Rwanda Civil Society Platform

POLICY BRIEF ON THE IMPACT OF PROPERTY TAX LAW ON THE RWANDAN CITIZENS

2021

INTRODUCTION

The Rwanda Civil Society Platform (RCSP) is composed of 11 national umbrella CSOs with 1,478 member organizations. RCSP serves to enhance capacities for CSOs to contribute to the well-being of the population by acting as a framework for dialogue, context analysis, exchange of information, mutual respect, lobbying and evidence based advocacy on national, regional and international issues on behalf of all members of Rwanda civil society and citizens of Rwanda at large. Its mission is to empower, represent, coordinate and defend public interests and interest of its members at national, regional and international levels for development, effectiveness and sustainability.

In line with the above mandate, RCSP in collaboration with other CSO members reviewed and analyzed the legal and socio-economic implications and impact of the new Law No. 75/2018 of 07/08/2018 determining the sources of revenues of the decentralized entities, commonly known as Property tax Law as well as the Ministerial Order no 001/20/10/TC of 10/01/2020 setting standard rates and other criteria to determine the tax rate applicable to plots of land and developed this policy brief.

The Policy brief highlights some concerns and implications of the law on the taxpayers especially the vulnerable taxpayers such as women. The policy brief suggests recommendations for consideration by relevant government institutions.

ABOUT THE NEW PROPERTY TAX LAW

The Government of Rwanda adopted a new Law No. 75/2018 of 07/08/2018 determining the sources of revenues of the decentralized entities - commonly known as Property tax Law. The law came into force on 1st January 2019; replacing the old Law No 59/2011 of December 2011. The law is implemented by the local government entities in collaboration with Rwanda Revenue Authority.

The new property tax law intends to enhance local revenues through increasing the tax base. It increased land tax in some areas of Kigali City from the previous 80FRW to 300FRW per square meter. This means the taxable base was increased by 26.67% compared to the previous taxable base.

In addition to taxing land, the new property tax law introduced taxes for both residential and commercial buildings; meaning that for a single property, the owner is expected to pay for the land and the building at the rates determined by Ministerial Order no 001/20/10/TC of 10/01/2020 setting standard rates and other criteria to determine the tax rate applicable to plots of land.

The property tax law had also proposed an increased taxable base by pressing 50% for each extra square meter of land beyond the set standard rate of 300 Square meters. However, this provision was nullified by the decision of the Supreme Court.

CIVIL SOCIETY APPRECIATION

Civil society commends the GoR for the visionary leadership that has made it possible to contain the wide spread of Covid-19 and efforts made for prevention and response. GoR's swift response to contain the pandemic in Rwanda and to support the most vulnerable during lockdown has saved countless lives and enabled the country to safely reopen. Enforcement measures of the GoR and World Health Organization have enabled Rwanda to resume daily life swiftly and safely. Early on the Government released an Economic Recovery Plan with a significant focus on social protection, providing a basis from which to support vulnerable Rwandans to begin rebuilding their lives is something that CSOs applaud.

Civil Society recognizes and appreciates the GoR recent decision to suspend the tax increase on immovable tax allow deeper and broader consultations to inform a property tax regime that is reflective of citizens views and aspirations.

UNDERSTANDING THE ISSUES AND IMPLICATIONS OF THE NEW PROPERTY TAX LAW

The Civil Society acknowledges that the revised law was introduced to promote efficient land use, increase district revenues and consequently enable districts to provide basic infrastructure and other services to citizens. The law is further intended to reduce on Central Government transfers which account for more than 90% of their finances.

However, the new property tax law has far-reaching impact on the welfare and productivity of the population. The implementation of such a law, notwithstanding its advantages mentioned above presents a score of challenges to people's development, especially the hitherto marginalized categories notably women and youth. Below are some of the main identified issues:

Article 11 stipulates that "The immovable property tax is levied on the market value of a building and surface area of a plot of land". There are a number of concerns with this provision:

- While the new property tax exonerates first-time residential house owners, it remains silent on whether the exemption covers the land especially the square meters in excess of the established standard of land size.
- The property tax subjects the same piece of immovable property to three taxes, namely; on land, on building and improvements on the same land as well as on its rental income.
- Given that the tax on buildings is based on their value, there is a challenge on to the spirit of ambition for many low-income earning Rwandans, who strive and develop high value property over time but would struggle to afford the regular tax levied on

them especially since the market's purchasing ability oftentimes is less and thus the return on the property is less compared to its valuation.

