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# Strategies For The Improvement Of Property Tax Collection In Tanzania

## Executive summary

This study will focus on investigating and identifying the relationship between strategies and property tax collection in Tanzania. Specifically, it aims at examining the strategies for the improvement of property tax collection in government, identifying the major challenges confronting property tax collection, and suggests possible measures to overcome those challenges to increase revenue collection from the property owners. The study intends to involve 120 respondents from 4 wards of Ngaramtoni Township Authority at TRA-Arumeru in Arusha, Tanzania. The study anticipates gathering both primary and secondary data that will enable a pile-up of the findings. The researcher will gather primary data through questionnaires, interviews, and spot observation, and secondary data from books and various documents. Scientific Package for Social Science (SPSS) Version 25 software will be used on data analysis. Hence, the study will help government efforts on revenue collection to meet public services demand.

## Introduction

This study will focus on assessing the Strategies towards Improvement of Property Tax Collection. The study will be a descriptive survey design to find out better strategies for revenue collection on property tax.

## Background of the Study

In Africa, meeting demand for public services is a great challenge, so governments must raise funds to meet social services (Kironde, 2000). Property tax has a potential effect on public finance in developing countries (Aluko, 2005). It's a vital ingredient of fiscal policy for governments and is a source of revenue in most countries (Bahl, 2007).

In Tanzania, property tax was initially been collected by LGAs before shifted to the central government where currently TRA is collecting its revenue since the government's financial year 2017/2018. The government's decision for property tax to be collected by TRA was due to cities, municipalities, and district councils performing poorly in property tax collection but still TRA is not performing well in property tax collection.

From the above argument, the researcher sees poor property tax collection is a result of a lack of appropriate strategies for property tax collection by authorities. He believes this is a problem that facing Tanzania government and other developing countries' governments, so he will conduct a study on strategies for improving property tax collection to help the government collect maximum revenue from property tax. Property tax is a vital area of taxation that promising huge revenue to the government (Vlassenko (2001)).

## Statement of the problem

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The current government efforts on raising economic development via industrial transformation demand financial resources to implement its community projects. Property tax is vital areas of taxation that will contribute significant revenue in implementing government services, example about 29.9% of government services payment comes from property tax by Youngman (2005) in the U.S.A study. But due to challenges, it cannot be easy to achieve maximum property tax collection especially in developing countries (Kelly R. & Montes M. (2001)). There no appropriate strategies to overcome the loss of revenue from property tax in government authority. So researcher on this study will focus on finding out appropriate strategies for improvement of property tax collection in Tanzania because currently, property tax contributes very low revenue compared to other sources of revenue while it seems as it can contribute huge revenue.

### **The objective of the study**

This study aims at assessing strategies for the improvement of property tax collection in Tanzania. This will be complemented by three specific objectives namely under:

- To examine strategies for improving property tax collection,
- To identify major challenges confronting Property Tax Collection; and
- Suggesting ways that could help increase property tax collection.

### **Significance of the Study**

Property tax is among the government levies promising revenue collection in Tanzania. This is because it involves residents whose own properties are required by law to pay tax on each property they own either for residential or commercial. This study will create awareness within the government on ways of increasing revenue collection on property tax.

However, the study will make a scholarly contribution by acting a reference to other scholars who may have an interest in studying the relation of property tax and economic development.

### **Literature review on Property Tax**

In a study conducted by (Bird, and Slack, 2002), Property taxes appear to be inconsequential revenue sources when compared with other sources of revenue contributing to the country's GDP. For example, in developed countries, the property tax was a bit more than 1% of GDP as compared to other taxes about 4%. Also, Kayuza's (2006) study conducted in Tanzania revealed that property tax generates very low revenue due to insufficient database on valued properties and resistance on paying tax bill by property taxpayer, this leads to not meet project revenue budget on property tax by the government.

In a study conducted by Franzsen (2001) in Australia on the impact of property tax to the economy revealed property tax in developing counties are relay excluded on local authorities own source revenue, contrary to rich countries that including it, an example property tax to GDP ratio recorded in Canada 4.1%, US 2.9% and Australia 2.5%.

Kelly R. & Montes M. (2001) in their study in Malawi, sports that developing countries tend to collect significantly less property tax revenue. For example; Fjeldstad (2004), revealed that

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about 20% of the citizen in Tanzania whose are property owners are liable to pay property tax while the rest undervalued not paying property tax lead to revenue loss in property tax. The problem with this study considers all the challenges with no strategies to overcome the loss of revenue in property tax and is based on the tax collection system leaving taxpayers.

Smoka and Cesare (2006) sports that unknown tenure rights due to informal buildings and much slums in cities and municipalities cause it difficult to identify the taxable property and corresponding taxpayers on the determination of property values in a market. Properties should be revalued in five years interval to capture the correct market value due to some renovation made on such property, long term with no valuation lead to low revenue collection from the source due to unrealistic data (Kitillya, 2011).

Property tax antiquity from Tanzania was levied on hut and houses during the colonial era. Local Government Finance Act of 1982 and the Urban Authorities Rating Act of 1983 give power to cities and municipals to collect taxes including property tax. Problems encountered on property tax collection are lack of effective statutory rates, inconsistency in valuation /assessment of properties, and insufficient records (kelly & Musunu, 2000).

James & Nobes (2000) revealed that the framework benchmark for various tax system proposals should be put into consideration and used as a checklist for important aspects that ought to be included.

Walker (1970) points out that put clear in people's minds the benefits from the government on taxes; it will raise the willingness of them to pay taxes. Therefore, the tax burden should be linked to the taxpayer's level of economic wellbeing (Slemrod & Bakija, 2001).

## **Research Methodology**

Since the study will be centered on studying the relationship between the variables, a descriptive design will be employed. It will also base on both quantitative and qualitative research approach through a case study strategy. The rationale behind the research design and approaches selected is the nature of the problem. Purposive and simple random sampling will be used to get the sample from the targeted population. The study will deploy a survey questionnaire comprise both, closed and open-ended, which focuses on property tax in which participants will respond to it in the study. Furthermore, the spot observation and in-depth interview will be applied to supplement the data which will be collected through the mentioned data sources.

## **Conclusion**

The government revenue comprises property tax, service levy, income tax, corporate tax, value-added tax, sales tax, crop produce cess, land rent, business licenses e.t.c. Consequently, the improvement of property tax collection will lead to an increase in government revenue hence the implementation of community projects.

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