

# **RATES POLICY**

**1 JULY 2009 – 30 JUNE 2013**



**STEVE TSHWETE**  
**LOCAL MUNICIPALITY**

**MP 313**

## 1. PREAMBLE

- The municipality derives its power to levy rates from Section 229(1) of the Constitution of the Republic of South Africa.
- The obligation on a Council of a municipality to adopt and implement a rates policy on the levying of rates on rateable property is derived from the following legislation:
  - Section 3(1) of the Municipal Property Rates Act, Act 6 of 2004 (MPRA).
  - Section 62(1) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA).

The policy of the Steve Tshwete Local Municipality for levying rates on rateable property is set out in this document. The Council adheres to all requirements of the Municipal Property Rates Act (MPRA) and Municipal Finance Management Act (MFMA) including any regulations promulgated in terms of these Acts.

The Rates Policy only rules the rating of valued property which are valued according to the Municipal Property Rates Act, Act 6 of 2004 and its regulations as published under Government Notice 1856 of 2005 in Government Gazette 28113 dated 13 October 2005 and does not rule or guide the processes of property valuation and approval of the valuation roll.

As part of each annual operating budget the Council is obliged to impose a rate in the rand on the market value of all rateable properties as recorded in the municipality's valuation roll or supplementary valuation roll(s). Rateable property shall include any rights registered against such property, with the exception of a mortgage bond. Generally, all land within the Steve Tshwete Local Municipal area of jurisdiction is rateable unless it is specifically exempted as set out in Section 15 of the MPRA and includes:

- cemeteries
- sport grounds for exercising amateur sport
- properties owned by welfare organisations

The Rates Policy sets out the broad policy framework within which the municipality rates its area as per Section 3 of the MPRA, and gets annually reviewed and, when necessary, amends the municipality's rates of assessment as per Section 5 of the MPRA.

## 2. DEFINITIONS

In this policy, unless the context indicates otherwise, in addition to the definitions contained in both the MPRA and the MFMA, the following meanings are assumed:

*"agricultural purposes"* in relation to the use of a property, excludes the use of a property for the purpose of eco-tourism or for the trading in or hunting of game.

*"business"* means the activity of buying, selling or trade in goods or services and includes any office or other accommodation on the same erf, the use of which is incidental to such business, with the exclusion of mining, agriculture, farming, or inter alia, any other business consisting of cultivation or soil, the gathering in of crops or the rearing of livestock or consisting of the propagation and harvesting of fish or other aquatic organisms.

**"government"** means owned and exclusively used by an organ of the state, excluding non-urban properties used for residential or agricultural purposes or not in use.

**"illegal use"** means any use that is inconsistent with or in contravention of the permitted use of the property.

**"improvement"** means any building or structure on or under a property, including:

- a structure constructed solely for the purpose of rendering the property suitable for the erection of any immovable structure thereon; and
- buildings, structures and equipment or machinery referred to in Section 46(3) of the MPRA.

**"indigent"** means debtors who are poor private residential households as defined by the municipality's policy on Free Basic Services and Indigent Support.

**"industrial"** means branch of trade or manufacturing, production, assembling or processing of finished or partially finished products from raw materials or fabricated parts, on so large scale that capital and labour are significantly involved. This includes factories as defined in the Machinery and Building Work Act, Act 22 of 1941, as amended and includes any office or other accommodation on the same erf, the use of which is incidental to the use of such factory.

**"mining"** means any operation or activity for the purpose of extracting any mineral on, in or under the earth, water or any residue deposit, whether by underground or open working or otherwise and includes any operation or activity incidental thereto.

**"municipal"** means owned and exclusively used by the municipality.

**"multiple use"** means a property that cannot be assigned to a single category due to the different uses of the property.

**"new private infrastructure developments"** means single properties divided (through subdivision or township establishment) into 10 or more full title units and all services, inclusive of water, sewerage, electricity and roads are installed by the developer at his own cost.

**"non-urban land"** means land which is not situated in an approved township and used for residential or agricultural purposes or not in use.

