal Council

The Municipal Council of Kiambu was constituted as an urban council in 1963.Before then it was under the County Council of Kiambu. In 1974, it was elevated to Town Council to cater for increasing demands of the local community. It was elevated to status of a Municipal Council in 1981. This gave it a higher degree of financial and managerial autonomy from the parent Kiambu County Council. Today, the Municipal Council of Kiambu is situated in Kiambu District, approximately 15km from Nairobi city centre. The Municipal Council is in the process of making its own by-laws as it currently uses the by-laws adopted from the parent County Council of Kiambu which is still the overall in charge of local administration of the now Kiambu East District.

The Municipal Council of Kiambu is situated in a highly productive agricultural area with coffee as the major cash crop and favourable environment and climate for high agricultural production, settlement and business. A high number of businesses are registered annually showing a high business boom in the area. This has served to expand the revenue base for the municipality. Poverty levels within the municipality are relatively lower compared to other municipalities.

Settlement Pattern and Land Use in Kiambu Municipality.

The current development plan of Kiambu dates back to 1977 though there have been talks of revising it; no tangible work has been done. According to the National Development Plan for National Urbanization and Rural Strategy 1970-1978, Kiambu town was developed to ease Nairobi of its housing and employment problems. Kiambu's urban structure was drawn from the concept of a predominantly agricultural environment. Both rural and urban concepts were incorporated in the development framework of the town (Gichango 2010). The land uses can be divided into administrative, commercial, industrial, residential and special purposes.

3.2.3. Ruiru Municipal Council

The Municipal council of Ruiru was established under the act of parliament as provided by the Local Government Act CAP 265 laws of Kenya. It is mandated to among other things provide local service delivery, local governance and local development.

Physical Location and size

Ruiru municipality is located in Kenya's central province within Thika district. It is the second most populated urban centre in the jurisdiction of Thika district. It is bordered to the south west by Nairobi city and to the north-east by Thika town. It lies between Nairobi city and Thika town and is 21km from Nairobi city centre and 17km from Thika town. The land size of Ruiru municipality is 292km squared.

Departments

The council has three departments namely; The Town Clerks department, The Municipal Engineer's department , The Municipal Treasurer's department

3.3 Research methodology

Research methodology is a way to systematically solve the research problem (Kothari, 2004). It describes in detail how the research process was conducted, outlines data collection procedures, measurements and analysis used to accomplish research objectives.

A case study approach was adopted. In this research property assessment for rating purposes was studied at Mavoko, Ruiru, Kiambu and Nyahururu Municipal councils.Basically it is taken that what happens in these councils reflects to a wider extent what the situation is like in other municipal Councils in the country. In order to study in depth the assessment of properties for rating purposes a survey of Market values was carried out within Mavoko Municipal Council covering the years of 2008 to 2012.

3.4. Research process

According to Mugenda, (2003) a research is a case study designed as a form of qualitative analysis and involves critical examination or inquiry to discover facts of social units. These units can be persons, family, institutions, cultural group or even an entire community. In this research Mavoko Municipal has been chosen with comparative information being sought from Municipal councils of Nyahururu, Kiambu and Ruiru

3.5. Research design

Gichango (2010) citing Kumar (2005) refers to research design as the procedural plan that is adopted by the researcher to answer research questions validly, accurately, objectively and economically. Research design is also an arrangement of conditions for collection and analysis of conditions for collection and analysis of data in a manner that aims to combine the relevance of the research with economy in procedure.

Research design aims at identifying or developing a procedure and logistic arrangement required in undertaking the study. It emphasizes the importance of quality in the procedure to ensure validity, objectivity and accuracy. It enables the researcher to know whether the procedures used are adequate in order to obtain a valid, objective and accurate analysis. The case study type of research design gives a more detailed and intensive analysis of a defined process.This study employed qualitative and quantitative methodology as a supplementary support.

In this project carefully selected issues of assessment of properties for rating purposes were structured in form of a questionnaire to Municipal Council of Mavoko. The questionnaire was also administered to the Municipal councils of Ruiru, Kiambu and Nyahururu in order to widen the assessment practices and generally catch the actual issues in broader perspectives. A detailed survey of the property market values was done for parcels of land within Mavoko Municipality.

3.6. Data Collection

Data collection is a form of qualitative analysis involving a careful and complete observation of the social unit which can be an individual, family unit, institution, or entire community.

The data collection methods employed includes:

3.6.1 Primary data

These represent the actual field work undertaken and include:

- Field observation

The data is collected through visual observation. There was also perusal of municipal council's records such as, valuation rolls and development plan among others.

