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**CHALLENGES OF DECENTRALISED TAX SYSTEM IN RWANDA
CASE OF PROPERTY TAX IN RWANDA: 2020-2021**

Vedaste NSHIMIYIMANA & Prosper NIYONGABO

**CHALLENGES OF DECENTRALISED TAX SYSTEM IN RWANDA
CASE OF PROPERTY TAX IN RWANDA: 2020-2021**

¹ Nshimiyimana, V., & ² Niyongabo, P.

¹ Research scholar at INES RUHENGARI, Rwanda

² Research scholar at INES RUHENGARI, Rwanda

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ABSTRACT

Statistics showed that decentralized tax, including collection of rental income tax, building or property tax/property tax and business license tax was 31.12% of the tax in the fiscal year 2013-2014. In 2014-2015, it was 37.3%. In 2015-2016, it was 29.32%. From 2016 to 2017 it was 35.23 % (RRA, 2021). The study assessed three specific objectives, including to examining how poor taxpayer's perception affects property tax revenue collection, to examining the effect of Lack of Taxpayers' Education on the property tax revenue collection and to assess how the lack of Compliance tax culture affects property tax revenue collection. This research is based on a descriptive design using both quantitative and qualitative approaches. The study is also based on correlation design in the sense that the relationship between independent and dependent variables must be determined. The study population is all property taxpayers in Rwanda. The sample size is 385 property taxpayers in the five selected districts. Questionnaires were used as a data collection tool. Descriptive statistic and inferential statistics were used to analyse data. Findings showed that the poor Taxpayer's Perception on property tax is at a very high level, the lack of Tax Taxpayers' Education on property tax is at a high level and the lack of tax compliance culture among Taxpayers was at a high level. The study revealed a negative moderate correlation between challenges of decentralized tax system and Property Tax collection. The coefficient of determination showed that challenges of decentralized tax system contribute a reduction of 40.19% to property tax collection in Rwanda. Some recommendations have been formulated to different personalities such as Rwanda Revenue Authority (RRA) management, To the Local government authority and to taxpayers. To RRA, Training is needed to increase the Taxpayer's Perception on property tax which was found poor at a very high level. This will help them to increase service distribution to taxpayers. To the Local government authority, it should increase facilities to help taxpayers to access tax collectors at workplaces because findings showed these challenges at a high level. To taxpayers, they should try to increase their level of tax compliance culture because findings showed that this level was low. This will help the local government to increase fund for development.

Key Terms: Decentralized Tax System, Property Tax, tax collection

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INTRODUCTION

Fiscal decentralization is the distribution of financial responsibility to lower levels of government or other areas of government. Local or regional governments can perform their decentralized tasks efficiently, effectively, productively, and competitively when they have sufficient revenues, raised locally or appropriately delegated by national government (Gumede, Byamukama, & Dakora, 2019).

Fiscal decentralization consists of delegating to sub-national governments the financial resources and decision-making powers that enable them to carry out the tasks and responsibilities assigned to them. In principle, each new responsibility must be pursued with adequate resources and a precise definition of the sources of income for taking on this new responsibility. In other words, finance must follow function (Stoyan & Niedzwiecki, 2018). Fiscal decentralization can take a variety of forms, including self-financing or cost recovery through user fees, co-financing or co-production arrangements where users participate in the provision of services and infrastructure through monetary or labor contributions, and local revenue extension through real estate sales taxes. Fiscal decentralization can lead to economic growth and development if properly applied and designed as a development strategy to facilitate local participation in local government (Shah, 2006).

In Europe or America they use the term fiscal federalism depending on their central local financial relationships (Gumede, Byamukama & Dakora, 2019). There are important issues that fiscal decentralization addresses, including collecting revenue and assigning responsibilities to municipal departments to think strategically about how to improve and maintain revenue, and how to use it to improve service delivery and development be used. It is important to note that fiscal decentralization means the percentage of total government spending used by local governments, considering the size and type of transfers, or the level of local tax autonomy, or both (Sow & Razafimahefa, 2015).

The tax systems of the Central government in most African countries have been subject to major reforms over the past 25 years that have adapted tax laws to both country-specific conditions and the changing international environment (Keen & Mansour, 2012). In contrast, in many African countries, especially French-speaking Africa, the local tax system has changed little since independence. The focus on central taxation is explained by (a) political factors (decentralization processes were opposed or undermined by central government agencies fearing they would lose power and rationality); (b) economic factors (to address fiscal deficits and constraints); (c) administrative factors (it is generally easier and less expensive to collect large amounts of revenue from central government taxes) (Fjeldstad, Chambas & Brun, 2014).

Local tax systems across African countries are characterized by various taxes, charges and levies (Fjeldstad & Heggstad 2012). In many countries, local governments appear to impose all possible taxes, fees and charges, but often give little thought to the economic distortions and distributional effects these instruments create. No. Numerous taxes, fees and levies are a major problem from several perspectives, including the development of effective, transparent and accountable local tax systems. Moreover, this often leads to overestimating the local revenue potential. In most African countries, there is little or no coordination between different levels of government regarding taxation. This is partly due to a lack of competence at all levels (Sow & Razafimahefa, 2015).

In South Africa, municipalities or municipalities have the legal power to tax, but due to the very weak tax base and entrenched reliance on government subsidies, no attempts have been made to exercise this power. Fiscal decentralization includes the financial aspects of decentralization (Gumede, Byamukama & Dakora, 2019).

In some East African countries, local tax reforms have eliminated so-called nuisance taxes, including the poll tax in Tanzania and Uganda, and simplified

local tax laws and administrative procedures (Fjeldstad & Heggstad, 2012). However, fiscal decentralization is often limited to dealing with fiscal transfer systems, and central government control remains strong, stronger in French-speaking countries in West Africa than in English-speaking East Africa. Decentralization, extended to the territory of the United States, is still a recent phenomenon. Due to general fiscal constraints, local tax reform was not considered as important as central government revenue mobilization (Fjeldstad, Chambas & Brun, 2014).

