

Property rates as an instrument for development: an analysis of South African policy, law and practice

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When local governments impose property taxes, their primary objective is to fund their expenditure. However, the role of local government can be seen as far more than simply the provision of local public services. Local government can be an agent of its community, responsible for using its authority in a manner that creatively responds to local needs and thereby enhances the well-being of its area. This chapter asks if this interpretation of the role of municipalities has consequences for the manner in which they tax properties.

South African municipalities have recently been equipped with a new property rates framework, which permits them to differentiate between categories of properties and to legislate for various kinds of property rates discounts. This framework presents a new approach to the use of property rating, by positioning it as an instrument with a stated developmental objective in addition to its revenue-raising function.

This chapter therefore examines to what extent and how South African municipalities actually use their power to levy property rates as a developmental instrument. Do they use property rates as an instrument to reduce poverty, facilitate access to economic opportunities and encourage sustainable use of resources? Or does property tax remain an instrument primarily deployed to raise revenue that funds service delivery? In attempting to answer these questions, the author was limited by the lack of independent research on this topic, and draws primarily from official reports.

First, a brief introduction to local government in South Africa is given. An overview of the legal and policy framework for the levying of property rates then follows, including the expectation implicit in that framework that municipalities should use property rating in a developmental manner. The chapter then proceeds with a discussion of some of the limits and concerns with respect to such use of property taxation. Finally, it canvasses some of the policy innovations in municipal property rating.

7.1 Local government in South Africa

Before 1994, local government in South Africa was designed to implement apartheid. Local government institutions were racially determined and the black majority was denied democratic rights. White municipalities were self-serving entities; they were given exclusive power to tax properties in well-resourced and viable commercial centres, without any

