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Property Tax and Assessment News from Around the World

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MPs Approve Tenfold Increase in Property Tax

The lower chamber of parliament has approved a draft law providing for property tax where the rates were reviewed upward.

If the law is ratified as it is, Rwandans will start paying a property tax equivalent to 1% of the value of their property.

This marks an increase from 0.1% that has been in place for the last seven years, a move which aims at increasing financial resources of districts.

The increase was approved after the parliamentary economic commission presented a proposed amendment in the law determining the sources of revenue and property of decentralized entities 'property tax' on August 2.

The amendment affects the law No.59/2011 enacted in December 2011.

The draft bill suggests that the tax regime increase to 1% will be gradually implemented in the next four years with 0.25%, then 0.5% and 0.75% in the second and third year respectively.

The Minister of Finance and Economic Planning Dr. Uzziel Ndagijimana said the revised law was informed by recommendations of the 12th national leadership retreat.

The retreat proposed the review of the land tax law to promote efficient land use and increase district revenues to enable them provide basic infrastructure and services to citizens.

"Currently districts heavily rely on central government transfers of 90% of their finances. This limits their ability to cater for local priorities, thus the law will improve district resource and promote business," Ndagijimana said.

The new tax will only affect those who have accumulated additional property, not their first residential house.

All Rwandans planning to start a business will not be obliged to pay an upfront patent tax for 12 months as it has been the case.

The farming land of less than 2ha will not be required to pay this tax and so will government properties donated to vulnerable groups and immovable property belonging diplomatic missions.

Members of parliament voted for the proposed bill which has 68 articles after a heavy debate.

Longest serving MP Juvenal Nkusi said that the law would create more social pressure and tax evasion.

"This tax will be a burden. If people have not been paying when it was low how do you expect them to pay when it's ten folds higher," Nkusi said.

Nkusi and other MPS suggested that there should be a flat tax on properties and alternatively the tax property only once as is in the case of when one is purchasing a vehicle.

Defending the bill, parliamentary committee chairperson Constance Mukayuhi Rwaka, said that they have conducted a research on 35,000 properties which confirmed the relevancy of the law.

Minister Ndagijimana said it's not easy to predict the revenues to come from this segment but added; "What we are sure about is that the law will generate more revenues."

Rwanda Revenue Authority is expected to collect about Rwf1.22 trillion at the end of 2017/2018 fiscal year surpassing their annual target by Rwf20 billion.

Parliament Passes New Property Tax Law On Land Use And Manufacturing

Parliament has passed a law determining the sources of revenue and property of decentralized entities, commonly known as property tax.

It replaces the old law 59/2011 enacted in December 2011 which provided for the sources of revenues for decentralized entities including decentralized taxes, fees and charges levied on services rendered to citizens by local administration, transfers from central government, loans, interests from their business activities and other grants from donors.

The revised law was informed by recommendations of the 12th National Leadership Retreat which proposed the review of land tax law to promote efficient land use and increase district revenues to enable them to provide basic infrastructure and other services to citizens.

Currently districts heavily rely on Central Government transfers which account for more than 90% of their finances.

This limits their ability to cater for local priorities and develop.

Key changes and Benefits

Migration from Land Lease to Fixed Assets Tax regime: In the new law, the provision that required taxpayers to have a freehold land title to pay fixed asset tax has been removed.

The provision eroded the taxable base as taxpayers paid land lease fees or fixed asset taxes according to their choice of title (Leasehold vs Freehold title).

This meant that owners of properties with equal market value paid different amount of tax depending on land ownership regime as opposed to the value of their properties.

Increase in tax rate: Various studies conducted on taxation of property in Rwanda showed that Rwanda's current fixed asset tax rate of 0.1% was too low compared to other countries in the region and beyond.

Studies further indicated that top urban land tax bracket of Frw 80/square meters was very low compared to the real market values.

Under the new law, tax rate for residential buildings will rise after exempting those used by owners as their RESIDENCE, while land tax will be set by the district Councils.

Efficient land Use: The new law provides a standard plot size corresponding to each type of building to guide the land tax rate to pay.

This tax will increase by 50% for each extra square meter beyond the set standard rate.

Incentives will be given to construction of high-rise residential apartments to promote organized settlement.

Promotion of commercial and industrial buildings: The law will support urbanization policies in place by providing preferential tax rates on commercial buildings.

It will also promote industrial and SME development by providing special tax rates for industrial buildings to make them competitive on both regional and international markets.

In addition, SMES will receive a 2-year tax trading license exemption upon establishment.

The new property tax law will enhance local revenue mobilization through increase of local tax base and address tax administration weaknesses identified at local level.

With the additional revenues, District development strategies implementation timelines will significantly reduce and citizens will have access to modern infrastructures and better services.

Other changes in the revised law

Rental Income tax: Under the new law, the income threshold reserved for maintenance and upkeep of rented property (which is not taxed) has increased from 30% to 50%.

For rented property financed through loans, actual interests will be subtracted while calculating taxable value.

Trading license: The current law requires businesses to pay trading license based on turnover.

However, this has been an issue for businesses with branches that don't have standalone accounts.

The revised law provides an option to use the turnover of the main business as basis for the trading license to be paid by each business branch in case the branch does not have separate books of accounts.

In any case, the maximum amount of the trading license tax to be paid is Rwf250,000 per year.

Exemptions

Under the new law, one residential house will be exempted from the new property tax law.

Additional residential houses will be subject to the new tax regime.

This is aims to facilitate all Rwandans to own decent homes in line with urban development and affordable housing policies.

Other exemptions include government properties that don't make profit, properties donated by government to vulnerable groups, immovable properties that belong to foreign diplomatic missions as well as land used for agriculture activities not exceeding two hectares.

Proposed tax regime

The tax regime under the new law will be progressive over four years to enable smooth transition.

The new regime includes a *Land Tax* (at specific rates as determined by district councils) and *Buildings Tax* (applied to the market value of buildings).

Residential houses: Under the residential house category, 1% tax rate of the market value will be applied progressively over a period of 4 years.

This means that for the tax period following enactment of the law, owners will pay 0.25% in the first year 0.5% in the second year, 0.75 in third year and graduate to 1% from the fourth onwards.

Commercial buildings: Commercial houses will be taxed 0.5% of their market value. This rate will be applied progressively.

For the tax period following when the law comes in force, owners will pay 0.2% of the property market value in the first year, 0.3% in the second year, 0.4% in the third year and 0.5% from the fourth year.

Industrial, SME and other buildings: These will maintain a flat rate of 0.1% of their market value. This is in line with the "made in Rwanda" policy aimed at promoting local manufacturing.

The new property tax law is crucial for decentralised entities to mobilise resources needed to provide the basic infrastructure for economic growth and efficient services delivery.

Particularly, implementation of the Master plan across the entire country remains a key priority to be financed by new revenues to be accrued from this revision.

Tax Administration Authorities will ensure that its implementation is smoothly implemented to achieve the intended objectives without overburdening taxpayers.