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Understanding the municipal tax on property

In this week's article on municipal management, Prof LOUIS DE CLERCQ points out the importance of ratepayers understanding the process of property tax determination

Not many members of the public know much about the mechanics of tax that property owners have to pay to their municipalities.

They simply accept it is part of their responsibilities.

In reality the public has some say relating to this type of tax. The question is, how should they exercise this right.

The municipal taxation system is based on the Municipal Property Rates Act No 6 of 2004.

This Act provides for the municipality to adopt a rates policy which has to be reviewed annually, but must allow for and ensure public participation in the finalisation of the policy.

This means the municipality must inform the public that the document is available for inspection through notices on public notice boards, on the municipal website and advertisements in the media.

Failure to comply makes the policy invalid.

The municipality has to adopt by-laws to give effect to its rates policy.

It is an important document which all ratepayers should familiarise themselves with.

Rates are based on the valuation of properties, and for this purpose municipalities are expected to have a valuation of all properties in the municipal area undertaken by a qualified property valuer every five years.

Remember that the value of your property greatly determines the rates that you will have to pay.

The valuer compiles a valuation roll which is submitted to the municipal manager, who must then publish a notice in the Provincial Gazette that the roll is open for inspection.

Each property owner should also receive a notice of the determined value of his/her property by post.

Within 30 days after the valuation roll is open for inspection, a property owner may submit an objection to the municipal manager against his/her property valuation.

A response from the valuer is then awaited.

If not satisfied with the valuer's response, the owner can lodge an appeal to the Valuation Appeals Court.

With the valuation roll available, the municipality's council must then decide – according to its rates policy – what rates should apply to the different categories of properties.

Broadly speaking, the categories could be residential, business, industrial, farming, rural land and so on.

That is provided for in the rates policy and normally different cents in the rand apply for the different categories of properties.

The municipal tax the property owners pay is thus dependent on the value of properties and the applicable rates charged by the municipality.

A decision on this is normally taken by the municipality's council when it prepares its budget in March every year for the next financial year.

Ratepayers, for their own benefit, should take a keen interest in the whole process.

Two big factors putting pressure on SA commercial property

With the SA economy expected to grow at less than 1%, this would be insufficient to curb an increase in the vacancy rate of commercial property and to prop up real property values at recent levels, according to John Loos, property sector strategist at FNB.

In his view, there will likely be a further increase in the average vacancy rate in South Africa's commercial property sector in 2020. This will in turn put pressure on rental growth and lead to "single digit total returns".

"We are waiting for the outcome of the tariff case between Nersa and Eskom, because the big issue for commercial property this year will be the combined impact of weak government finances and municipal rates and charges, as well as Eskom tariffs on commercial properties. These are the lion's share of (commercial) property operating costs," Loos told Fin24 on Tuesday.

"A few years ago, this was less of a problem as the economy was a bit stronger, but with vacancy rates rising, it puts downward pressure on rentals."

He expects the market would become increasingly concerned about future income streams, which will put downward pressure on property values as well.

FNB forecasts that the All Property Total Return will decline further from 9.8% in 2018 to an estimated 8.3% in 2019 and 7.5% in 2020. This is based on MSCI data which includes both capital growth and income return.

Loos cautions that the property sector faces significant risks due to the state of SA government's financial situation in general.

"The deterioration in the broader government finance, extending to parastatals and councils, is likely to translate into further above-inflation hikes in municipal rates and utilities tariffs, implying upward pressure on these two major areas of property operating costs," says Loos.

Since 2014, MSCI All Property Capital Growth - growth in property values excluding capital expenditure on the properties - data has shown negative capital growth in real (GDP inflation-adjusted) terms for five consecutive years from 2014 to 2018.

The average property value per square metre has also shown real (GDP inflation-adjusted) decline, recording consecutive negative growth years in 2017 and 2018.

Loos said one area where the overall vacancy rate was not going down, has been in industrial property, although he expects this rate will start to increase as well. This is due to the capacity utilisation in manufacturing sector output is declining.

Furthermore, Loos foresees that building activity will slow down and the rate of completions of building projects will drop.

"We saw strong industrial build completions and we think we will see that slowing too. It does not seem as if it will be a good year for the building industry," said Loos.

"But from a balancing of supply and demand of property point of view, the slowdown will ultimately help to stabilise vacancy rates."

Municipal valuers take to the streets for new valuation roll

The City of Ekurhuleni (CoE) is compiling the fourth General Valuation Roll which consists of property information of all rateable properties within the boundaries of the municipality for the determination of assessment rates.

The roll, which is under under compilation, will be implemented from July 1, 2021, and be valid until June 30, 2025.

As part of compilation process, the municipal valuer and their team will have to physically inspect some properties, and will need access to be able to carry out inspections.

Physical inspections for purposes of compilation of the roll started on February 4, and will continue until January 26, 2021.

In terms of section 41(1) of the Municipal Property Rates Act as amended (MPRAA), the valuer of a municipality, assistant municipal valuer, data collector or other person authorised by the municipal valuer in writing, may: (a) Between 07.30am and 7pm on any day except a Sunday or public holiday, enter any property in the municipality that must be valued in terms of this Act (MPRAA); and (b) inspect that property for the purpose of the valuation

If a person authorised by a municipal valuer in terms of subsection (1) is not in possession of an identity card in the prescribed format containing a photograph of that person, the municipality must issue to that person such a card.

Residents are requested to give access to the municipal valuer and their team.

“The team will be carrying out inspection wearing a uniform, which will be lime T-shirts, yellow bibs and white cricket hats/caps,”said CoE spokesperson, Themba Gadebe.

The owners of income producing properties, and specialised properties, are requested to cooperate with the municipal valuers when requesting information that will assist in evaluating such properties.

Information include leases, plans for existing buildings, financial statements, among others.

“With about 700 000 properties in Ekurhuleni that must be included on the valuation roll, it is impossible to gain access to all properties within a year. However, because it is a mass valuation, the City also uses tools such as pictometry, geographic information system (GIS), aerial photos and views of some areas to determine the value on those properties.”