- Oral interviews

The researcher used unstructured interviews where there were complete freedom in terms of wording used and the explanation of the questions to the respondents. These interviews were conducted hand-in-hand with the questionnaires where clarification of the questions was needed.

- Questionnaires

The questionnaires employed by the researcher contained both open-ended questions where the respondent writes the answers in his or her own words and closed-ended questions where possible answers are set out in the questionnaires. The questionnaires where served to different groups of respondents including 4 municipal council officers, 20 private valuers and 1 estate agents. The questionnaires addressed the respondents' opinion regarding property tax assessment in relation to its administration, and the market values of land parcels with the jurisdiction of Mavoko Municipal Council.

3.6.2 Secondary Data

This involved library research where data was obtained through reviewing existing and available literature in different libraries from text books. Other materials include thesis, journals, statutes, government policy papers, abstracts, Acts of parliament and other reports on property rating.

3.7 Sampling

Sampling involves selecting a few people (sample) from the bigger population (sampling population) as the basis of predicting or estimating the prevalence of an unknown piece of information, situation or outcome about a bigger group.

Deciding on a sample or segment of the population that is to be selected is mandatory for any large population if the validity and reliability of the research is to be achieved since it is not always possible to enumerate a whole population due to time and financial constraints. Therefore sampling remains as the best way of to allow for more accurate measurement.

The target Councils for the study comprised of the municipal officers of Mavoko, Kiambu, Nyahururu and Ruiru Municipality Council. Others were valuers in private practice. Random sampling was carried out in selecting the representative sample to fill out the questionnaires.

3.8 Data Analysis and Presentation

Data analysis is carried out to approve or disapprove the hypothesis and to help in achieving the research objectives. Presentation of the data is in the form of a table bar graph and pie charts to aid in clarity and understanding by the reader.

CHAPTER 4: RESEARCH FINDINGS, DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter deals with analysis of data collected from the field using methods described in chapter three. The research findings were analysed for Mavoko, Kiambu, Nyahururu and Ruiru Municipal Councils and then a summary of the findings and analysis.

4.1 Statutory valuation cycles

Mavoko municipal council was established in 1992. The council began to levy land rates as a Town council in 1987. The first valuation roll was prepared in 1976 when the town was under the jurisdiction of Masaku County council. The second valuation roll was prepared in 1980 then followed by another in 1985. The fourth valuation roll became effective from 2008 and is currently the one in use. The municipality does not adhere to the statutory valuation cycles (every 10 years). The reason cited was that the process is expensive.

Kiambu Municipal Council was established in 1974. It began to levy land rates in the same year. The first valuation roll was prepared in 1979. The other valuation rolls were prepared in 1989, 1999 and 2007. The council adheres to the statutory valuation cycles, unlike Mavoko Municipal council. This was possible as financial resources were availed.

The municipal Council of Nyahururu was established in 1982. In the same year the first valuation roll was prepared and began to levy land rates. Other valuation rolls became effective in years 1987, 1996 and 2006. The council prepares supplementary valuation rolls frequently. The council does not adhere to the statutory valuation cycles. The reasons cited for not adhering were, high costs involved in the process and the delay in dealing with the objections raised by rate payers after launching a new valuation roll.

Ruiru municipal council was established in 1987. The first valuation was prepared in 1987 and the council began to levy rates in 1989. Other valuation rolls became effective in 2011 and 2012. The council does not adhere to the statutory valuation cycles.

4.2 Supplementary valuation rolls

Mavoko Municipal Council does not prepare supplementary valuation rolls yearly. The Valuation for Rating Act (Cap 266) provides supplementary valuation roll be prepared as often as may be necessary and at least once in each of the years following the year of valuation.

Kiambu prepares supplementary valuation rolls, though not yearly. Supplementary valuation rolls for Nyahururu were prepared yearly only between 1982 and 1986. The reasons for preparing these rolls are, to include further subdivisions, reflect the change of user and to include any other omitted information. Ruiru Municipal council prepares supplementary valuation rolls frequently although not yearly. The supplementary rolls are prepared to include further subdivisions, to capture information where the property has changed user and to include any other omitted information.

4.3 Financial resources for revaluations

Mavoko avails financial resources to enable revaluations to be carried out. Kiambu also avails financial resources. Nyahururu does not avail finances for revaluations. The reasons cited for non-availability of financial resources are, cost involved is very high and the municipality is not able to meet other obligations such as service delivery, hence making valuation roll not a priority. The other reason is lack of transparency in awarding tenders for revaluations. Ruiru avails finances for revaluations

4.4 Accuracy of property valuations

Lack of qualified valuers in Mavoko Municipal council was cited as a contributor to delayed revaluations for rating purposes. The council contracts private valuers when carrying out valuations for rating. The cost of contracting private valuers is more expensive than if the valuation was to be done by a government valuer. The values of the land parcels in the valuation roll are lower compared to market sales values. The reason cited for the differences were, the failure to carry out supplementary valuation rolls annually and taking more than the required ten years to prepare a new valuation roll. The council's revenue from land rate is higher than any other revenue sources. There is however potential to improve the revenue from land rates.