Prior to 2001, collection of tax in Rwanda was performed entirely by the central government. However, this tax administration system was known to have many deficiencies due to its inherent bureaucracy, making it significantly inefficient in serving the community. To this end, the government adopted his tax and fiscal decentralization policy in 2001 (OAG, 2015). The policy aims not only to strive to efficiently provide quality and accessible services at the local level, but also to achieve sustainable development, economic growth and poverty reduction. In order to achieve local development goals, set by local communities, local governments are empowered to collect their own local revenues from taxes, royalties, and other forms of locally collected revenues. (Minecofin, 2011).

Decentralization tax is a tax imposed by the Rwanda Revenue Authority (RRA) on behalf of a decentralized entity for a group of tenants using a particular space. Rental Income Tax, Business License. Property tax is a tax levied on real estate by decentralized entities (RRA, 2022).

Tax decentralization is one of the Rwandan government's top priorities. The agreed decentralization policy was implemented in principle. However, local entities continue to rely heavily on centralized transfers as local revenues, especially local tax revenues, have not increased as expected, impeding fiscal decentralization (Kopanyi, 2015). Revenues from local taxes and fees are very small compared to district budgets. Districts still fund less than 50% of their budgets from locally generated

income (OAG, 2015). With this in mind, researcher should conduct this study to identify possible causes for the persistently low level of local tax revenues in Rwanda.

Rwanda, especially businessmen, consciously avoid the responsibility of paying decentralized taxes and sometimes take the opportunity of tax professionals to pay less taxes to the regime, considering tax evasion due to the profitability of tax loopholes (RRA, 2021).

Statistics from the Rwandan Tax Administration in 2013-2014 showed that decentralised tax, including collection of rental income tax, building or property tax/property tax and business license tax is 9.4 billion, in contrast to the total diversified unit revenue collection target of 30.2 billion RWF which was implemented on 31st February 2020. It was 50 million RWF. In 2014-2015, decentralized tax collection reached RWF 11.3 billion, 37.4% of the decentralized entity's overall target of 30.3 billion RWF. In 2015-2016, decentralized tax collection reached 13.4 billion RWF, implemented at 29.3% against the overall target of 45.7 billion RWF for decentralized entity revenue collection. From 2016 to 2017, decentralized tax collection fell to 17.3 billion RWF against the overall target of decentralized unit collection with revenue of 49.1 billion RWF implemented at 35.2% (RRA, 2021). In fiscal year 2020/21, local government (LG) tax and fee collections amounted to Frw77.8 billion of Frw82.5 billion that was forecast, accounting for 94.3%. The expected main reasons for the shortfall are the downward revision of property tax rates and difficulties faced by some counties preventing them from selling their own land/assets as planned (RRA, 2021). Despite the low local tax collection mentioned above, any empirical study has been conducted to identify the problems in the decentralization tax system especially property tax that may be related to the observed low level of local tax collection and to make appropriate recommendations on how to improve the system to address this to achieve the central government's goal of improving district tax collection.

The general objective of this study is to identify the effect of challenges in the system of decentralized tax on the tax collection in Rwanda, while the specific objectives are: 1. Examining how poor taxpayer's perception affects property tax revenue collection. 2. Examining the effect of Lack of Taxpayers' Education on the property tax revenue collection. 3. To assess how the lack of Compliance tax culture affects property tax revenue collection.

LITERATURE REVIEW

Theoretical review

Deterrence Theory

According to the deterrence theory, elements that affect the benefits and costs of tax evasion, such as B. the tax rate, likelihood of discovery, and fines for fraud, have an impact on taxpayer behavior. As a result, when tax evasion is highly penalized and detection is likely, few people will do it. In contrast, the expected return to tax evasion is large when audit possibilities are low and penalties are light (Sandmo, 2005). According to this view, taxpayers pay taxes out of fear and to avoid penalties (Alabede et al., 2011). According to Braithwaith's 2003 thesis, the likelihood of detection and the severity of sanctions are the key factors in explaining compliance. As a result, people would not comply since there is little deterrence, while those who find tax evasion challenging are not more likely to do it.

The theory of fiscal exchange

The fiscal exchange theory recommends that the existence spending of government motivates taxpayers to be compliant and the state can increase compliance, through providing what the population needs and make them easily accessible (Moore, 2004)). When the people realize a benefit from the government the taxpayer's likelihood to comply increases without force (Bodea & LeBas, 2013). While many taxpayers are unable evaluate the real value of their taxable income, they do have a general impression and attitude toward the government of their own terms and conditions of business and those of others. In the context of tax exchanges, individual attitudes toward tax compliance are

expected to be positively correlated with satisfaction with the provision of public goods and services (Bodea & LeBas, 2013).

Political legitimacy Theory

The theory states that complying with paying taxes is motivated by the degree of taxpayers trust in the government (Kirchler et al., 2008). Based on this argument, we would expect those who trust the government to be more likely to comply with tax laws than those who do not. The above theory helps explain the relationship between decentralized taxation (property tax) and tax collection challenges in Rwanda.

Review of literature related to objectives

Fiscal decentralization is one of the Rwandan government's top priorities. The decentralization policy decided in 2006 is generally implemented. However, as local revenues, especially local tax revenues, have not increased as expected and tax decentralization has been hampered, local entities remain heavily dependent on centralized transfers. Increasing revenue collection from the government's own sources is an important step, as the government has neither the ability nor the intention to increase the number of remittances to local bodies (Kopanyi, 2015).

Property tax

As explained in this chapter, taxes on real estate or land and buildings usually take the form of an annual rate of property. The simplicity of this concept may hide some important design issues, some of which require prior clarification of tax purposes (World Bank, 2020).

