

# MUNICIPAL PROPERTY RATES ACT

## Frequently Asked Questions & Answers

### Why is there a need for the Municipal Property Rates Act?

- To regulate the power of a municipality to impose rates on property (in accordance with section 229(2) of the Constitution);
- To provide a uniform framework for regulating the rating of property throughout the country;
- To exclude certain properties from rating in the national interest;
- To make provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through rating policies that are a product of collective participation of communities;
- To make provision for fair and equitable valuation methods of properties;
- To make provision for a fair objections and appeal process regarding valuation of property;
- To assist in building economically and financially viable municipalities that are enabled to meet the service delivery priorities of their communities.

### What are municipal property rates?

Municipal property rates are a Cent amount in the Rand levied on the market value of immovable property (that is, land and buildings).

Municipalities have a long history of rating property in terms of the old Provincial Ordinances (of the former Cape, Natal, Orange Free State and Transvaal provinces), especially in the formerly white urban areas. In addition, the Constitution of the Republic of South Africa gives municipalities the power to value and rate property in their area of jurisdiction. The Municipal Property Rates Act replaces the old system of property valuation and rating based on the old Provincial Ordinances. It does not give municipalities the original power to rate property; it merely seeks to regulate an original power vested in municipalities by the Constitution.

### Who is liable for the payment of municipal property rates?

All immovable property owners are liable for the payment of rates. Therefore, all property owners, including commercial, residential (homes), agriculture, government, etc, are included in the definition of property. Land tenure rights such as permission to occupy (PTOs) commonly found in communal areas, are also included in the definition of property. Municipalities must ensure that unit owners in sectional title schemes are registered with them because they will no longer be able to rate the body corporate.

### How are municipal property rates determined?

The financial liabilities for municipal property rates are calculated by multiplying the market value of immovable property (for example, land and buildings) by a Cent amount in the Rand that a municipal council has determined. For example:

- If the market value of immovable property (land and buildings) is R 50 000, and
- The Cent amount in the Rand is R0.015 (which is 1.5 Cent), then

- o Amount due for property rates =  $R50\ 000 \times 0.015 = R750$  for the whole year, which means that every month the property owner will pay R62.5 (this is calculated by dividing R750 by 12 as the year has 12 months) to the municipality.

If the immovable property in question is used as a residential property (home) or if it is used for multiple purposes, provided one or more of its components are used for residential purposes

- o The Cent amount in the Rand will be applied after deducting the first R15 000 of the market value of such residential property (this is a requirement of law through the Municipal Property Rates Act), which means that the R0.015 will be applied to R35 000 rather than R50 000 (that is, R50 000 less R15 000).
- o The rates payable by the homeowner will then be =  $R35\ 000 \times 0.015 = R525$  for the whole year, which means that every month the property owner will pay R43.75 to the municipality.

The Cent amount in the Rand is decided by the municipal council taking into account public comments/submissions/inputs on the municipal council's draft rates policy and budget that is subjected to the process of community participation in line with Chapter 4 of the Municipal Systems Act and the Municipal Finance Management Act.

**Does the Municipal Property Rates Act require that both land and buildings be valued and rated?**

Yes, the Act mandates that both land and buildings be valued together for the purposes of imposing a single Cent amount in the Rand on them. The practice of some municipalities of valuing and rating land only or valuing land and buildings separately (based on the old Provincial Ordinances) in order to impose different Cent amounts in the Rand on them will no longer be applicable in terms of the Act. This is important to ensure equitable treatment of property owners.

**How will the Municipal Property Rates Act affect property owners?**

The critical determinant of how much property owners will pay is the amount in the Rand each municipal council will determine for the various property categories.

The Act **does not change the total revenue needs of municipalities**, nor does it set the Cent amount in the Rand. Each municipality will continue to set and collect property rates in an amount sufficient to meet its needs, taking into account the likely impact of rates on local economic development, ratepayers and their ability to pay such rates.

