



Rwanda's Revised Property Tax

*Law on the Sources of Income for
Decentralised Entities, January 2019*



Presentation Outline

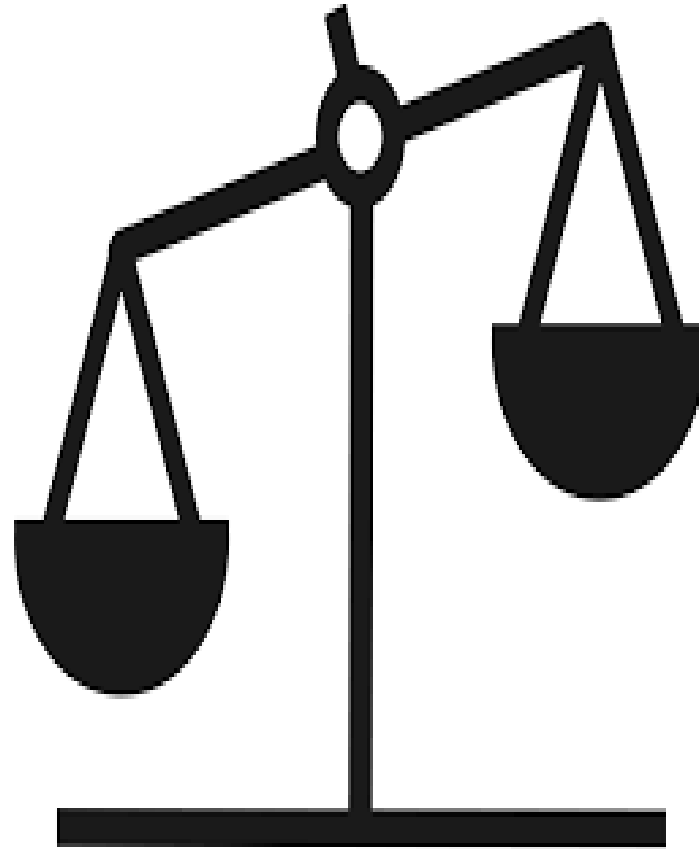
- Why tax property?** ✓ Sustainable finance for essential local investments
- Why this reform?**
- ✓ Raise local revenue
 - ✓ Encourage efficient land use
 - ✓ Promote commercial and industrial activity
- Impact of the new regime**
- ✓ Affordable
 - ✓ Progressive
 - ✓ Supports business
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Why LG Entities need to borrow?

REALITY: LG have big financing gap for infrastructure



Needs



Resources



Why tax land and property?

The proposed reform is important to *mobilise resources* for decentralized entities, so they can provide the basic infrastructure needed to improve the quality of settlements and strengthen local economic development across Rwanda.

When local governments make investments, land and property values increase.

- With effective land and property taxes: Local governments *capture* some of those gains, which are ‘recycled’ for further investments.
- Without a strong property and land tax: The benefits of *public* investment fall to *private* landholders. Local public investments are not sustainable, and basic infrastructure and services cannot be provided.



Why tax land and property?



Improving our neighborhoods





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Improving our neighborhoods





Why this reform?

Efficient Land Use

- The new law encourages more efficient land use, in line with existing Urbanization and building laws and as recommended from the 12th Leadership Retreat,
- **A standard plot size** corresponding to each type of building has been introduced; the land tax rate will be 50% higher for each extra sqm beyond the standard size.
- New incentives for residential houses in apartments (compact land use) are also introduced.



Why this reform?

Broad tax base

Former regime:

- Property tax liability depended on holding a ‘freehold’ title.
- Eroded the tax base: *Only 2%* were liable for fixed asset (property) tax
- Unfair: Two owners of properties with equal market value paid very different amounts

The reform:

- Title no longer impacts liability.



Why this reform?

Raise the tax rate

Former regime:

- Various studies showed that Rwanda's old fixed asset tax rate (0.1%) was too low compared to other countries in the region, and internationally.
 - East Africa: ~1%; Asia: 1-2%; Europe: 0.5-4%; other African countries: 0.5-3%...

The reform:

- Higher buildings tax rate, in line with international and regional norms.
- To ensure every Rwandan can have a decent home, a household's first 'owner-occupied' residence is exempt.
- Higher rate is introduced incrementally over four years, to help tax-payers adjust



Why this reform?

Promote commercial and industrial activity

- **Attract investment:** The new regime sets special rates for commercial and industrial buildings, to attract investment and make Rwandan industries more competitive in the region, to support our economic development and “Made in Rwanda” policy;
- **Support small businesses:** It also provides for special property tax rates for building belong to SMEs, and a tax holiday on Trading License Tax for their first 2 years from their establishment.