Kiambu Municipal council lacks qualified valuers. However this does not contribute to delayed revaluations for rating. The council contracts government valuers when carrying out valuation for rating. According to the council the cost of contracting government valuers is lower than private valuers. The values on the valuation roll are lower compared to the market sales values. The reason cited is time factor, since the valuation roll takes ten years. During this period the market value will have increased significantly. According to the council the difference in the valuation values can be addressed by the local authorities being allowed to carry out their own revaluations. The revenue contributed by the land rates is higher than any other revenue sources. There is potential to improve the revenue from the land rates.

Lack of qualified valuers in Nyahururu Municipal council contributes to delayed revaluations for rating purposes. The council contracts private valuers when carrying valuations for rating. The cost for contracting private valuers is higher than government valuers. The values on the valuation roll are higher than the market sales value. The reason was that revaluations were not carried out accurately by the contracted valuer. The current valuation roll of 2008 increased the plots value by over 500 per cent. The reason for the great increase could not be explained to the residents. According to the council the differences in value can be addressed by the government carrying out the valuation using their valuers at minimal cost to local authorities. This would ensure equity in payment of land rates as is the case in levying single business permits. The revenue collected from land rates is higher than any other revenue source. However there is potential to improve this revenue.

Lack of qualified valuers in Ruiru Municipal council has contributed to delayed revaluations for rating purposes. The council contracts government valuers to carry out valuations. The cost of contracting private valuers is higher than the government valuers.The valuation values on the rolls are lower than the market sales value. The revenue collected from the land rates is lower than that of other revenue sources. There is however potential to improve the revenue from land rates.

4.5 Challenges in undertaking Valuation for Rating

The challenges cited in undertaking valuation for rating in Mavoko were, financial constraints, lack of qualified staff e.g. a valuer, unclear areas of jurisdiction for the Municipality boundaries and unapproved land subdivisions. Kiambu Municipal council encounters several challenges in undertaking valuation for rating. These are, resistant and lack of knowledge from the stakeholders on what constitutes a valuation roll. Other challenges are difficulties in getting contact of the legal owners after subdivision and transfer of land. The challenges Nyahururu Municipal council encounters in undertaking valuation for rating are; meeting the high cost of doing the valuations and the inability to resolve the objection cases arising after new valuation roll became effective. The 2008 valuation roll has not been implemented to date as the stakeholders have refused to cooperate with the council. Ruiru Municipal Council encounters the following challenges; the procedure of reviewing the valuations takes a long process and the resistance from the stakeholders in the implementation of new valuation roll.

4.6 Valuation values from Valuers in private practice.

The following valuation values for land parcels in Mavoko Municipality were obtained from the Valuers in private practice (table 4.1). The values were from year 2008-2012.

Table 4.1: Values of different unimproved parcels of land in Mavoko Municipality

Parcel no. L/R No.	Area (Ha.)	Year of transaction	Market value or Sales price of unimproved land	Market value or Sales price of land with improvements (if developed)
12715/449	2.041	2008	28,000,000	
12715/574	2.022	2009	25,000,000	
12715/290	2.024	2009	25,000,000	
12715/588	2.028	2010	70,000,000	
12715/509	2.022	2010	28,000,000	
Block 2/1599	0.101	2011	1,200,000	
337/346	0.024	2012	1,500,000	

Source: Field survey, 2012 - Private Valuers

4.7 Land parcels values on the valuation roll

The land parcels whose market value was obtained from private valuers were checked for the corresponding values on the valuation roll. Table 4.2. Shows the values of unimproved land parcels in the roll.

Table 4.2. Values indicated on the valuation roll

Parcel no. L/R. No.	Area (Ha.)	Year of Rating under review	Value of unimproved land	Value of land with improvements (if developed)	Percentage rate of year under review
12715/449	2.041	2008	7,535,315		2.1
12715/155	2.023	2008	1,999,533		2.1
12715/470	2.023	2008	1,499,650		2.1
12715/574	2.022	2009	7,494,543		2.1
12715/290	2.024	2009	6,503,213		2.1
12715/588	2.028	2010	10,022,376		2.1
12715/509	2.022	2010	6,500,000		2.1
12715/521	2.022	2010	6,503,213		2.1
Block 2/1599	0.101	2011	250,000		2.1
337/346	0.024	2012	222,000		2.1

Source: Valuation Roll Mavoko Municipal Council

4.8 Data presentation and analysis

4.8.1. Statutory Valuation cycles

Section 3 of the Valuation for Rating Act cap 266 requires that a new valuation roll be prepared every 10 years or such longer time as the Minister may approve. It is only Kiambu Municipal Council which was able to meet this statutory requirement. This is a quarter of the sample study (figure 4.1). The reasons cited for non-compliance to this statutory requirement was the cost of preparing new valuation rolls was high and delay in settling disputes arising from previously completed valuation rolls.

