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Improving property tax compliance in Tanzania

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Key messages

- **Text message reminders with a threat of fine can increase property tax compliance.**
- **This effect increases when local government leaders are involved in property tax collection.**
- **Local government leaders should be seen as key to enhancing compliance with the payment of property taxes.**

## Collection difficulties mean property taxes contribute little to Tanzania's revenue

Property tax should be a significant source of revenue for the Tanzanian government, but its contribution remains very low at about 0.16% of GDP (2015-16). Many local authorities collected less than 30% of the target for property taxes in the 2015/16 fiscal year.

Shifts in responsibility for property tax collection between national (Tanzania Revenue Authority, TRA) and local government authorities (LGAs) have blurred the division of roles leading to weak property tax collection measures. However, the non-compliance of property owners is a key factor.

Policy options to increase property tax compliance

A team of local PEP researchers—the authors of this brief—scoped various policy options to improve property tax compliance in Tanzania. They identified **three policy options**:

1. Payment reminder including a threat of a fine for non-compliance sent by SMS
2. Option 1 plus an additional threat of action by the local government leader (Mjumbe)
3. Option 1 plus an actual request for Mjumbe involvement in property tax collection.
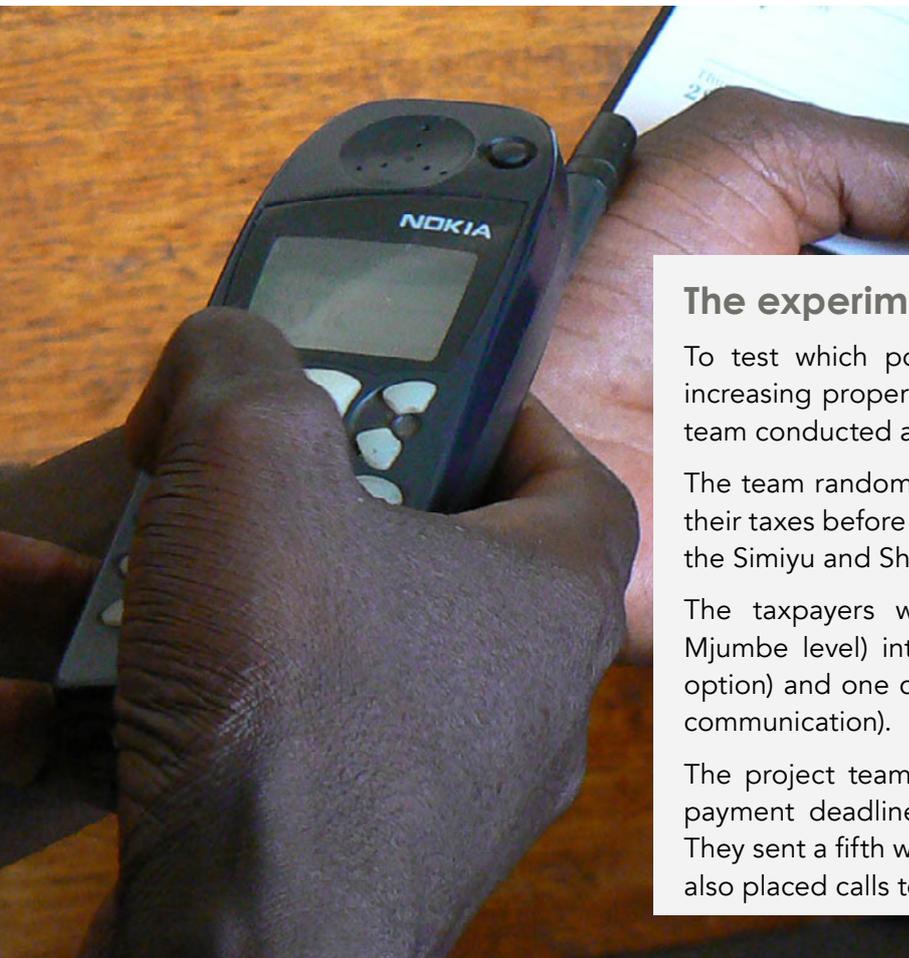
The experiment

To test which policy option would be the most effective for increasing property tax compliance in Tanzania, the local project team conducted a Randomized Control Trial (RCT) experiment.

The team randomly selected 21,237 taxpayers (who had not paid their taxes before the start of the intervention) and 668 Mjumbe in the Simiyu and Shinyanga regions.

The taxpayers were then randomly allocated by cluster (at Mjumbe level) into the three treatment groups (one per policy option) and one control group (which did not receive any kind of communication).

The project team sent four waves of text messages before the payment deadline to taxpayers in the three treatment groups. They sent a fifth wave of messages after the official deadline. They also placed calls to local leaders in two waves.

Policy options analysis & findings

Option 1 (threat of fines)	Option 2 (threat of fines & Mjumbe involvement)	Option 3 (threat of fines, actual Mjumbe involvement)
Increased payment by 7.4 percentage points, compared to Control Group (CG)	Increased payment by 7.7 percentage points, compared to CG	Increased payment by 7.7 percentage points, compared to CG
Increased the amount paid by TZS 26,348, compared to CG	Increased the amount paid by TZS 26,455, compared to CG	Increased the amount paid by TZS 27,160, compared to CG
Works well when there is a readily available & credible database of property taxpayers	Works well when there is a readily available & credible database of property taxpayers	Flexible and effective to prepare a new/update existing databases
Limited by only reaching taxpayers with active phone numbers	Threat must have consequences in the long run or taxpayers may feel deceived	Helps manage property tax politics between local and central governments, enhancing partnering for tax collection

Overall, treated taxpayers have a higher probability (by six percentage points) of having paid their 2020-21 property taxes than those in the control group.

All three options showed a higher payout rate than the control group. These results suggest that a combination of **reminder text messages** with the **actual involvement of local leaders increases compliance the most of the three options**.

Conclusions and **policy recommendations**

Increasing property tax payment compliance is an important goal for tax authorities and policymakers in Tanzania. The team's results indicate that text message reminders with a threat of fine can increase compliance. This effect can be increased when local government leaders (Mjumbe) are also involved.

The tax authority can capitalize on the high penetration of mobile phones to send reminder text messages and can increase compliance by following those reminders with action from the Mjumbe. This system would minimize frictions between the central government and local community entities regarding who has the authority to collect property taxes.

Involving local government leaders also has the advantage that they are directly visible to the taxpayer and are knowledgeable in identifying property owners, property use, and location.

The project team recommends that local government leaders be seen as key to enhancing compliance with the payment of property taxes as well as in maintaining a credible property taxpayers' database.

Implementation road map

1. The Tanzania Revenue Authority (TRA) should continue to send property tax payment reminders via SMS.

   - The reminders should include threats of fines for non-compliance and be followed up by Mjumbe involvement.

2. The TRA should involve local government leaders to update the property taxpayers database.

3. Buy-in from the TRA/central government and local governments to expand the scope of existing strategic partnerships will be necessary to increase property tax collection efficiency.