Given the simplicity of typical property tax laws, there are many challenges in drafting property and building taxes that can be surprising and frustrating. These arise because many major tax issues resist one-size-fits-all solutions. Instead, appropriate decisions are based on political, social, and economic assessments that must precede elaboration, but are often not considered until the elaboration process has been brought to the attention of policy makers. Examples of this are joint taxation of land and

buildings, separate taxation with different tax rates, or exemption of buildings. Whether the resulting measure of tax base is market value, present value in use, cost, area or other quantity (Fjeldstad, Chambas & Brun, 2014).

A second set of key questions about tax mechanics, which may be too detailed to be addressed in the law itself, should be clarified by understanding and attempts to minimize potential difficulties. There are many examples of what "market value" means when applied to properties that have not been subject to a recent sale. Similar complications arise with the definition of property and the property itself. Yes (Youngman, 2022).

Taxation of property and other legal interests on land and buildings serves important financial, political and legal purposes. Identifying these features is very important. Revenue alone does not seem to justify the administrative costs of the tax, even if the initial tax collection is small (Kopanyi, 2015).

Property taxes, whether collected and administered locally, are often designed to be an independent source of funds for local governments. Property taxes, unlike sales, salaries, or income, provide a revenue base that cannot be easily transferred to neighboring jurisdictions (Youngman, 2022). This is one reason why real property lends itself to a special form of taxation that does not apply to movable property such as furniture and fixtures (Kopanyi, 2015).

In general, the degree of discretion that local governments have over tax rates and structures is determined through a central level legal framework. The extent to which countries give local governments discretion in determining the structure of their tax rates (and tax bases), the need for local autonomy and discretion, and the need to create a fair and efficient income environment within the communities. Different degrees of balancing gender (World Bank, 2020).

Overview of property tax in Rwanda

In Rwanda, most property owners pay about 2% of land rent (LLF) and property tax (FAT). Real estate fees are regressive, with low-income property owners often paying 1-3% of the value of their investment, and high-end property owners typically paying less than 0.15%. Land leases and property taxes generated little revenue. Around 4.3 billion RWF and 500 million RWF respectively in 2015/16, accounting for less than 1% of total tax revenue and less than 0.1% of GDP. These figures are low by international standards. Real estate and property taxes in Europe, the United States, and many successful urbanizers in East Asia and sub-Saharan Africa are typically 0.5-1% of market value and about 5% of total taxes produce more than 2% of income and GDP (Kopanyi & August 2016).

In Kigali, 94% of landowners are exempt from construction tax if this exemption limit is set at RWF 30 million. According to the best available data, 70% of Kigali's properties are worth less than RWF 10 million and 90% are worth less than RWF 20 million. While these data may contain inaccuracies, i) they are consistent with EICV4 real estate price data and are the primary reference for bulk valuation of real estate for tax purposes. There are many ways to define affordable housing, but the threshold overlooks reality when it shows that only 5-6% of the population lives in affordable housing seems to be (Kopanyi & August 2016).

The tax exemption also reduces the tax taxpayer's tax liability. For example, a mid-market owner of fixed assets worth RWF 50 million would pay approximately 0.02% of the fixed asset value in building tax (one-fifth of his previous FAT rate) (Kopanyi & August 2016).

Building tax rates must consider other taxes on fixed assets and income from fixed assets (property tax, consumption tax, rental income tax). If either is too high, we suggest lowering the building tax rate, and if too low, vice versa (Kopanyi & August 2016). Rental income tax is similar to tax rates in other countries and is a good progressive tax system¹, so it is not covered in this document. It also does not mention

VAT on rental income, as it is levied only if the annual rent of commercial real estate exceeds RWF 20 million (Kopanyi & August 2016).

The bill's property tax takes a similar form to previous property rentals, which often apply higher tax rates to low-income landowners and very low tax rates to the most valuable properties. A new property tax could offset some of the burden by issuing a ministerial directive for a more scientific allocation of m2 taxes to real estate. However, the proposed new property tax cap is set low, especially since prices are not adjusted for inflation. The 2011 price is a real drop. In contrast, the minimum m2 charge in the old law was 1-3% of the value of the lowest value parcel but has now been increased from 10 RWF to 30 RWF/m2. Therefore, property taxes remain regressive, with land often accounting for 30-60% of total fixed assets, which has a significant impact on the overall tax on people's fixed assets (Kopanyi & August 2016).

Some experts have recommended replacing property taxes with value-based taxes. This will greatly improve equity and affordability (increasing income according to income and price) while introducing larger tax increases. However, there is an administrative burden of assessing and verifying land prices and correctly registering land as residential, agricultural and commercial land. While maintaining the area related system. The basic tax rate can be extended according to upper and lower limits. You can treat the brackets as base sentences and hang them on higher (or lower) levels (outside the brackets) in subsequent ministerial orders. Assign taxes to real prices to account for property value increases (Kopanyi & August 2016)

Finally, some consultations were held to communicate and gain support for the proposed rules in the bill. If changes are made to this draft, it would be desirable to consult with the same stakeholders to justify, receive feedback, and obtain their support before the bill is submitted to Parliament for implementation (Kopanyi & August, 2016).

With a deductible limit of RWF 10 million, expected income increased by about 45%. With the move to value-based systems, such price increases will depend on accurate reference prices for audit purposes. This is ensured by eliminating taxes on reported transaction prices and conducting bulk appraisals of urban land and real estate (Kopanyi & August, 2016).

The building tax is a city tax and part of the new investment tax. The current draft charges 0.2% of the value of all buildings after deducting affordable housing prices. That is, the value of the building minus the threshold and multiplied by 0.002. However, prices can be more easily updated as the value of the building increases (Kopanyi & August 2016).

