Changing the Narrative: From Persistent Fiscal Deficits to Fiscal Surpluses

Part II: Property Taxes

Introduction

In the first instalment of this series, I discussed how a redesigned 'E-Levy' could potentially be implemented. In the second of the series, I shift my attention to how the government can redesign and revamp the Property Tax system to generate much needed revenue for development. Currently, the property tax system does not generate sufficient revenue for local authorities (Metropolitan, Municipal and District Assemblies) to administer activities in their jurisdiction. Some estimates put the revenue from property tax to GDP in Ghana at between 0.1% to 0.5% of GDP. This is quite low compared to the OECD average of about 2% of GDP and 3 – 4% of GDP for high performers such as the U.K and France.

Local Authorities and Central Government Should Share Revenues

Currently, my understanding is that property taxes collected accrue entirely to the MMDAS with GRA retaining a portion due to the administrative costs it incurs in assisting to collect the revenue. First of all, I propose that revenue generated through property taxes should be shared between local authorities and the central government after the administrative cost of collection are deducted. I propose that this revenue should be shared in the ratio of 40%/60% for the central government and local authorities respectively. This is because in Ghana, the Central Government is mostly responsible for infrastructure development even at the local level. Further, the central government can play a significant role in integrating various to generate a national digital property tax register. Local assemblies may actually receive more revenue than they currently receive from a well-designed system even though they do not receive the full revenue. Receiving a share of the revenue also provides strong incentives for the central government to finance and commit to redesigning the property tax system. This alignment of incentives provides impetus for local and central government authorities to work together to increase revenue and promote development. I propose that the central government's share of the revenues generated should be lodged into an Infrastructure and Roads Fund. The funds will then be used solely to develop roads and infrastructure across the country. One of the key reasons why citizens are reluctant to pay taxes is that they do not see the benefits from the taxes that they have paid in terms of infrastructure development and their welfare in general. They also hope that the taxes that they pay are not siphoned by politicians, that is there is no agency conflict and that the funds will be used to benefit the citizenry. Consequently, ring-fencing the funds for development will renew the citizenry's trust in the government and help restore their trust in this sacrosanct social contract.

Property Tax Assessment Should be Based on Rental Income

Currently, the MMDAs or District Assemblies determine the property tax based on the value of the property and the property tax rate or impost. The valuation amounts based on my understanding are obtained from the Lands Valuation Division of the Lands Department and mostly do not reflect current market realities. Whilst I have a lot of ideas as to how a property tax system could be designed, I'll go for simplicity and parsimony in this thought experiment because a simple explanation and approach is always preferrable (Occam's razor). Importantly, this surprisingly simple approach is easy to administer and is cost effective compared to the alternatively sophisticated approaches which would be much more costly to administer.

Consequently, I will focus on using rental values as a basis for assessing property taxes. I propose that property tax rates should be benchmarked against rental values. Specifically, the property tax rate should be set to be equivalent to one-month rent. Using rental values as a benchmark in my view makes a lot of economic sense. Rental values reflect several factors such as the market value of the property, the size of the property, inflation, and general income levels (indirectly affordability as no one can rent a property if the rental rates are exceedingly high) amongst others. This approach also removes the need and the associated costs of assessing the market value of the property.

How Might such a System Work in Practice?

I propose the establishment of a National Digital Lands and Property Registry. The National Digital Lands and Property Registry should be maintained by the Lands Commission to prevent duplication of functions. The Lands Commission may be renamed as the Lands and Property Commission so that it is clear that its mandate is not solely focused on registering and maintaining a record of lands.

First of all, to create a national digital property registry, a number of agencies will have to work together. These agencies include the Lands Commission, Ghana Revenue Authority, National Identification Authority, the National Digital Addressing System by GhanaPost, the Rent Control Department, payment systems providers, online property listing platforms, the Birth and Deaths Registry, the Courts, utility companies such as Ghana Water Company and the Electricity Company of Ghana amongst others.

