African Union for Housing Finance

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Engaging the Housing Value Chain for Growth

Impact of Taxation on Affordable Housing in Africa:

Issues and Challenges with Reference to Uganda

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Perspective of Tax Payers

- **They see themselves as being impacted by:**
- ***Direct taxes on housing-related income*** ***(on rent, house sales, income from investments in asset-backed securities etc)***
  - **For corporates, these taxes eat into profits and reduce rate of return on investments;**
  - **For individuals, they lower disposable income;**

Perspectives of Tax Payers Cont'd

- *Indirect taxes* (VAT, Sales Tax, Import Duty etc)
  - They see these taxes as raising the cost of housing inputs (e.g. building materials) and thus directly undermining affordability;
  - Higher costs are also seen as impacting on profitability – leading to lower housing investment and supply.

Perspectives of Tax Payers Cont’d

- *Property Taxes – by subnational govts:* (Property rates on land and buildings, stamp duty, capital gains tax etc)
  - They’re seen as raising land prices, house prices and rents -- thus have a direct adverse impact on affordability;
  - Tax payers see these taxes as unjustified if poor or no services are provided by subnational govt – unlike taxes collected by national govt, the main property taxes are benefit taxes tied to services;

Perspectives of Tax Payers Cont'd

- *Property Taxes cont'd*
  - If there's a weak link to services, this leads to poor compliance (also compounded by poor cadastres, outdated valuation rolls, low institutional capacity)
  - High transfer taxes (stamp duty), in particular, discourage land transactions and the development of land markets;
  - These taxes could also suppress house trading, especially for lower-income households, and mobility within the housing market.

Perspective of Fiscal Authorities: National Govts

- Primary purpose is to raise revenue to finance public goods and services.
  - Tax revenue-to-GDP ratio in Africa is low: for a group of 21 countries in African Tax Administration Forum, average ratio was 18% (2015), lower than OECD at 25%.
  - Ratio varies widely, though: 28% in Lesotho, 5% in Nigeria.
- Other Goals:
  - To help achieve the economic aims of government (growth, jobs etc)
  - To help redistribute income (social equity goal)

Perspectives of Fiscal Authorities

- ***They seek to have a taxation system with the following attributes:***
  - ***Economic efficiency:*** **revenue raising should not distort the economy e.g. by altering the behaviour of economic agents to deter economic growth, investment, jobs;**
  - **Administrative efficiency: simple tax administration and low compliance costs;**

Perspectives of Fiscal Authorities

- **Equity:** Both horizontal and vertical equity;
- **Fairness:** Fairness of procedure and avoidance of discrimination;
- **Revenue buoyancy***:* ensures tax revenues respond to economic growth.

Towards a Win-Win Solution

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- Lobbying for tax adjustments have often failed especially where they do not take account of the perspective of fiscal authorities;
- Yet affordable housing checks all the right boxes:
- **Revenue generation:** producing affordable housing at scale, incentivised by appropriate tax reliefs, would substantially expand tax base across entire range of housing value chain;

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Towards a Win-Win Solution

- **Economic Objectives:** job creation (especially for unskilled labour); savings mobilization etc
- **Social Equity:** Benefits flow directly to lower-income groups (improved housing, better health etc)

What Needs to be Done?

- **For Govts:** Get tax design right and anticipate unintended consequences:
  - Requirement in Kenya for developers to produce 1,000 affordable units per year to enjoy corporate tax reduction from 30% to 15% was completely unrealistic – requirement now is 100 units per year;
  - Affordable housing wasn't even defined and the approval path is quite long;
  - Only one developer, after many years, has lodged an application for this relief.

What Needs to Get Done

- Unintended consequences: E.g. Preferential tax treatment of non-residential property could lead to underinvestment in affordable housing which would be seen as offering lower returns to investors.
- So, Govts should engage stakeholders in tax design – this will help rationalise the taxes and reliefs that seek to improve affordability (reliefs on rent, on level of corporate tax for developers, on property taxes etc)
- For Stakeholders: Since affordable housing indeed supports govt's fiscal objectives, lobbying should focus on tax reliefs that mesh with these objectives

The Case of Uganda: A Few Highlights

- Comprehensive legal, policy & institutional framework for taxation but implementation weaknesses especially at local govt level (SEATINI/Oxfam Research Report "Taxation in Uganda")
- 10-year exemption of SACCOs from income tax (to promote financial inclusion and savings – PwC analysis of 2017/18 budget speech);
- Individuals: Rental income -- tax free threshold of UGX 2.82 million (US$ 790) per year; and 20% deduction for costs (URA, 2015/16;

The Case of Uganda: A Few Highlights Cont'd

- Stamp duty at 1% of property market value but limited valuation capacity to root out under-declaration – among lowest in Africa;
- 5% investment deduction (on a straight line basis) for industrial buildings (Initial 20% investment deduction revoked in July 2014) (PKF International Ltd).
- Property taxes: based on annual rental value;
  - Many urban properties not included in valuation lists;
  - Owner-occupied properties exempted – potentially inequitable and gives advantage to ownership over rental

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