Challenges in property Tax

Poor Taxpayers' Perception

In terms of tax equity, is the assumption that taxpayers are equally treated in the same situation of tax. The perception of taxpayers of the tax fairness affects the tendency for non-compliance. That is, if taxpayers think that the taxes are charged wrongly, they have the tangency to make tax evasion. When the taxpayers feel that tax is unfair, this result to the increase of tax evasion (Kenno, 2020).

Taxpayers' poor perception of the amount of tax they pay is a problem with decentralized taxation. To tax the taxpayer fairly is an indicator of a good tax system. In principle, taxpayers are to be taxed according to their ability to pay and comparing to the income they earn. When the taxpayers settle their tax payment in relation to their capacity to pay, they feel as they are giving sacrifice in giving taxes. If taxpayers feel they are paying higher tax in comparison to the income they earn, they may feel that they are exploited by the tax system present. Therefore, high probability of making evasion of taxes (Kenno, 2020).

The complicated tax system is considered by the taxpayers as another cause of the non-compliance of tax payment. People feel that when the tax system is complex, this influence taxpayers to break the rule

of paying intentionally or unintentionally (Saada, 2012).

Lack of Taxpayers' Education

Pali, Md Akir, Bin Wan Ahmad (2013), said that taxes can be taught to the taxpayers before being practiced. Universities should give all students deep skills about tax issues.

The role of education on tax to get the knowledge which is universal to help the community understand about the tax liability. Therefore, the taxpayers in the future should have get enough skills on taxation to help them to be tax competent.

Tax education enables a good understanding of the tax system. If the population has a good understanding of tax laws, this helps them to respect the tax system. Therefore, they can comply with tax payment instead of making evasion. In addition, individuals are formed who are knowledgeable about aspects of planning tax, law of tax and other. Again, literacy on tax enhanced individuals' awareness and ethics to reduce their tendencies toward tax non-compliance (Palil et al, 2013).

The knowledge on tax has an essential role in raising the compliance on payment tax. Therefore, community must have a good education to help fulfilling their obligation of paying tax.

Educating people on tax system is good instrument to encourage people to be tax compliant. Again, when the taxpayers, have a good understanding of the important explanation of taxation, they have a good fulfill their obligation of being tax compliant (Marziana, et al, 2010).

The knowledge on tax reduces consequence of the tax evasion. According to Richardson (2006), out of 45 countries worldwide, education is associated to tax evasion negatively, which tend to the decreasing with the level of education.

Lack of Tax Compliance among Taxpayers

The compliance with tax, is defined as the level at which the taxpayer become compliant or non-compliant with the tax regulations (Marziana et al, 2010). The tax administration aims encouraging

complying tax voluntarily by any means that include sanctions. In complying tax, literature, taxpayers' perceptions of the tax system fairness are recognized interesting factors having a significant effect on the behavior of tax compliance. The system of tax is seen by the community as unfair and is likely to be less successful, encouraging non-compliant behavior by taxpayers. Taxpayers' perceptions, which are nearly closed to the skills and experience, i.e. acknowledge of tax issues and skills, have influenced the level complying on tax (Palil, Md Akir, Bin Wan Ahmad, 2013).

Chan, Troutman, and OBryan (2000) conducted a study comparing the compliance of taxpayer in United State of America and Hong Kong. The study found that the decision of respondents from US to comply with the laws of tax was primarily caused by age and education leading to positively influenced development of moral and attitudes. On the other hand, the respondents from Hong Kong showed theta there is a negative relationship between compliance and education and behavior and moral (Palil, Md Akir, Bin Wan Ahmad, 2013).

Again, when the tax system is are perceived as unfair by the taxpayers the compliance is low (Palil, Md Akir, Bin Wan Ahmad, 2013). When there is an effective tax system, taxpayers get it right. For ensuring the fairness of tax system, various aspects should be examined and analyzed (Palil, Md Akir, Bin Wan Ahmad, 2013).

Another possible cause of non-compliance with the tax was the belief of the taxpayers of not being caught by the government. That behavior motivates them on the obligation on tax This control is attributed to support tax accountants, while others are criticized of having the loopholes in the system of tax leaving behinds the manipulation room (Saada, 2012).

Tax collection

The process of the collection of property tax, need to be analysed for understanding opportunities and challenges for improving the income collection from current liabilities and arrears. The management

revenue collection is the key to convert potential property tax Revenue as it is recorded the registry of land, appraisal schedule, and schedule of tax, for the realization of property tax revenues (Kelly, 2012).

By using the information of the roll, tax law must notify taxpayers of their tax liability and communicate to them the amount of tax they must pay and the process of payment.

In addition to educating and serving taxpayers, the state should motivate taxpayers to comply voluntarily with preparing them to act on non-compliance. Highly the amount on tax on property should be collected for translating the potential tax income on property, for efficiency goal and equity in reality (Kelly, 2013).

The process of collection of the property tax starts from informing taxpayers of their tax debts. By giving training services to taxpayers and ending conflicts, taxpayers are motivated to pay their tax liability. Tax arrears are sanctioned to penalties to motivate the collection (Kelly, 2012). For instance, most countries need that the outstanding taxes on property should be paid before the law of title transfer. The total tax collection must be accounted for quick and transparent collection (Slemrod & Bakija, 2017).

Measurement of Tax collection

Improvement of the fiscal balance

Local governments feel pressure to provide more public goods than central governments with limited resources. Geographic proximity to citizens improves accountability and facilitates cost-effective production and delivery of public goods. This reduces spending and has a positive impact on the budget balance (Scheerens & Ongevalle, 2018).

Increase of Revenue mobilization

In parallel with this, fiscal decentralization can increase revenue mobilization, thus further improving fiscal balances. This argument argues that compared to central government, local government has more potential and, if intergovernmental transfer systems are well designed, to achieve a tax

base of income, consumption and wealth. It is based on the assumption of providing incentives. As local revenue mobilization increases so does the need for intergovernmental transfers of central revenues (Bahl & Bird, 2008).