The proposed National Lands and Property Register must be completely digitized. Land and property registration or sales should be done totally online without the need to physically go to the Offices of the Lands Commission. For such a system to work,

1) Each parcel of land in Ghana must have a unique digital identifier (UDI). All lands must be linked to the National Digital Addressing System by GhanaPost.
2) When registering a land, all documents and payments must be made online. Some of the details that will be required for registering a land must include;
    a. The name of the owner
    b. The national ID number of the owner
    c. The GhanaPost address associated with the land/property – this must be verified.
    d. The MMDA within which the land/property is located.
    e. The mobile phone number of the owner
    f. The next of kins – will be necessary if property tax is not being paid, automatic messages and follow-ups will be made to the next of kins as the property owner may have passed. Consequently, there should be a linkage with the Births and Deaths Registry. When someone is certified as dead, the information from the Births and Deaths Registry should feed into the National Lands and Property Register with a flag placed on the property. Change of ownership should then happen in the regular way.
    g. The site plan (with appropriate CIS coordinates) and all other details that are required by the Lands Commission
3) Once the land is successfully registered, the requisite details should be transferred automatically to the relevant MMDA as the person registering the land would have selected the appropriate MMDA.
4) When the owner or developer wants to obtain a building permit, they can log into the Lands and Property Registry, select their relevant MMDA and enter their key details such as their name, national ID number, and the unique digital number associated with the land(s). Once the owner submits building plans, architectural drawings etc. and these are approved by the relevant MMDA, the Lands and Property Registry will be automatically updated. Further, once the property is completed or renovations or updates are made; digital photographs of the actual property including all rooms and spaces must be lodged in the Lands and Property Registry. Additional details required at this stage will be the assessed market value of the property. Further, the owner must indicate whether the building is for commercial purpose (the type of commercial activity must be indicated) or residential purposes (owner-occupier or rental). Finally, subsequent sales and change of ownership of the property must be entered in the system.
5) If the property is rented, the owner must update the details of the property in the Lands and Property Registry. The owner or agent must log into the system and select the status as rented. The owner needs to provide details of the rental agreement including who is renting the property (name, national id, mobile phone number etc) and lodge a copy of the rental agreement. The details of this agreement will then be transferred automatically to the Rent Control Department.

a. If the property is rented through an online property listing platform such as Meqasa, the details can be lodged directly into the system through an API call.
b. For owner occupied properties, the pseudo-rental amount will be computed based on the rental value of surrounding properties. This data can be obtained from the registry as rental rates would already have been logged here. The owner can also enter how much they would ideally like to rent the property for. The assessable value will be the higher of these two values (that is the system generated value vs the value supplied by the owner).
c. If there is a court judgement that affects the property, the judgement should be entered into the Lands and Property Registry by the Court officials. This information can be posted through an API call to the National Lands and Property Register. The information would be reflected in the details on the land/property and the property flagged. Once judgement is fully executed, the change in ownership will occur in the normal way.
d. Now we have an assessed value for property tax regardless of whether the property is occupied by the owner or rented out. One of the key challenges is that when property tax is not paid, enforcement requires a lengthy court procedure which might not be economically feasible. The payment of property taxes could be tied to accessing critical government services, however, this is a very politically sensitive matter. Consequently, I propose that the payment of property tax should be tied to the payment of utility bills – water or electricity. As water is more of a necessity, I propose that the payment be tied to electricity bills. The rationale is simple, ultimately the owner of the property is responsible for settling the electricity bill. There are also already in place systems for enforcing payment when the electricity bill has not been paid – ECG disconnects the property. This reduces the need to sue the property owner as there are strong incentives to settle the property tax regardless of whether the property is owner occupied or rented.