- For many Rwandans, purchasing land and developing buildings and other improvements on the land is the most trusted form of saving for future subsistence or long term investments. The new property tax regime discourages this type of investment because of fear of tax burden.

Article 15 stipulates that, "The valuation of immovable property is done either by a certified valuer or by a computerized mass valuation system. The same provision further states that, "The cost of the valuation by a certified valuer is paid by the party who commissioned it.

- This provision is ambiguous and most likely places the responsibility of property evaluation to the property owners. This is a critical oversight by the law because majority of Rwandans are not able to pay expert property evaluation services. As a result, citizens will rely either on mass valuation systems whose outcomes may be arbitrary or be inclined to hire certified valuer. This makes the law practically complex to implement.

According to article 16, the tax rate of a residential building is calculated based on its market value. We consider the following issues under the above article:

- Tax on the residential building should be associated with its rental income not its market value, taxing a residential house on the basis of its market value would discourage property owners from ambitiously developing high value property in anticipation for long term gains as the market develops.

Article 18 states that, "tax rate on plot of land varies between zero (0) and three hundred Rwandan francs (FRW 300) per square meter". According to a Ministerial Order no 001/20/10/TC of 10/01/2020 setting standard rates and other criteria to determine the tax rate applicable to plots of land, tax rate on plot of land varies in some areas of Kigali varies from 80Rwf to 300Rwf.

- An increase of taxable base by 26.67% compared to the previous taxable base is unrealistic especially under circumstances where citizens have been hit hard by the impact of COVID19.

Article 20 states that any undeveloped plot of land is subject to additional tax of 100%. This Article implies the following:

- For majority Rwandans, owning property is a first step in the journey of emancipating from poverty and often comes after years of saving. The process often builds from purchasing an empty plot of land, which they then save up more to develop in order to construct a residential house for themselves or for renting. Article 20 is a challenge to this progressive approach to graduation from poverty since the resources that would be saved become limited because of an increased levy. Consequently:
  - ✓ Citizens will not acquire land because of fear of the restrictive property tax
  - ✓ Citizens with land are likely to lose it due to failure to pay the tax levied on it
  - ✓ The new property tax law is prohibitive and will inevitably dispossess citizen's rights to ownership of land and exclusion from production and investment opportunities

THE IMPACT OF COVID-19 AND ITS CONSEQUENCES PARTICULARLY ON WOMEN

According to the Budget Framework Paper 2020/2021 analysis by Rwanda Civil Society Platform, before the COVID-19 crisis, Rwanda had been experiencing very strong macroeconomic fundamentals with GDP growth averaging 7.4% in the past 5 years, and 8% in the past decade. In 2019, GDP grew by 9.4%, one of the highest rates of growth in Sub Saharan Africa. The analysis revealed that, the negative impact of COVID-19 was expected to drastically reduce this high performance and growth to about 2% in 2020. For example, during the lockdown and after the easing of some restrictions, some business operations could not be carried out as usual and resources were strained, thus affecting the livelihoods of families.

A UNDP report on the socio-economic impact of COVID-19 in Rwanda revealed that women and girls, who account for a significant number, work in high-risk sectors with a high likelihood of disruptions; and faces a bleak job-security due to COVID19. Businesses that have reduced operations and, by extension, their profit margins will be forced to lay off a significant number of workers to minimize costs. Smaller businesses and informal sector operators mostly women are facing mounting challenges to survive without any source of income during the continuing COVID-19 crisis.

COVID19 and associated lockdown measures have had a severe economic impact globally putting immense strain on communities, families and individuals who rely on daily wage work. Women, who make up the majority of the part-time, insecure and informal economy have been disproportionately impacted. Compounding this is the global burden of unpaid care work borne by women which has increased during lockdown, especially with children at home. In Rwanda, these global trends are reflected. Value chains and trade have been disrupted, loan repayment has become a burden for women who own small businesses, and little savings by the poor households were spent during lockdown for survival.