Empirical Review

The study showed that lack of taxpayer education was one of the reasons for the problems faced in tax collection in Nyaruguru District (Mpambara, Byiringiro, Mukasharangabo, 2013).

Promoting voluntary compliance should be a priority. Voluntary compliance is designed to help taxpayers understand the basis for property taxes, how they relate to financing essential public services, and their obligations and rights under property tax laws. You can encourage them by providing training and services (World Bank, 2020).

Taxpayers are typically required to notify taxpayers of their tax obligations via individual invoices, although some countries may rely on summary notices. A tax assessment may also contain information about how the taxpayer was paid, which allows the taxpayer to know what their tax money is being used for. Tax invoices are typically distributed through a combination of manual and postal systems (Listokin & Schizer, 2012).

The introduction of technology and modernization of systems has facilitated access to tax information, including viewing and downloading tax advice via mobile and web portals (Paoki et al, 2021).

In Nyaruguru district, the study showed that the highest rate of those say they do not understand the importance of property tax. This meant that tax collectors faced serious problems in dealing with those who did not understand why they were paying taxes or who were reluctant to pay taxes (Mpambara, Byiringiro & Mukasharangabo, 2013).

Taxpayers must be persuaded to pay their taxes. This requires an active taxpayer/public education campaign to educate citizens about the role of property taxes, the collection and use of monies, and taxpayer legal rights and obligations. The main

concerns are to reduce taxpayers' compliance burden, make payments as easy as possible, and ensure that tax authorities act professionally to ensure fair and transparent treatment of all taxpayers (World Bank, 2020).

In addition to providing proactive education/services to taxpayers, the property tax system also has policies and procedures for handling disputes and appeals. Disputes or complaints related to the accuracy of real estate taxpayer information, which may involve updating names and addresses, or physical or value information about the property, are part of the real estate appraisal complaint process and are not part of the process. may need to be treated as the assessment of tax liability can also be controversial and requires verification to ensure that the appropriate tax rates and tax exemptions/regulations are properly applied to the relevant assets. (World Bank, 2020). A study conducted in Nyaruguru District showed that lack of taxpayer tax integrity could be one of the problems in tax collection (Mpambara, Byiringiro, Mukasharangabo, 2013).

Voluntary compliance may be motivated by improved controls combined with simplified payment procedures and associated incentives, sanctions, and penalties. Regarding the payment method, the payment method, payment place, number of installments, due date, etc. must be clear. Tax jurisdictions may also offer payment incentives such as early payment or full payment rebates. Incentives can also be used to improve tax collector performance (Khan et al. 2016).

Sanctions are generally imposed for violations such as: B. Denial of Building Permits, Right to Transfer Ownership, and/or Inability to Access Other Location-Specific Local Government Services. Additionally, penalties for violations typically include late fees and/or interest on unpaid late fees, confiscation and auction of movable and immovable property (Mihaly & Murray, 2016). Palil, Akir, and Ahmad (2013) summarized the results of Pearson's correlation between tax awareness and tax

compliance. A significant relationship between knowledge and tax compliance ($r=0.291$, $p<0.01$).

A study by Bukomooko (2012) showed a moderately positive correlation between a supportive environment and local income generation. Again, research results showed a weak but positive correlation between developing adequate local access to investment and generating local income.

METHODOLOGY

Description of the area of the study: This research was conducted in Rwanda. Since 2001, Rwanda had implemented a decentralized tax policy. Decentralization tax is a tax imposed by the Rwanda Revenue Authority (RRA) on behalf of a decentralized entity from a group of tenants for the use of a particular space. Rental Income Tax, Business License. A property tax is a tax levied on real estate by a decentralized entity.

Research designs: This research was based on a descriptive design using both quantitative and qualitative approaches.

Study population: The study population was all property taxpayers in Rwanda. They were in all district and provinces. This population was infinite. The study targeted the small and medium tax payers

Sample design: A sample is a portion of the population deliberately selected to examine characteristics of the general population (Sounders, Philip, & Adrian, 2000). In this study, sample size was determined using the formula of Cochran (1963:75).

Data collection: Surveys were used for data collection. Questionnaires are preferred because they are an effective data collection tool that allows respondents to express many opinions on research issues (Cappa, Petrowski & Njelesani, 2015). A self-administered questionnaire was used. The questionnaire contained closed-ended scaled questions to collect data from study participants. The questionnaire contained three sections. A, B, and C. Section A on Respondent Demographics.

Section B on Property Tax Issues. Section C contains questions about tax collection. Measurements are based on a 5-point Likert scale.

Data Analysis: This study used descriptive analysis techniques to analyze the data. This study used SPSS for analysis. Quantitative data were presented using graphs and tables. Frequency, percentage, mean, and standard deviation are calculated to help explain the data. Qualitative information is presented in verbal form. The property tax problem was regressed against tax collection using multiple regression analysis. Multiple regression analysis is used to determine the impact of property tax issues on tax collection. Multiple regression analysis is used because it is a procedure that uses two or more independent variables to predict the dependent variable.

Table 1: Age of the respondents

Age group	Frequency	Percent
18-25	32	8
26-35	56	15
36-45	87	23
46-55	101	26
Over 55	109	28
Total	385	100

Source: Primary data, 2022

Findings about age shows that the big number of respondents are in the age over 55 years 109 (28%) followed by the age between 46-55years containing 101 (26%), followed by those who are in the age between 36-55 years containing 87 (23%), followed by those in the age between 26-35 years who are 56 (15%). A small proportion have between 18-25 years 32 (8%). This information shows that as people

RESULTS AND DISCUSSIONS

This section presented results and discussion from the analysis of data collected from the field. Results talked about characteristics of the respondents, assessment of the challenges on property tax in Rwanda, Assessment of Property tax collection, correlations between challenges of decentralized tax system and property tax collection in Rwanda and regression between challenges of decentralized tax system and tax collection in Rwanda.