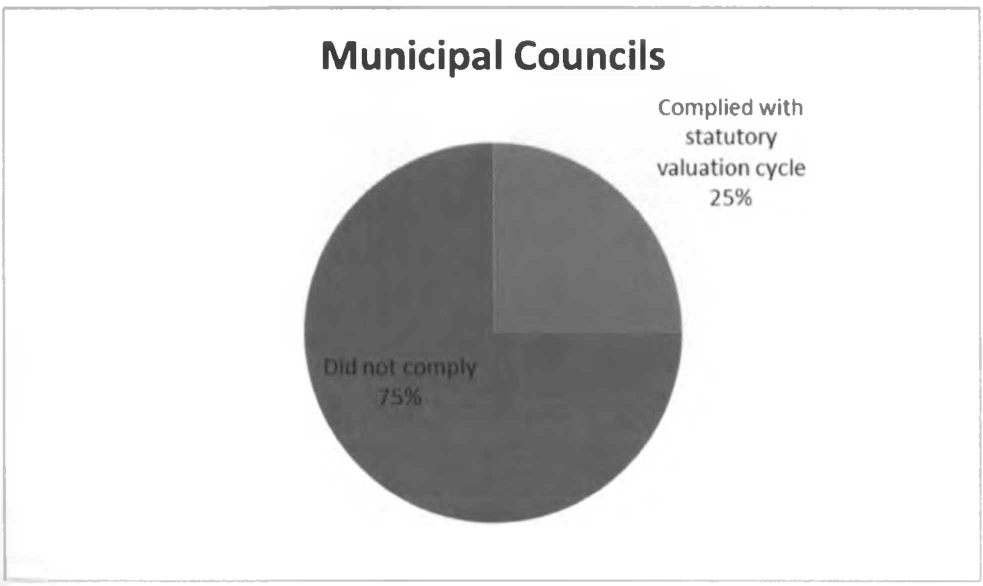


Figure 4.1. Municipal Councils Compliance with statutory valuation cycles

Source: Field survey 2012

4.8.2. Supplementary valuation rolls

Section 4 of the same act requires a supplementary valuation roll be prepared at least once every year after the year of the main valuation roll. This is meant to introduce any changes that could have occurred within the year like change of name (transfers), subdivisions or any other previously omitted information etc. None of the Councils adhered to this requirement despite the active property sales market within the respective Municipalities.

4.8.3 Financial resources for revaluations

Mavoko, Kiambu and Ruiru Municipal Councils have finances availed to carry out revaluations in order to prepare valuation rolls and to enable adherence to the statutory requirement of ten years (figure 4.2). Nyahururu does not have financial resources availed, hence the reason for delaying the revaluations.