**"public benefits organisation"** means an organisation conducting specified public benefit activities as defined in the Act and registered in terms of the Income Tax Act for tax reductions because of those activities.

**"protected area"** means an area that is or has to be listed in the register referred to in section 10 of the National Environmental Management: Protected Areas Act, 2003.

**"public service infrastructure"** means publicly controlled infrastructure of the following kinds:

- (a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary;

- (b) water or sewer pipes, ducts or other conduits, dams and water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;
- (c) power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;
- (e) railway lines forming part of a national railway system;
- (f) communication towers, masts, exchanges or lines forming part of a communications system serving the public;
- (g) runways or aprons at national or provincial airports;
- (h) any other publicly controlled as may be prescribed; or
- (i) right of way, easements or servitudes in connection with infrastructure mentioned in paragraphs (a) to (h).

*"public worship"* means a property registered in the name of and used primarily as a place of public worship by a religious community, including an official residence registered in the name of that community which is occupied by an office-bearer of that community who officiates at services at that place of worship.

*"residential"* means a suite of rooms which form a living unit that is exclusively used for human habitation purposes, or a multiple number of such units on a property, excluding a hotel, commune, boarding and lodging undertaking, hostel and place of instruction.

*"tax base"* means the values as reflected in the officially approved valuation roll of the municipality.

*"urban land"* means land which is situated within a proclaimed township.

*"vacant land"* means:

- land where no immovable improvements have been erected; or
- the value added by the immovable improvements is less than 10% of the value of the land.
- vacant land is categorised according to the permitted use of the property and is not regarded as a separate category of property.

### 3. STRATEGIC FOCUS

#### 3.1 Policy objectives

- to ensure certainty and clarity as to amounts payable in respect of property rates;

- to ensure the promotion of efficient, economic and effective use of resources;
- to promote development and endeavour to attract investment for job creation;
- to spread the rates burden impartially, fairly, equitably and without bias;
- to create an opportunity for public participation in policy making;
- to contribute towards the accountability of the municipality;
- to contribute towards the transparency of the municipality;
- to contribute towards the financial sustainability of the municipality; and
- to protect citizens against exploitation by the municipality.

### 3.2 Principles of taxation

- an *autonomous tax* – the determination and levying of the tax will be in the discretion of the Council of the municipality;
- a *productive tax* – an appropriate difference between the income and the cost of the tax;
- an as *broad as possible tax base* – the base is the valuation roll, with as little as possible tax avoidance and – evasion;
- a tax, which takes *ability-to-pay and benefits* received into account in ensuring horizontal and vertical fairness;
- a *progressive tax system*, which in relation taxes the rich more than the poor;
- a tax, which *attracts the correct activities* to the municipality, ensuring a caring municipality, and discourages, unwanted activities;
- an *impartial tax* with exemptions, reductions and rebates where appropriate;
- an *easy tax system* that simplifies calculating, enquiries, payments and making arrangements;
- a *simple tax*, which ensure low administration -, compliance – and collection costs;
- *sureness of the tax* and the income from this source;
- a *tax with which* the citizens of the municipality *can identify* and which breeds high tax morality;
- a *tax system* and – policy, which is subject to *community participation and social control*.

### 3.3 Determining the rate on property, exemptions, rebates and reductions

The Council of the municipality has to annually consider:

- the impact of rates on the community;
- the impact of rates on businesses;
- the current economic climate;
- the integrated development plan (IDP) of the municipality;
- the town development strategy and financial plan of the municipality;
- mitigating major shocks to ratepayers when moving from a site rating on the total market value (land and buildings) of a property.