Results

Characteristics of the respondents

The characteristic tested in this study are age, gender, marital status, education, position and working experience of the respondents.

Assessment of age of the respondents

In this study the researcher assessed the age of the respondents of local Government Taxpayers.

get older, they get properties for paying property taxes.

Sex of the respondents

Gender has been analysed to assess if gender balance is respected in Findings are found in the table 2.

Table 2: Gender of the respondents

Sex	Frequency	Percent
Male	302	78
Female	73	19
Total	385	100

Source: Primary data, 2022

Findings from table 2 showed that male occupies a big number than female 302 (78%) and 19 (19%) respectively).

Assessment of Marital status of the respondents

Table 3: Marital status of the respondents

Marital status	Frequency	Percent
Single	6	2
Married	379	98
Total	385	100

Source: Primary data, 2022

About marital status, findings showed that a big proportion of the respondents were married with the frequency of 379 (98%) followed by single group with 6(2%).

Assessment of Education level

Education level has been assessed in order to see if the property taxpayers have enough skills for fulfilling their requirements.

Table 4: Education level

Level of education	Frequency	Percent
University	102	26
Secondary level	114	31
Primary Level	161	42
No formal education	8	2
Total	385	100

Source: Primary data, 2022

Findings shows that 161(42%) have a primary education followed 102 (26%) with a university education and 161(31%) with secondary education. Only 8(2%) have no formal education. This implies that all taxpayers can understand the rules and requirement of the property tax.

level of Taxpayers' Education on property tax, the level of Tax Compliance culture among Taxpayers.

Assessment of the challenges on property tax in Rwanda

To assess this variable, we used three sub variables which are the Taxpayer's Perception on property tax,

Assessment of Taxpayer's Perception on property tax

To assess the Level of Taxpayer's Perception on property tax, we used six assertions. The assessment used descriptive statistics such as mean and standard deviations. Findings are summarized in the table 5.

Table 5: Level of Taxpayer's Perception on property tax

Assertions	Mean	SD	Comments
Taxpayers do not understand the relevance of tax payment	4.33	0.68	Very High
It is not easy to access tax collectors' workplaces	4.36	0.66	Very High
Taxpayers feel forced to pay property taxes without understanding the reasons	4.18	0.81	High
Difficulties in declaration delay among taxpayers,	4.65	0.54	Very High
Property tax rate imposed is high	4.41	0.56	Very High
The property tax rates imposed is higher than our capacity to pay	4.33	0.68	Very High
Average	4.38	0.66	Very High

Legend: 1-1.8= very low level; 1.8-2.6= low level; 2.6-3.4= moderate level; 3.4-4.2=high level; 4.2-5 =very high level

Source: Primary data, 2022

Findings showed that Taxpayers have a challenge of understanding the relevance of tax payment at a very high level with the mean of 4.33. The challenges of accessing tax collectors at workplaces was at a very high level with the mean of 4.36. Taxpayers have a challenge of feeling forced to pay property taxes without understanding the reasons at a high level with the mean of 4.18. Difficulties in

declaration delay among taxpayers is at a very high level with the mean of 4.65. Property tax rate imposed is high at a very high level with the men of 4.41. The property tax rates imposed is higher than our capacity to pay at a very high level with the mean of 4.33. In general, the challenge of Taxpayer's Perception on property tax is at a very high level with the mean of 4.38.

Lack of Tax Taxpayers' Education on property tax

Table 6: Level of Taxpayers' Education on property tax

Assertions	Mean	SD	Comments
I did no got training on property tax payment and procedures	4.28	0.715	Very High
I do not know the importance of property tax payment	4.03	0.80	High
Taxpayers do not understand the relevance of property tax payment	4.03	1.23	High
Tax collectors do not have enough skills on property tax	3.10	0.84	Moderate
Average	3.86	0.90	High

Legend: 1-1.8= very low level; 1.8-2.6= low level; 2.6-3.4= moderate level; 3.4-4.2=high level; 4.2-5 =very high level

Source: Primary data, 2022

Findings in table 6 shows that taxpayers lack training on property tax payment and procedures at a very high level with the mean of 4.28. Taxpayers do not know the importance of property tax payment at a high level with the mean of 4.03. Taxpayers do not understand the relevance of property tax payment

at at a high level with the mean of 4.03 and there is a challenge that Tax collectors do not have enough skills on property tax at a moderate level with the mean of 3.10. In General, the Lack of Tax Taxpayers' Education on property tax is at a high level with the mean of 3.86.

Lack of Tax Compliance culture among Taxpayers

Table 7: Level of Tax Compliance culture among Taxpayers

Assertions	Mean	SD	Comments
There is a high level of tax declaration delay among taxpayers	3.51	0.70	High
Taxpayers do not have Tax compliance culture	3.46	0.56	moderate
Taxpayers have culture to evade and avoid taxes	3.96	0.82	High
Tax evasion, Tax avoidance and other ta frauds are not viewed of offences	3.40	0.69	moderate
The morality of taxpayers is low	3.33	0.69	moderate
Average	3.53	0.69	High

Legend: 1-1.8= very low level; 1.8-2.6= low level; 2.6-3.4= moderate level; 3.4-4.2=high level; 4.2-5 =very high level

Source: Primary data, 2022

Findings in table 7 shows that tax declaration delay among taxpayers is at a high level with the mean of 3.51. the lack of Tax compliance culture among

Taxpayers is moderate. The culture to evade and avoid taxes among tax Taxpayers was high with the mean of 3.96. Tax evasion, Tax avoidance and other

ta frauds are not viewed of offences at a moderate level with the mean of 3.40. The morality of taxpayers is at a moderate level with the mean of 3.33. In general, the level of the lack of tax compliance culture among Taxpayers was high with the mean of 3.53.