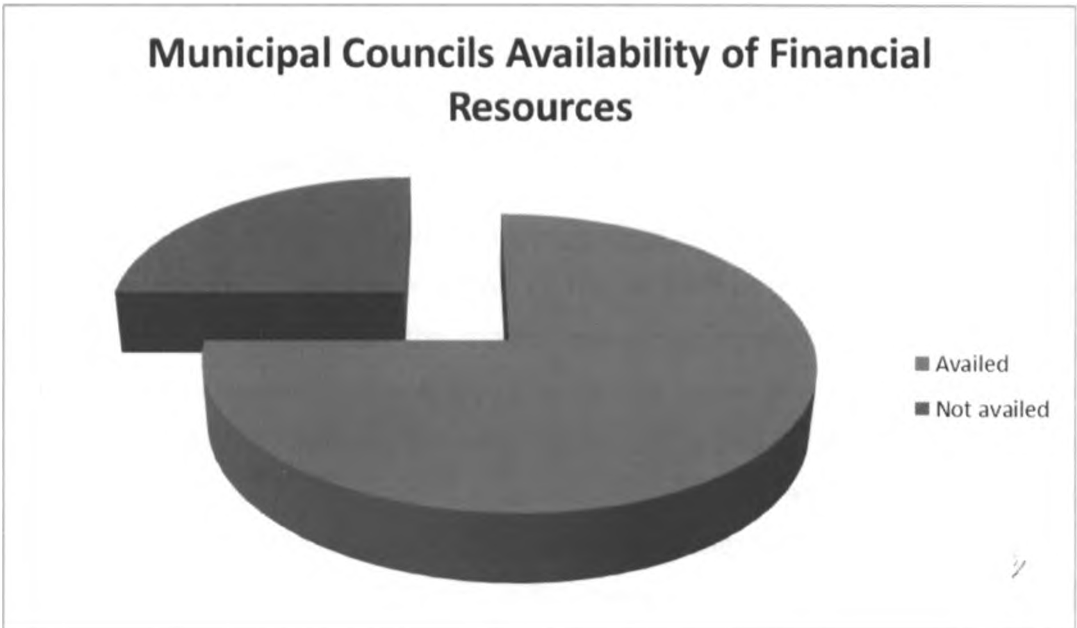


Figure 4.2. Municipal Councils availability of financial resources for revaluations. Source: Field Survey 2012

4.8.4 Accuracy of property valuations

Lack of qualified valuers in the Municipal councils was cited as one of the reasons for delayed revaluations for rating purposes. Half of the Municipalities (Kiambu and Ruiru) contracted government valuers while the other half (Mavoko and Nyahururu) hired valuers in private practice (figure 4.3). The research found out that the cost of contracting private valuers was higher than government valuers.

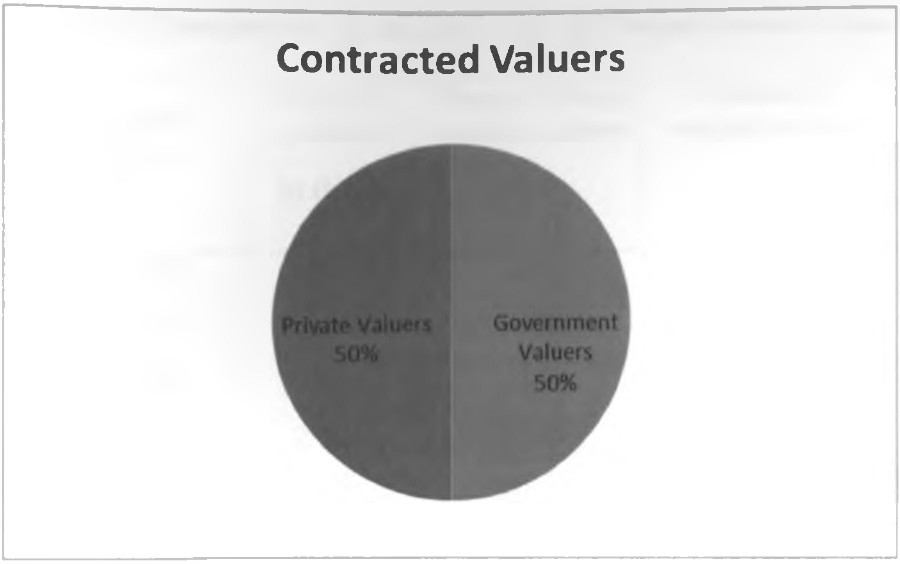


Figure 4.3. Valuers contracted by the Municipal Councils

Source: Field Survey 2012

Mavoko, Kiambu and Ruiru Municipalities (except Nyahururu) agreed that the values of the Unimproved Site Value (USV) of the properties utilized in the property tax assessment are lower than the market value recommended in the Valuation for Rating Act. Valuation Ratio analysis is carried out in this section to identify the average degree of underassessment across properties. This analysis is done for Mavoko Municipal Council for the years 2008-2012 (Table 4.3, 4.4 and figure 4.4).The analysis will compare market sales value with values on the valuation rolls during the period 2008-2012 (Table 4.3). These values were returned in valuations carried out by valuers in private practice during the particular period. The rate struck (tax rate) for the assessment has remained at 2.1 percent for the period under review. The valuation roll was effective from the year 2008.

Table 4.3. Comparison of values in roll and actual market value

Parcel no. L/R. No.	Area of parcel in (Ha.)	Year of rating under review	Values in valuation roll	Market value or Sales price of unimproved land
12715/449	2.041	2008	7,535,315	28,000,000
12715/574	2.022	2009	7,494,543	25,000,000
12715/290	2.024	2009	6,503,213	25,000,000
12715/588	2.028	2010	10,022,376	70,000,000
12715/509	2.022	2010	6,500,000	28,000,000
Block 2/1599	0.101	2011	250,000	1,200,000
337/346	0.024	2012	220,000	1,500,000

Source: Field survey 2012

Table 4.4.The average Valuation Ratios in Mavoko Municipality

Year of rating under review	Tax rate (%)	Average Valuation Ratio (%)
2008	2.1	27
2009	2.1	28
2010	2.1	18.5
2011	2.1	21
2012	2.1	15