Considerations for an effective tax

- ✓ **Broad tax base**
 - To spread the burden of tax fairly and raise adequate revenues
 - ✓ **Suitable tax rate:**
 - *High enough* to finance crucial investment
 - *Competitive* to support investors and SMEs
 - *Equitable* to keep housing affordable for all
 - ✓ **Careful design:**
 - Encourage efficient land use
 - Simple and efficient administration
 - Align complementary and related laws
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New Regime

The property tax is made of both the Building and Land Tax

▶ **The Building Tax Rate is as follows:**

- ✓ One house used by the Owner his/her RESIDENCE is exempted:

Type of the Building	2019 (Y1)	2020 (Y2)	2021 (Y3)	From 2022
Residential buildings	0.25%	0.50%	0.75%	1%
Commercial buildings	0.20%	0.30%	0.40%	0.50%
Industrial buildings	0.10%	0.10%	0.10%	0.10%
All other buildings	0.10%	0.10%	0.10%	0.10%

▶ **The Land Tax Rate is as follows:**

- ✓ District Council sets the tax rates between 0 and 300 Frw per sqm;
- ✓ 50% higher rate on land above 'standard' size
- ✓ The vacant plot will attract additional 200% tax rate
- ✓ The Ministerial Order will set criteria for the Council to set land tax rates (e.g. location, type of the city, availability of infrastructures, etc.) ;



Conclusion

- **The proposed reform is important to *mobilise resources* for decentralized entities, so they can provide the crucial basic infrastructure needed to improve the quality of settlements and strengthen local economic development across Rwanda.**
- The Tax Administration Authorities will ensure that implementation is smooth, to achieve the intended objectives without overburdening the taxpayers.

THANK YOU

Annex



Proposed Regime

Examples of Standard Plot size for each building project in line with the building Code

Category of Building/Land Use	Standard Plot Size
I. Residential Buildings	
Single Family (R1, R1A, R1B)	300 sqm
Multiple Families R2 and R2A	120sqm/DU equivalent to 85 DU/Ha
Multiple Families R3	110sqm/DU equivalent to 110DU/Ha
Multiple Families R4	50sqm/DU equivalent to 200DU/Ha
2. Schools	
Nursery and Pre-primary	700sqm
Primary School	1.5Ha
Secondary School	2.4Ha
Primary & Secondary Combined	2.8Ha
Vocational & technical School	5Ha
Higher Edducation/Universities	6Ha
3. Health Facilities	
Health Posts	0.5Ha
Health Centers	1Ha
Private Hospitals at District Hospital level	2.5Ha
Referral Hospitals	5Ha
4. Buildings used for religious/worship activities	0.5Ha
5. Commercial, Industrial and Buildings used for touristic activities	Standard Plot Size shall follow principles of apporved urban planning documents specifying zoning and land subdivisions



Property Tax in International Context

Property tax rates around the world are typically 0.5-1.5%

East Africa: High rates, on lower bases (approximate 1% property values)

	Uganda	Kenya	Tanzania
Rate	Up to 12%, 6% average in Kampala	Up to 22% 14% in Nairobi	No central regulation of rate Up to 1%?
Base	Annual rentable value	Market value of land	Market value of building
Conditions	Owner-occupied homes exempt (but plan to remove exemption)	Valuation outdated (1982) Rural uses area-based system	Valuation outdated (1996)
Act	<i>Ratings Act (2005)</i>	<i>Ministry of Local Government (2001)</i>	<i>Land Act No.4 (1999)</i>



Property Tax in Context

Other African Countries: 0.5-3%

	South Africa	Cape Verde	Ghana
Rate	~1% e.g. 0.98% in Cape Town; 1% Johannesburg (2.8% commercial)	1.5%	0.5-3% According to land use and zone
Base	Market value of land + building	Market value of land + building	Market value of building
Act	<i>Local Government Municipal Property Rates Bill (2004)</i> <i>City Rates Acts</i>	<i>Law Number 52/VIII/2013</i>	



Property Tax in Context

Asia: 1-2%, some based on annual rental value

	Singapore	China	Hong Kong
Rate	Up to 20% Graduated: rate increases with value	1.5% (first home) 2% (second home)	15%
Base	Annual rentable value	Market value of land + building <i>Lower rate on first 90m2 in cities</i>	Annual rentable value
Act	<i>2013 Budget</i>	<i>2016</i>	



Property Tax in Context

Europe: 0.5-4%

	Germany	Estonia	Lithuania		United Kingdom
			Land	Building	
Rate	0.6%-8%	0.1-2.5%	Up to 4%	0.5% for residential Up to 3% for non-residential	Up to 1%
Base	Market value of land + building	Market value of land	Market value	Market value	Market value of building
Conditions				For residential, only building value above 220,000 Euros	Property is taxed according to value band, based on 1991 value



Property Tax in Context

USA and the Americas: ~1%

	Washington DC		New York	Boston		Mexico
Rate	Residential	0.85%	~1.2%	Residential	1.1%	Up to 1.2%
	Commercial & Industrial	1.65-1.85%		Commercial & Industrial	2.6%	
	Vacant Plots	5%				
	Blighted Buildings	10%				
Base	Market value of land + building					



Key Exemptions on the Building Tax

- ✓ One house used for residence by the owner.
 - ✓ To help all Rwandans own decent home in line with urban development and affordable housing policies;
 - ✓ Properties belonging to Government institutions if not used for profit making activities
 - ✓ Properties donated by the Government or Local Administration to vulnerable groups;
 - ✓ Immovable properties belonging to foreign diplomatic missions if their countries do not apply it on our properties in their countries;
 - ✓ Land used for agriculture activities not exceeding 2 ha.
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