Increase of revenue mobilization

Table 8: Increase of revenue mobilization

Assertions	Mean	SD	Comments
Tax compliance is improved among property taxpayers	2.63	1.19	Moderate
The cost of tax collection is low among property taxpayers	2.23	0.90	Low
Taxpayers are committed to meeting their tax obligations	3.23	0.94	Moderate
There has increase of voluntary compliance of property tax	2.76	0.87	Moderate
Average	2.71	0.98	Moderate

Legend: 1-1.8= very low level; 1.8-2.6= low level; 2.6-3.4= moderate level; 3.4-4.2=high level; 4.2-5 =very high level

Source: Primary data, 2022

Findings in table 8 shows that Tax compliance is improved among property taxpayers at moderate level with the mean of 2.63. The cost of tax collection among property taxpayers is at low level with the mean of 2.23. Taxpayers are committed to meeting their tax obligations at a moderate level with the

Assessment of Property tax collection

To assess this variable, we used two indicators: the increase of revenue mobilization and Improvement of the fiscal balance.

mean of 3.23. There has been increase of voluntary compliance of property tax at a moderate level with the mean of 2.76. In general, the level of Increase of revenue mobilization was moderate with the mean of 2.71.

Improvement of the fiscal balance

Table 9: Improvement of the fiscal balance

Assertions	Mean	SD	Comments
Tax compliance requirements were costly and time consuming for taxpayers	3.31	1.04	Moderate
Property tax revenue rises	2.85	0.85	Moderate
Taxpayers frequently pay property tax	2.73	0.94	Moderate
The district has been able to increase Property tax revenue	3.3	0.69	Moderate
There are infrastructures done by the district from property tax collection	3.18	0.74	Moderate
Average	3.07	0.98	Moderate

Legend: 1-1.8= very low level; 1.8-2.6= low level; 2.6-3.4= moderate level; 3.4-4.2=high level; 4.2-5 =very high level

Source: Primary data, 2022

Findings in table 9 shows that tax compliance requirements were costly and time consuming for taxpayers at a moderate level with the 3.31. The level of Property tax revenue rises at a moderate

level with the mean of 2.85. Taxpayers pay property tax at a moderate level with the mean of 2.73. The district has been able to increase Property tax revenue at a moderate level with the mean of 3.3.

There are infrastructures done by the district from property tax collection at a moderate level with the mean of 3.18. In general, the level of improvement

of the fiscal balance was moderate with the mean of 3.07.

Relationship between challenges of decentralized tax system and tax collection in Rwanda.

Table 10: Spearman's rho Correlations between challenges of decentralized tax system and property tax collection in Rwanda.

		Property Tax collection	
Spearman's rho	Challenges of decentralized tax system	Correlation Coefficient	-0.634*
		Sig. (2-tailed)	0.000
		N	385

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data, 2022

Findings in table 10 showed that the spearman rho correlation between challenges of decentralized tax system and Property Tax collection was -0.634 and the p-value of 0.00. This implies that there is a significant moderate negative correlation between

challenges of decentralized tax system and Tax collection in Rwanda. The coefficient of determination which is $(\rho)^2$ is $(-0.634)^2$ equals to 0.4019 or 40.19%.

Table 11: Coefficients of regression model between challenges of decentralized tax system and tax collection in Rwanda.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.122	0.889		0.137	0.000
Poor Taxpayer's Perception on property tax	-0.392	0.218	0.262	1.795	0.000
Lack of Taxpayers' Education on property tax	-0.288	0.281	0.190	1.026	0.000
Lack of Tax Compliance culture among Taxpayers	-0.140	0.189	0.118	0.739	0.000

a. Dependent Variable: Property Tax collection

Source: Primary data, 2022.

From the table 11 the researcher found that each coefficient of challenges of decentralized tax system statistically affects the Property Tax collection because P-values of all indicators are less than the 0.05 level of significance. The researcher can conclude that to get influence on Property Tax collection, all indicators of challenges of decentralized tax system should be jointly applied.

From these findings, it is easy to verify the model of linear equation which predicts the causal effect of challenges of decentralized tax system on the Property Tax collection in Rwanda. The regression model used in the study took the form below:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$$

Where:

Y = Property Tax collection

X_1 = Poor Taxpayer's Perception on property tax
 X_2 = Lack of Taxpayers' Education on property tax
 X_3 = Lack of Tax Compliance culture among Taxpayers

β_0 = Constant Term

β_1 , β_2 and β_3 = Are constants regression coefficients representing the condition of the independent variables to the dependent variables (Beta coefficients).

ε = Error term explaining the variability of performance as a result of other factors not accounted for.

$$Y = 0.12 - 0.39X_1 - 0.28X_2 - 0.14X_3$$

The equation showed that measures challenges of decentralized tax system influence negatively the Property Tax collection. It shows that the increase of one unit of Poor Taxpayer's Perception decreases property tax the collection by 0.39, for the increase of one unit of Lack of Taxpayers' Education on property tax causes a decrease of property tax the collection by 0.28 units. For The increase of one unit of Lack of Tax Compliance culture among Taxpayers causes a decrease of Property Tax collection by 0.14 units.

Discussion of the findings

Challenges of Decentralized Tax System

The identified challenges are Poor Taxpayer's Perception on property tax, Lack of Taxpayers' Education on property tax and Lack of Tax Compliance culture among Taxpayers.