Source: Compiled field survey, 2012 data

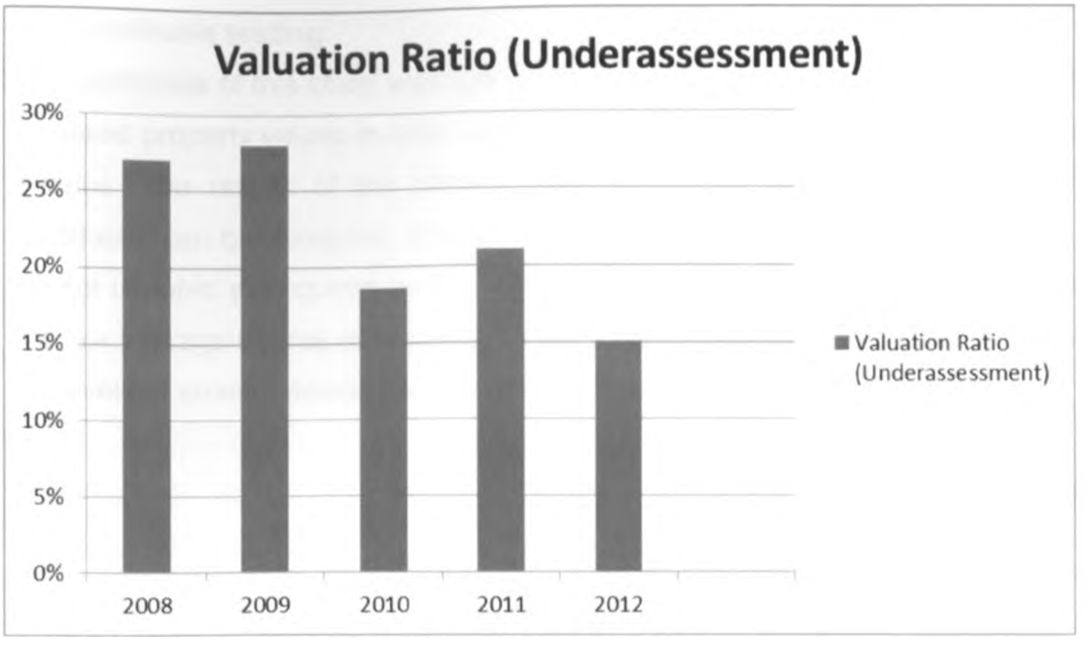


Figure 4.4. Underassessment levels

Source: Compiled field survey, 2012 data

The average Valuation Ratio for the five year period is 21.9 %

The reasons cited for underassessment of the properties were; failure to carry out supplementary valuations yearly, failure to adhere to the statutory valuation cycle (10 years) and rapid growth of the property sales market. The revenue from the land rates for 75% of the Municipal Councils (Mavoko, Kiambu and Nyahururu) was reported to be generally greater than any other source. There is potential to increase the revenue from the land rates for all the municipal councils.

4.8.5 Challenges the municipalities encounter in undertaking valuation for rating.

The municipalities encounter many challenges in undertaking valuation for rating. The challenges cited include; financial constraints, lack of qualified valuers, unclearly defined areas of council's jurisdiction, unapproved land subdivisions and Lengthy procedures of reviewing the valuation process. Others include; resistance of the stakeholders in implementation, delay in settlement of rating disputes, stakeholders inability to understand the rating process and inaccessibility of the transfer records

4.9 Hypothesis testing

The hypothesis of this study was lack of an updated fiscal cadastre and use of under assessed property values in local authorities has contributed to loss of land taxation revenue. The results of the findings and analysis of the data indicate that the hypothesis can be accepted. The study has proved that municipal fiscal cadastres are not updated as required by the Valuation for Rating Act. As a result of this there is a low average degree of accuracy of the assessments (21.9%). This translates to low levels of amount demanded as land rate hence loss of land taxation revenue.

CHAPTER 5: A SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

This chapter comprises a major section of this study namely, summary of the findings, conclusions and recommendations.

5.1 Summary of the findings

This study was carried out to assess property tax assessment for rating. Underassessment affects the expected returns from land rates. The study looked at the adherence to the statutory valuation cycles and the frequency of preparation of supplementary valuation rolls. It also looked at budgetary provisions for revaluations. Finally the degree of assessment accuracy was also analysed.

Majority of the Municipal Councils do not adhere to the statutory valuation cycles of ten years as provided in the Valuation for Rating Act. Some have taken as long as twenty four years (1987-2011, Ruiru municipality) to undertake new valuation rolls. Supplementary Valuation rolls are rarely prepared while other Councils do not prepare them at all

Some Councils have financial resources to undertake the preparation of new valuation rolls, although despite having funds their rolls are still greatly out dated. Other councils are budgetary constrained with resources to undertake the preparation of valuation rolls. The council officials admitted that this process is expensive especially when undertaken by valuers in the private practice. The councils do not have in-house valuers who can undertake this process.