## 4. ANNUAL ADOPTION OF THE POLICY

The Rates Policy will be reviewed annually in compliance with Section 5(1) of the MPRA and according to the budget timetable tabled by the executive mayor in accordance with Section 21(1)(b)(ii)(bb) of the MFMA with the tabling of the annual budget as per Section 16(2) of the MFMA. Community participation will take place in accordance with Chapter 4 of the Local Government : Municipal Systems Act, Act 32 of 2000 and by following the processes as per Sections 21A and 21B of the Municipal Systems Act, Act 32 of 2000 (as contained under Section 5 of the Municipal Systems Act Amendment Act, Act 44 of 2003) as follows:

- as a document made public (Section 21A):
  - displayed at the head and satellite offices and libraries of the municipality.
  - displayed on the municipality's official website (as per prescriptions contained under Section 21B).
  - notified to the local community of the place, including website address, where detailed particulars can be obtained.
  - inviting the local community to submit written comments or representations to the municipality in respect of the published document.

## 5. KEY PRINCIPLES

### 5.1 Equity

The fundamental principle is that taxpayers in similar circumstances will pay similar levels of tax and taxpayers with greater ability to pay larger amounts of tax, however, in local government the value of a ratepayer's property is the proxy or surrogate for the ability to pay. The circumstances for an individual ratepayer are only taken into account in respect to any exemptions, rebates or reduction that may be granted. Rates are *levied on an ad valorem* (by value) basis that is pro-rata to the value of the property.

In the local government context the application of the *equity* principle would suggest that the tax (the rate in the rand) would be the same for all ratepayers in a municipal area, unless some compelling application of other taxation principles changes in the incidence of the tax. The main reasons why one ratepayer may pay a different rate than another ratepayer are:

- different rates levied on different categories;
- exemptions;
- rebates; and
- reductions.

Although these mechanisms were created by the MPRA, the application thereof should be justified. The main reason is to retain the historical level of contribution of the various categories of properties to the income from assessment rates and thereof minimize the impact on ratepayers.

## 5.2 **Affordability**

In considering affordability, the total municipal account, and not only the rates account will be considered. The Council of the municipality will endeavour to limit the annual increase in the revenue from property rates to a threshold linked to the consumer price index on a year to year basis at the time of tabling the annual operating budget, except when the approved integrated development plan of the municipality demand for a greater increase.

## 5.3 **Poverty alleviation**

The effect of rates on the poor has been taken into account in terms of the municipality's Free Basic Services and Indigent Support Policy. The *first R15 000,00* of the value of all residential property according to the approval of valuation roll will be exempted from the payment of assessment rates.

## 5.4 **Limitation of rates increases**

There would be no phasing in of rates based on the new valuation roll, except as prescribed by legislation and in accordance with clause 10 of this policy.

## 6. **AMOUNT DUE FOR RATES**

The Council of the municipality shall as part of each annual operating budget determine a rate in the rand for every category of ratepayer.

The determination of such rate shall concur with the limits as per Section 16(1) of the MPRA on property that would materially and unreasonably prejudice:

- national economic policies;
- economic activities across the municipal boundaries;
- the national mobility of goods, services, capital and labour.

and therefore, in terms of Section 17(1) of the MPRA specified impermissible rates are excluded from the rating structure and are reflected as exemptions under paragraph 10.2 of the Policy.

## **7. LIABILITY FOR RATES**

- 7.1 A rate levied by the municipality on a property must be paid by the owner of the property as regulated by Section 24 of the MPRA.
- 7.2 When transfer of property takes place, the incidence of property rates falls as a charge on the new owner from date of registration by the Registrar of Deeds.
- 7.3 Rates are levied on an annual basis at the start of the financial year as per Section 12(1) of the MPRA, but for the convenience for ratepayers raised monthly on combined consumer accounts and payable within seven (7) working days of the following month according to the payment cut-off date stipulated on the specific monthly account.
- 7.4 Annually levied property tax and tariffs may not be changed during a financial year except for the purpose of a financial recovery plan as per Section 28(6) of the MFMA.
- 7.5 Arrear payment on property rates at the monthly or annually due dates, are subject to interest as stipulated by Section 97(1)(e) of the Municipal Systems Act at a rate equal to the prime overdraft rate as from time to time determined by the banker keeping the municipality's primary bank account.
- 7.6 When rates are levied in respect of a full financial year, the responsibility vests on the first day of that financial year.
- 7.7 When rates are levied in respect of a valuation in a supplementary valuation roll, and the rates on that valuation are levied for the first time, the liability to pay the rates vests on the first day of the month following the completion of the public inspection period required by Section 50 of the MPRA.
- 7.8 The final day for payment of annually levied and payable rates is 30 September of the specific financial year.
- 7.9 Any decision on the determent of payment of a rate is subject to the stipulations of the municipality's Credit Control and Debt Collection Policy.
- 7.10 The municipality may recover arrear rates from tenants or occupiers of rated property, or from agents of the owner of such property equal to the value of unpaid rental in terms of Section 28 and 29 of the MPRA.
- 7.11 The purchaser of property from the municipality becomes liable for property rates as from the date of signing of the deed of sale irrespective of the date of registration of transfer of ownership.