Taxpayer's Perception on property tax

Findings showed in general, the challenge about Taxpayer's Perception on property tax is at a very high level with the mean of 4.38 and standard deviation of 0.66. These findings are in line with findings of Mpambara, Byiringiro & Mukasharangabo (2013) in Nyaruguru district where they found that the challenges facing taxpayers' failure to understand the relevance of paying taxes and higher tax rate imposed compared with taxpayer's business capacity. Another study of Granger (2019) showed that Taxpayer perceptions of local taxation can be highly negative due to historic factors, poor communications and an apparent

disconnect between taxes and public service delivery, and/or between property ownership and ability to pay. This implies that the local government should increase effort in changing the system of collecting property tax, reducing the rate, organizing trainings about the importance of property taxes etc. Agreement on minimum and maximum rates may also be necessary to limit tax competition (Norregaard, 2013).

Level of Taxpayers' Education on property tax

In General, the lack of Tax Taxpayers' Education on property tax is at a high level with the mean of 3.86. These findings are in line with findings of Mpambara, Byiringiro & Mukasharangabo (2013) in Nyaruguru district where they found that the challenges facing taxpayers which included lack of taxpayers' education on tax payment and procedures. A lack of taxpayer knowledge is a problem for taxpayers. When taxpayers don't understand the tax system, they are likely to get confused, spend more time figuring out their obligations, and make mistakes that could lead to sanctions. This creates frustration and perceptions of unfairness, which in turn negatively affect compliance (Gituru, 2017). More effort is required in training taxpayers.

Lack of Tax Compliance culture

In general, the level of the lack of tax compliance culture among Taxpayers was high with the mean of 3.53. To improve the tax culture, it is inevitable to create more transparent and accountable public institutions that could be more public oriented. That means the citizens of the country must be informed on how their money are spent and what are they getting for that civil obedience. When they are aware of money trails and the benefits they get, then their approach towards tax administration will change. Many of the countries intend to improve this problem by stating out the penalties in case of noncompliance. But the more modern approach tends to implement tax information's in the educational system from small age, and in that way to create higher awareness between the people of the tax benefits. Also, there are a lot of seminars, publications, public appearances by tax officials, the

use of new technology in collecting taxes, e-tax, mobile tax etc (Gaber & Gruevski, 2018).

Generally, the reform in tax system is required because the main objective of any good quality tax system is to raise revenue to deliver valuable services for citizens, while also providing benefits for state building, wealth distribution and incentives for innovation, investment and trade.

Level of Property tax collection

Increase of revenue mobilization

From the results, Findings showed that in general, the level of Increase of revenue mobilization was moderate with the mean of 2.71. This level is not satisfying. The study showed that as local revenue mobilization increases so does the need for intergovernmental transfers of central revenues (Bahl & Bird, 2008). According to Moldovan (2016), revenue proved to be a path towards the sustainable development of the economy of a nation and that is why it is considered by most nations as an effective approach towards the development and progress of a nation. The government needs to play an active role in ensuring deeper increase of tax mobilization

Improvement of the fiscal balance

Findings shows that in general, the level of improvement of the fiscal balance was moderate with the mean of 3.07. These findings are in line with the study of Scheerens & Ongevalle (2018) showing that Local governments feel pressure to provide more public goods than central governments with limited resources. The major reason why tax revenue is relatively low in developing countries is that tax is evaded and avoided by taxpayers. While outright tax evasion is illegal, tax avoidance and aggressive tax planning is more of a grey area (Mills, 2017). More effort is needed to reduced the tax evasion and hence increase the amount of tax revenue collected.

Relationship between challenges of decentralized tax system and tax collection in Rwanda.

Findings showed that the spearman rho correlation between challenges of decentralized tax system and Property Tax collection was -0.634 and the p-value of 0.00. This implied that there is a significant moderate

negative correlation between challenges of decentralized tax system and Tax collection in Rwanda. The coefficient of determination which is $(\rho)^2$ is $(-0.634)^2$ equals to 0.4019 or 40.19%.

These findings are related to the study of Palil, Akir, and Ahmad (2013) who showed the significant relationship between knowledge and tax compliance ($r=0.291$, $p<0.01$). Bukomooko (2012) showed a moderately positive correlation between a supportive environment and local income generation. There is a need to reduce the challenges in property tax to increase the collection.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study determined the Effect of Challenges of Decentralized Tax System in Rwanda. To conduct this study, the researcher was motivated by low local government (LG) tax collection despite mechanism in place to facilitate the collection. Again, any empirical study has been conducted to identify the problems in the decentralization tax system especially property tax that may be related to the observed low level of local tax collection.

The study analyzed three objectives which are to examining how poor taxpayer's perception affects property tax revenue collection, to examining the effect of Lack of Taxpayers' Education on the property tax revenue collection and to assess how the lack of Compliance tax culture affects property tax revenue collection.

The study revealed a negative moderate correlation between challenges of decentralized tax system and Property Tax collection. The coefficient of determination showed that challenges of decentralized tax system contribute a reduction of 40.19% to property tax collection in Rwanda.

Recommendations

From the findings of the researcher formulated the recommendations to different personalities:

To the Rwanda Revenue Authority (RRA) management

- Training is needed to increase the Taxpayer's Perception on property tax which was found poor at a very high level.
- RRA should organize Education of the community on property tax as finding showed that taxpayers have poor education on property tax at a high level.
- RRA should increase training to tax collectors in order to increase their skills on property tax. This will help them to increase service distribution to taxpayers.
- Local authority should make advocacy to reformulate the rate property tax payment as taxpayers said that the rate is high compared to their payment capacity.
- Local authority should mobilize the taxpayers to pay property tax and explaining the community about the importance of paying property tax.

To taxpayers

- The taxpayers should try to increase their level of tax compliance culture among because findings showed that this level was low. This will help the local government to increase fund for development.

To the Local government authority

- Local authority should increase facilities to help taxpayers to access tax collectors at workplaces because findings showed these challenges at a high level.

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