The average accuracy of the property valuation level was found to be 21.9 percent from the years 2008-2012 in Mavoko Municipality. The tax rate for those years was constant at 2.1 percent.

5.2 Conclusions

In undertaking this conclusion, the researcher has in mind the objectives of the study which includes;

1. To find out whether statutory valuation cycles are adhered to and establish the frequency of the preparation of the supplementary valuation rolls

2. To establish whether financial resources are availed for revaluations in accordance with the statutory valuation cycles

3. To find out the accuracy of the property valuation level (valuation ratio)

The quantum of property tax revenues realisable by local governments depend on tax policy choices, administrative efficiency and good governance. Tax policy choices will affect tax base definitions, exemptions, valuation standards, tax rates, and collection and enforcement provisions; whereas, tax administration choices affect the fiscal cadastre completeness, property valuation accuracy, tax billing and collection efficiency. The ability to enforce compliance to property tax liabilities will lessen the opportunities for corruption provided that it is based on up to date value, and that the entire valuation list is open for public scrutiny.

Arising from the study, the following issues clearly came out;

1. Generally the statutory valuation cycles are not adhered to and in some councils the time lag is over twenty years. The supplementary valuation rolls are not carried as frequently as stipulated in the Valuation for Rating Act (at least once in each of the years following the year of valuation). In some cases they are not carried out at all.

2. The exercise of preparation of the valuation roll is expensive. In some councils financial resources are not made available to carry out this importance project in line with the statutory required valuation cycles. In others though financial resources are available, they still do not prepare valuation rolls within the stipulated period.

3. The accuracy of the property valuation level is too low, in this study 21.9 percent. The dispersion between the valuation on the rolls and the real market value is high and is heavily correlated with the age of valuation rolls. The valuation accuracy erodes overtime due to shifts in relative and absolute market values. These low valuation ratios and the variation among property values create efficiency and equity distortions which impact the compliance level and the overall revenue yield from the property tax in Kenya. The low valuation ratios (and the increasingly inequity among properties) is due largely to the tremendous lag in maintaining the valuation rolls.

5.3 Recommendations

The following recommendations are made from this study;

1. Valuation rolls should be updated in time as is statutorily permitted to ensure that recorded taxable values do not fall below the prevailing market values.

2. The updating of valuation rolls should be speeded-up, by addressing the various constraints, in order to reflect, to the best extent possible, current land values. Computer-assisted mass appraisal (CAMA) techniques should be introduced to simplify and reduce the costs and delays of producing valuation rolls. Relying on an individual parcel-by-parcel valuation approach continues to be a major obstacle to achieving an equitable property rates system in Kenya.

3. Mass valuation techniques should be explored, which produces more equitable, up-to-date values in a transparent, cost effective, timely and sustainable manner. These mass valuation techniques will separate the field data collection activities from the valuation activities. This would allow the scarce and more expensive valuation resources to focus on market data analysis, valuation models and specific property valuations rather than on collecting and maintaining property data in the field.

4. Adequate financial resources should be planned for and released periodically to enable timely revaluations

5. The government should develop a system that generates and records accurate information on property transactions. Such information is essential to developing the value map that underlies a good assessment practice.

6. Reform the property tax to remove the incentive to under declare the value of property sales. Replacing the property transfer tax with a capital gains on tax on real property could remove an impediment to accurate self-reporting of transaction amounts. An alternative approach is to lower the rate of transfer tax and adopt an aggressive method of checking declared sales values.

7. Systematically update the valuation rolls to reflect changes in the relative and absolute changes in property market values. This can be done through a

combination of simplifying the valuation system (shifting it to mass valuation), computerizing the maintenance of the fiscal cadastre and the valuation process, and increasing the amount of manpower and financial resources allocated to rating roll maintenance.

8. Councils to carry out valuation ratio study periodically to establish the degree of underassessment. This would assist in making informed decisions on property tax assessment and way forward towards improving revenue collection from land rates.