Civil Society is concerned that without a deeper gender analysis and clear policy responses that speak to vulnerable women and girls, this category will be left behind and this will affect the gender For example, a rapid assessment on the impact of COVID19 in the agriculture sector across 6 districts in Rwanda revealed that 34% women had used their household savings to respond to food insecurity during the period of lock down while 24% respondents resorted to taking a loan to cover household funding shortfalls. This did not compare favorably with only 10% of respondents that had received food aid and about 8% of respondents that had received cash transfers during the same period. The assessment was administered by Trócaire in June 2020. Consequently, introducing property tax in this current crisis threatens to push back the limited gains made on gender equality and exacerbate the feminization of poverty and vulnerability to violence.

Female-headed households with the targeted tax base who are already at a far greater risk of being impacted by the adverse effects of the COVID19 crisis. Imposing property tax on such category of vulnerable people is inconsistent with the spirit of citizens' centered governance.

Moreover, public outcry at the time when the new property tax regime came into force was an indication of the limited consultation and engagement of the wider public in the stages of drafting and adopting the law.

This reinforces the position that policies need to engage various stakeholders long before implementation; during the organization and formulation steps during which the opportunity, relevance and envisaged value-addition of the proposed policy is evaluated.

SUGGESTED RECOMMENDATIONS

1) The concerns and issues highlighted above call for further consultations with citizens and stakeholders to ensure citizens at large and taxpayers in particular to ensure that the law takes into consideration the views and concerns of citizens/tax payers. Effective and meaningful consultations will be critical to citizens' ownership of the law and its successful implementation.

2) Similar to the above, the government should consider multi-sectorial dialogue on the new property tax law to ensure common understanding of its long term implications on the economy in relation to the economic conditions of tax payers.

3) The new tax rate of 0-300 Rwf from 0-80 Rwf levied per square meter of land should be reviewed on the basis of the following factors:

    i) Meaningful consultations with citizens to generate their views to inform the law;

    ii) Effective mobilisation and sensitization of citizens about the rationale and implication of the implementation of the law;

    iii) Macro-economic analysis of indicators disaggregated by gender and geographical location;

    iv) The effects of COVID-19 on the sociao-economic livelihoods of citizens especially the vulnerable;

4) Review the tax increase of 100% on undeveloped land as stipulated under article 11 of the law and consider a waiver for first time landowners.

5) The GoR should review tax rates on immovable property with special considerations of vulnerabilities of potential tax payers such as women headed households, people with disabilities, Historically Marginalised Persons, people in the lowest category of ubudehe, among others.

6) The GoR is recommended to specifically consider old people who depend on pension benefits for survival. Their pension beneifts may not cover the taxes and sustain them even when they may have a plot of land whose surface area exceeds the mandated square meters.

7) The GoR is recommended to work in partnerships with all relevant stakeholders especially Civil Society Organisations in carrying out robust campaigns to solicit citizens views, educate citizens on tax laws and policies for understanding and ownership.

8) A comprehensive research should be conducted to assess the implications of the property tax on specific segments of the population especially women, the youth, ageing group and people with disability to set tax rates that are proportionate to the economic capacity of population groups.

9) Promote economic inclusion and equity by exempting all Rwandans from tax on the first 300 Square meters of residential plot of land owned/acquired. This will promote their rights to ownership of property. This would especially have empowering effects on majority youth and women who have historically had little resources to own property.

CONCLUSION

The law's provision on the taxation of undeveloped land is prohibitive, mostly because many low-income earners trying to graduate from poverty often purchase plots of land and work for a few years to save up and accumulate the requisite capital to develop them. Moreover, while the rationale of the new tax lax is to to enhance local revenues and reduce overreliance on Central Government transfers, this hypothesis may still not apply to the poorest districts.

This policy brief calls upon the relevant institutions of the government to consult citizens, professionals and civil society and review the tax rates set by the law No 75/2018 of 07/08/2018 determining the sources of revenue of the decentralized entities, commonly known as Property tax law. The policy brief calls for reduction of those tax rates to mitigate their adverse economic impact imposed on the citizens.