6) In terms of the assessment of the rental value, the system assesses the equivalent of 1 month rent from the previous year. So for example, for the 2026 assessment, the monthly rent will be based on the rental values for 2025.
   a. Once this is determined, the monthly amount to be paid would be accrued as part of the electricity bill for the property.
      i. If the electricity bill is say Ghs 700 and the property tax is Ghs 300, then 70% of the amount paid will go to ECG and the remaining 30% will go into the designated tax account.
      ii. Now if I'm renting a property, I obviously do not want to pay the property tax. I think economic agents can find useful ways to resolve this.
         1. For example, the owner of the property can pay the portion of the electricity bill attributable to the property tax by using the property details (- the unique digital identifier) will be essential here. In making payment, the owner will flag that the payment is towards the property

tax so that it does not get mixed with the electricity component.

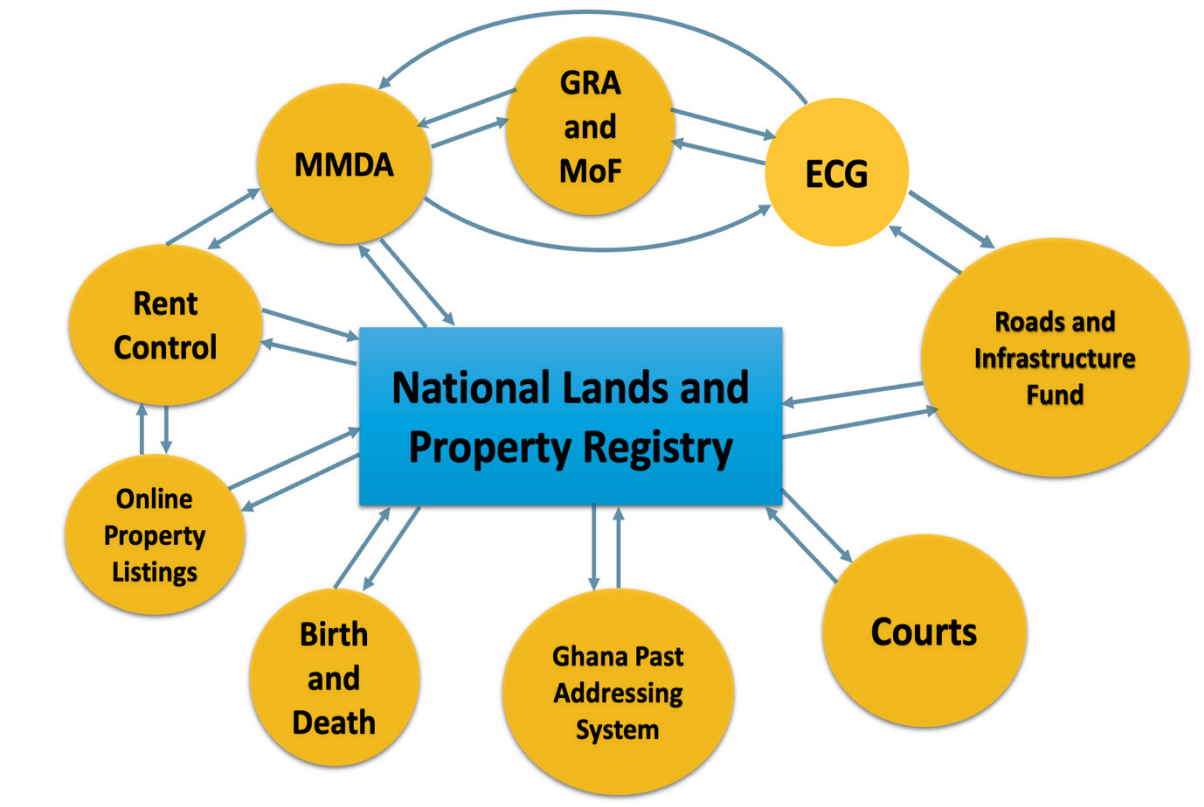
2. The landlord and the tenant may for example agree that the tenant pays 11 months rent but will be responsible for settling the property tax.

iii. Once the electricity bill is paid to ECG, the payments system will automatically apportion the funds between ECG, the central government and the MMDAs. Account sweeps can then be programmed so that the funds are transferred to the central government (say the Road and Infrastructure Fund) and the relevant MMDA. Periodically, the GRA, ECG, the Ministry of Finance and the MMDAs can do a reconciliation and audit.