9. Priority needs to be placed on mobilizing ratepayer support through enhanced taxpayer education program and improving the link between revenue mobilization and local expenditure and service delivery. The central and local authority capacity must be strengthened to implement an improved property tax system. At the central government level, the Ministry of Local Authorities must develop a core of experts in property rates who can monitor the property tax situation, issue consistent and appropriate regulations, and provide technical assistance to guide the property tax reform. At the local government level it is important to ensure the policy makers (local councilors, mayors, council chairmen, clerks, and treasurers) understand the various policy and administrative aspects of the property tax. The capacity of local authority operational staff must also be strengthened to administer all aspects of the property tax system (e.g., Property information, valuation, assessment, collection and enforcement)

5.4 Areas of further research

The following areas arising from this study require further research;

1. The effects of increasing the nominal tax rate in determination of equity in property tax assessment as a compensation for time lag in revaluations.
2. The extent of political interference in property taxations and appropriate measures to counter it.
3. A review of the coverage ratio, collections and enforcement and way forward to improve these aspects of property tax administration.

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APPENDIX 1

Questionnaire to the Clerk Municipal Council

Name of Municipal council - Mavoko Municipal Council

A. Statutory Valuation cycles

1. When was the Municipal Council established? ....

2. When did the council begin to levy land rates? ....

3. When was the first valuation roll prepared? ....

4. Please give a list of subsequent valuation rolls and years they became effective

....

....

5. Does the municipality adhere to the statutory valuation cycles (every 10 years)?

Yes ☐ No ☐

6. If no, please specify the reasons...

B. Supplementary Valuation Cycles

7. Do you prepare supplementary valuation rolls yearly?

☐ Yes ☐ No

8. If yes how often? ....

Please state for what purposes they are prepared

(a) To include further subdivisions

(b) To include the property where user has changed

(c) To include any other omitted information

(d) Others.

9. If others please specify..

....

C. Financial resources for revaluations

10. Are financial resources availed for revaluations to enable adherence to the statutory valuations cycle?

Yes ☐ No ☐

11. If no, please give reasons why..

....

D. Accuracy of property valuations

12. Does lack of qualified valuers in the council contribute to delayed revaluations for rating purposes?

Yes ☐ No ☐

13. Do you contract government or private valuers when carrying out valuation for rating? ....

14. Is the cost of contracting private valuers higher than the cost of using government valuers? Yes ☐ No ☐

15. How do the value of the land parcels on the valuation roll compare to the market sales value

Higher ☐ Lower ☐

16 What is the reason for the different values of the land parcels on the valuation roll compared to the market sales value?

....

....

17. In your opinion how can the differences in the values of the land parcels on the valuation roll compared to the market sales value be addressed?

....

....

18. Is the level of revenue collected from the land rates higher than that of other revenue sources? Yes ☐ No ☐

19. Is there potential to improve the revenue from land rates?

Yes ☐ No ☐

E. Challenges in undertaking revaluations

20. What challenges does the municipality encounter in undertaking valuation for rating?

....

....

....

F. Land parcels values on the valuation rolls

Please fill the following information;

Parcel no.	Area	Year of Rating under review	Value of unimproved land	Value of land with improvements	Percentage rate of year under review

Appendix 2

Questionnaire to the Clerk Municipal Council

Name of Municipal council - ....

A. Statutory Valuation cycles

1. When was the Municipal Council established? ....

2. When did the council begin to levy land rates? ....

3. When was the first valuation roll prepared? ....

4. Please give a list of subsequent valuation rolls and years they became effective

....

....

5. Does the municipality adhere to the statutory valuation cycles (every 10 years)?

Yes ☐ No ☐

6. If no, please specify the reasons..

B. Supplementary Valuation Cycles

7. Do you prepare supplementary valuation rolls yearly?

☐ Yes ☐ No

8. If yes how often? ....

Please state for what purposes they are prepared

(a) To include further subdivisions

(b) To include the property where user has changed

(c) To include any other omitted information

(d) Others.

9. If others please specify...

....

C. Financial resources for revaluations

10. Are financial resources availed for revaluations to enable adherence to the statutory valuations cycle?

Yes [ ] No [ ]

11. If no, please give reasons why..

....

D. Accuracy of property valuations

12. Does lack of qualified valuers in the council contribute to delayed revaluations for rating purposes?

Yes [ ] No [ ]

13. Do you contract government or private valuers when carrying out valuation for rating? ....

14. Is the cost of contracting private valuers higher than the cost of using government valuers? Yes ☐ No ☐

15. How do the value of the land parcels on the valuation roll compare to the market sales value

Higher ☐ Lower ☐

16. What is the reason for the different values of the land parcels on the valuation roll compared to the market sales value?

....

....

17. In your opinion how can the differences in the values of the land parcels on the valuation roll compared to the market sales value be addressed?

....

....

18. Is the level of revenue collected from the land rates higher than that of other revenue sources? Yes ☐ No ☐

19. Is there potential to improve the revenue from land rates?

Yes ☐ No ☐

E. Challenges in undertaking revaluations

20. What challenges does the municipality encounter in undertaking valuation for rating?

....

....

....