Each municipality will have to properly manage the transition from its old rating practice to the new system based on the Act. All things being equal, municipalities that have not been rating on the market value of land and buildings combined, should consider reducing the Cent amount in the Rand drastically to ensure that there are no major shocks to ratepayers and economic sectors given that in terms of the Act, they will be raising revenue from an expanded rates base than before. Also, for all municipalities, when new valuations are done, from time to time, the Cent amount in the Rand should be reviewed, and if necessary reduced drastically to avoid creating major shocks to ratepayers.

For example, if the municipality was raising total rates income of R1 650 295 from residential/commercial property category based on rating land, whose rates base was worth R56 204 500 (total market value of all individual properties within the residential/commercial property category), and the new rates base, which is land and buildings, is worth R273 204 500 in market value, the municipality would have to drastically reduce the cent amount in the Rand, from about R0.029 to about R0.006.

## **Does the Municipal Property Rates Act contain checks and balances to protect property owners?**

Yes. The act contains checks and balances to protect property owners. The Minister for Provincial and Local Government, with the concurrence of the Minister of Finance, can limit the Cent amount in the Rand that municipalities impose, if such proof can be provided that such a Cent amount in the Rand on specific category of properties is materially and unreasonably prejudicing national economic policies, economic activities across municipal boundaries or the national mobility of goods, services, capital or labour. Any sector of the economy, after consulting the relevant municipality or municipalities and organised local government, may, through its organised structures, request the Minister for Provincial and Local Government to evaluate evidence to the effect that a particular Cent amount in the Rand on any specific category of properties, or a rate on any specific category of properties above a specific Cent amount in the Rand, is materially and unreasonably prejudicing any of the matters mentioned above.

The Act also provides for the Minister for Provincial and Local Government, with the concurrence of the Minister of Finance, to set an upper limit on the percentage by which rates on properties or a rate on a specific category of properties may be increased.

The Act provides for the MEC for Local Government in a province to monitor whether municipalities in a province comply with the provisions of the Act, including Ministerial decisions on the issues mentioned above.

## **What is property rates revenue used for?**

Municipalities need a reliable source of revenue to provide basic services and perform their functions. Property rates are the most important source of general revenue for municipalities, especially in developed areas. Revenue from property rates is used to fund services that benefit the community as a whole as opposed to individual households. These include installing and maintaining streets, roads, sidewalks, lighting, and storm drainage facilities; and building and operating clinics, parks, recreational facilities and cemeteries. Property rates revenue is also used to fund municipal administration, such as computer equipment and stationery, and costs of governance, such as council and community meetings, which facilitate community participation on issues of Integrated Development Plans (IDPs) and municipal budgets.

Municipal property rates are **set, collected, and used locally**. National and provincial governments do not have the power to levy rates, nor do they share in the revenue collected. Revenue from property rates is spent within a municipality, where the citizens and voters have a voice in decisions on how the revenue is spent as part of the Integrated Development Plans (IDPs) and budget processes, which municipalities invite communities to input prior municipal council adoption of the budget.

## **Does the Municipal Property Rates Act provide for any exclusions from rating?**

Section 229(2) of the Constitution provides for national legislation to regulate municipalities' power to levy property rates. In terms of the Act, certain exclusions from rating are made. These include:

- The first R 15 000 of the market value of residential property;
- Land reform beneficiaries' property, for 10 years, provided that the property does not change hands;
- The first 30% of the market value of publicly controlled service infrastructure as defined in the Act;
- The right to prospect for minerals;

- Property registered in the name of and used primarily as a place of public worship by a religious community, including the associated official residence occupied by an office-bearer of that community who officiate at services at that place of worship;
- Parts of special nature reserves, national parks, nature reserves or botanical gardens within the meaning of the relevant legislation, except where commercial activities take place within them;
- Any island of which the State is the owner.