1. Finally, the required property tax will be updated in the National Lands and Property Registry and that information reflected in the next month's electricity bill.

In Figure 1 below, I provide a summary visualization and systems architecture showing how the system will work and the connections between the various stakeholders/ actors.

Figure 1: Systems Architecture for Proposed National Lands and Property Registry



How Much Revenue Could Potentially Be Generated

In Table 1 below, I calculate the potential revenue that could be generated from implementing the proposed scheme where property tax is set at one month's rent. I constructed region-level estimates based on the number of housing units and the minimum rental amounts for each region based on online research. Based on this,

I computed the baseline estimate of revenue to be Ghs 14.5 billion with the Greater Accra and Ashanti regions contributing the largest shares as expected.

This baseline estimate is a single point estimate which is surrounded by uncertainty. In particular, the inputs surrounding the estimates such as the number of properties, the rental rates, the compliance rates (the proportion of population that will comply) and the collection rate (the proportion of actual payments from those who comply) are associated with uncertainty. Consequently, I performed a Monte Carlo simulation to explicitly account for this uncertainty. The assumptions behind the Monte Carlo simulation are summarized in Appendix 2.
The tax revenue is then defined as;

$$Number\ of\ Properties * Rental\ Rate * Compliance\ Rate * Collection\ Rate$$

It is apparent from here that if we fix the number of properties and rental rates, the compliance rate and the efficiency of collection by ECG or any other means of collection becomes critical. I'm aware of the operational inefficiencies of ECG which can directly impact the realized property tax revenues. Consequently, improving the operational efficiency of ECG is critical. Fortunately, the various stakeholders have a direct interest in ECG operating efficiently and could consequently push for more efficiency at ECG which benefits the entire country.

The results from the Monte Carlo simulation are presented in Figure 2 and Figure 3. The Monte Carlo simulation results indicate an expected annual property tax revenue of GHS 14.42 billion. In 80% of simulated scenarios, revenues lie between GHS 12.33 billion and GHS 16.64 billion, suggesting that the revenue potential is robust to uncertainty in key inputs. There is a 10% probability that revenues exceed GHS 16.64 billion, and a 10% probability that revenues fall below GHS 12.33 billion. These estimates are conservative because the exercise is benchmarked on 2-bedroom rental values, whereas a meaningful portion (even after accounting for properties such as government buildings that are tax exempt) of the housing stock consists of larger dwellings, multi-unit compounds, and commercial properties that typically command higher rental values. In economic terms, the expected revenue to be generated is siginficant and meaningful as it forms 13.4%, 21.8%, 36.5%, 4.7%, 4.2% of the projected income and property taxes, capital expenditure, fiscal deficit, total revenue and total expenditure estimates for 2026 respectively as published by the

Ministry of Finance . Indeed, given the baseline estimate of Ghs 14.5 billion and the mean of the Monte Carlo simulation of 14.42 billion, the proposed reform effectively doubles the property tax to GDP ratio from its highest estimate of 0.5% of GDP to about 1% of GDP (14.5/1,414.5 [nominal GPP] – the estimate of nominal GDP was obtained from the IMF).

