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LAND, PROPERTY LAW TO SEAL REVENUE GAPS 1

Land, property law to seal revenue gaps

National Treasury has announced plans to begin reforming property tax to tackle inequality and manage risk around its spending.

CS Henry Rotich said changes to be included in modern property law will involve increasing coverage and valuation of lands and buildings especially at county levels.

“We have identified so many challenges. The current property law is not well designed. Valuation laws are outdated and coverage is low. However, the law will not necessarily mean an increase in rates,” CS Rotich said at the seventh African Fiscal Policy forum.

County governments levy a tax on land or land improvements for buildings. The tax rate depends on the location of the property and its value, charged at one per cent. Nairobi has the highest land rate at eight per cent.

Property taxation currently provides an average of 20 per cent of the total recurrent revenues for local authorities and represents 1 per cent of total government tax revenue and 0.25 per cent of GDP.

Rotich said the bill tabled to Parliament will see Kenya Revenue Authority collect the property tax on behalf of counties, or allow them to set up their own collection agencies.

Even though the country has earned an average of five per cent growth in GDP over the years, IMF has warned over low revenue growth. Tax revenue to GDP has stagnated at between 13 to 16 per cent.

“The progress in tax capacity is low translating to a low GDP per capital that is perceived as the long-term determinant for growth. This signals a worsening of inequality while some progress is achieved,” IMF fiscal affairs Vitor Gaspar said.

Continued revenue under-performance and huge fiscal deficit is putting the government under pressure to borrow and improve its collection as it sustains the spending.

Public debt hit Sh5.27 trillion at the end of December, comprising Sh2.549 trillion in domestic debt and Sh2.724 trillion in external debt according to Central Bank data.

It also plans to have borrowed a net of Sh321.5 billion from external lenders by the end of the current financial year ending June, to repay matured bonds and short term bills.

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