**Does the Municipal Property Rates Act make provision for municipalities to grant exemptions, rebates and reductions?**

In terms of the Act municipalities may provide for exemptions, rebates, and reductions in their rates policies based on local conditions and circumstances. The cost of such locally determined exemptions, rebates, and reductions must be considered by the municipal council in relation to the benefit received by the local community from such relief measures. For purposes of granting exemptions, rebates, and reductions in respect of owners of categories of properties, such categories must include the following:

- Indigent owners;
- Owners dependent on pensions or social grants for their livelihood;
- Owners temporarily without income;
- Owners of property situated within an area affected by –
  - a disaster within the meaning of the Disaster Management Act (2002); or
  - any other serious adverse social or economic conditions;
- Owners of residential properties with a market value lower than an amount determined by the municipality; or
- Owners of agricultural properties who are bona fide farmers

**How does the Municipal Property Rates Act treat newly rateable property?**

The Act requires that the rating of newly rateable property be phased in over a period of three or four financial years depending on the use and ownership of property.

Newly rateable property is any rateable property on which property rates were not levied before the end of the financial year preceding the date on which this Act took effect, excluding property that was incorrectly omitted from a valuation roll and for that reason was not rated before that date.

**What must municipalities do to implement the Municipal Property Rates Act?**

Municipalities are required to:

- Develop rates policies
- Strengthen internal capacity to conduct valuations
- Prepare general property valuation rolls
- Consult the community on their draft rates policies

- Adopt rates policies
- Adopt by-laws to give effect to the adopted rates policies
- Gazette the property valuation rolls for public inspection outlining also the process of raising objections
- Outline to the public the appeal process regarding outcome of objections

**What must ratepayers do to effectively participate in the implementation of the Municipal Property Rates Act?**

- Chapter 4 of the Municipal Systems Act requires a culture of community participation in the affairs of the municipality to be developed.
- Ratepayers have got a responsibility to engage with their municipalities when municipalities invite public comments/submissions/inputs on their proposed rates policies and budgets. The rates policies deal with issues such as the Cent amount in the Rand that the municipal council propose imposing, relief measures to ratepayers such as granting of exemptions, rebates, and reductions in respect of owners of categories of properties, for example, to
  - Indigent owners;
  - Owners dependent on pensions or social grants for their livelihood;
  - Owners temporarily without income;
  - Owners of property situated within an area affected by –
    - a disaster within the meaning of the Disaster Management Act (2002); or
    - Any other serious adverse social or economic conditions;
- Ratepayers should comply with municipal requests within the stipulated timeframes that municipalities will publicly announce regarding inspections of property valuation rolls and if necessary lodging objections in respect of market values of specific individual properties.
- Raising concerns after municipal councils have already approved municipal rates policies and budgets or after expiry of the objections period will not achieve meaningful results. Communities need to proactively and constructively engage with their municipalities on valuation and rating issues.

**How to lodge objections regarding the determined market value of the property**

- After a municipality has completed its valuation of immovable properties within its jurisdiction and produced a property valuation roll, the municipality invites members of the public to inspect the property valuation roll within a stipulated timeframe, and to raise objections within a stipulated timeframe.
- The municipality also forward each immovable property owner with an extract of the property valuation roll pertaining to that owner's property.
- Should the immovable property owner be not satisfied with the market value of his/her property reflected in the property valuation roll, such immovable property owner should approach his/her municipality to lodge objections citing reasons behind such objections.

- The law requires that the objector continue paying rates while his/her objections are being processed and finalised. On finalisation of the consideration of objections, if there is evidence that the market value reflected on the property valuation roll is wrong, the law requires the municipality to correct the situation, and where such correction results in rates refunds to the ratepayer, the municipality is obliged to refund the ratepayer. In a case where the ratepayer's property was undervalued, the ratepayer is obliged to pay the additional rates to the municipality.

**Kindly take NOTE...**

Hereunder is not the final RATE, it is only a proposal to Council for approval or amendment together with the draft budget of 2008/09 in their meeting of 29 May 2008, after public participation process on the issues.

**This only applies to residential property category:**

Value of property – R50 000 x 0.0091 / 12 – 35% rebate = new monthly tax payable

Please note that this is only a **provisional rate as recommended** by the budget office, and can still be amended before implementation date of 1 July 2008. This rate has to be approved by Council in their meeting at the end of May after the public participation process that is to take place from 1 April 2008.