Figure 2: Monte Carlo Simulation

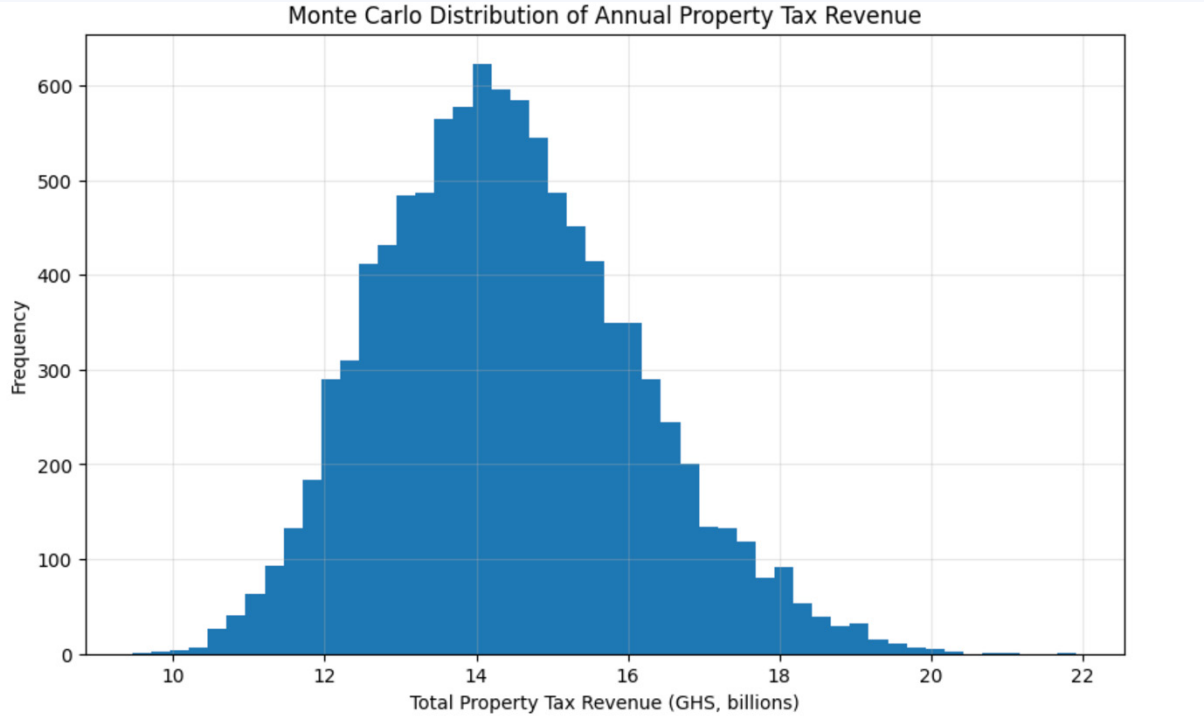
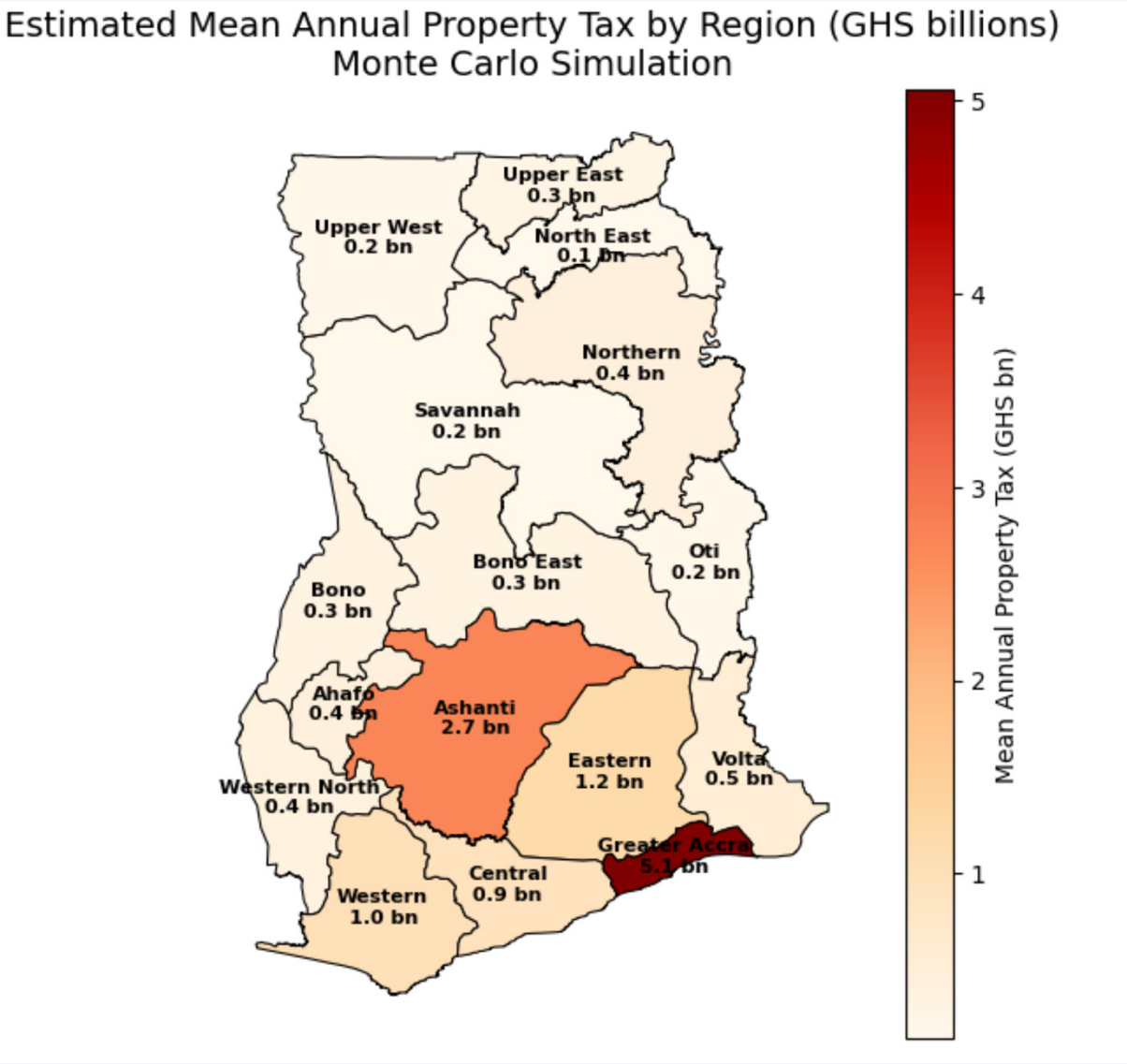


Figure 3 shows the distribution of the revenue by the regions across the country. The estimated revenues are superimposed on a Ghana map to make visualization of the distribution of the revenue easier to appreciate. The Greater Accra, Ashanti, Eastern, Central, Western and Volta regions show the most revenue potential. The Upper West, North East, Savannah, Oti and Upper East regions on the other hand show the lowest revenue potential. These broadly conform with the level of economic activities across the country.

Figure 3: Distribution of Tax Revenue By Region



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Appendix 1: Potential Revenue From Property Taxes

No.	Region	Estimated No. of Properties	Lower Band of Rent for a 2 Bedroom	Estimated Annual Property Tax (GHS)
1	Greater Accra	2,000,000	2,000	4,000,000,000
2	Ashanti	1,600,000	2,000	3,200,000,000
3	Eastern	950,000	1,500	1,425,000,000
4	Western	700,000	1,500	1,050,000,000
5	Western North	300,000	1,500	450,000,000
6	Central	750,000	1,500	1,125,000,000
7	Volta	550,000	1,000	550,000,000
8	Oti	250,000	1,000	250,000,000
9	Northern	550,000	800	440,000,000
10	North East	200,000	800	160,000,000
11	Savannah	250,000	800	200,000,000
12	Upper East	400,000	700	280,000,000
13	Upper West	300,000	700	210,000,000
14	Bono	350,000	1,000	350,000,000
15	Bono East	350,000	1,000	350,000,000
16	Ahafo	450,000	1,000	450,000,000
		9,950,000		14,490,000,000

Appendix 2: Assumptions Underlying the Monte Carlo Simulation

Item	Details	Values
Number of Simulations	Number of simulations performed	10,000
Properties	Uniform distribution (+/- 30%)	+/- 30% for each region
Rental rates	Uniform distribution (+/- 30%)	+/- 30% for each region
Compliance rate	Triangular distribution (Minimum, Mode, Maximum)	(0.60, 075, 0.90)
Collection rate	Triangular distribution (Minimum, Mode, Maximum)	(0.60, 075, 0.90)