## **8. VALUATION OF RATEABLE PROPERTIES**

- A general valuation of all rateable properties will be undertaken and a valuation roll compiled every four (4) years. The period for which the valuation roll remains valid may be extended to five (5) years, by the MEC.

- Supplementary valuations will be undertaken on an ongoing basis.
- Supplementary valuation rolls will be compiled once a year.
- Amendments to the valuation roll to reflect changes to the owner, address, category, extent, description or other prescribed particulars as contemplated by Section 79 of the MPRA will be done annually and only the electronic copy of the valuation roll will be updated.

9. **LEVYING OF RATES**

9.1 **Property not subject to rates**

Rates will not be levied on the transportation corridors of public service infrastructure owned by the municipality, such as:

- roads and streets
- railway lines
- pipelines
- cabling or overhead conductor

9.2 **Categories for rating purposes**

In relation to property a category relates to properties determined in terms of Section 8 of the MPRA and in relation to owners of properties it means category of owners as determined in terms of Section 15(2) of the MPRA.

The category will be determined by the actual use of the property and if the property is not in use, the zoning and/or permitted use will determine same. The municipal valuer will be responsible for the categorising of properties and the maintenance thereof as any change in use of a property may result in a change to the category.

The categories that are determined in line with Section 8(1) of the MPRA, are:

<b>CATEGORY</b>	<b>ABBREVIATION</b>
• Residential	RES
• Accommodation establishment	ACC
• Business and Commercial	BUS
• Industrial	IND
• Municipal	MUN
• Public service infrastructure	PSI
• Farm used for agricultural/residential purposes	AGR
• Farm used for eco-tourism/trading in or hunting of game	AGE
• Farm used for other business/commercial/industrial purposes	AGB
• Farm used for other purposes than those specified	AGO
• Small holding used for agricultural/residential purposes	SHR

• Small holding used for eco-tourism/trading in or hunting of game or hunting of game	SHE
• Small holding used for other business/commercial/industrial purposes	SHB
• Small holding used for other purposes than those specified	SHO
• Mining	MIN
• Public benefits organisation	PUB
• Public worship	WOR
• Commercial land	COM
• Government: business and other	GOB
• Government: residential	GOR
• Government: schools	GOS
• Schools owned by private persons/institutions	SCP
• Multiple use	MUN
• Protected area	PRO
• Privately owned roads/parks	PRP
• Formal and Informal settlements	FOR
• Privately owned towns serviced by owner	POT
• Museum	MUS
• National monuments	MON

Units under sectional title will separately be assessed.

### 9.3 Rates for business from residential dwellings

The tariff for "*home business*", as defined in Council's policy on businesses conducted from residential premises shall be determined by means of a 1: 1,15 ratio in relation to residential property (the first number in the ratio represents residential property). This will include residential properties with second dwellings and duets not subject to a sectional title scheme. The normal residential tariff applies where parents or children occupy these units in terms of Council policy or where the units are not let.

#### Rates for accommodation establishments

The tariff for "accommodation establishments", which includes lodges, guest houses, bed and breakfast establishments, communes and other boarding and lodging establishments, shall be determined by means of a 1:1,15 ratio in relation to residential property (the first number in the ratio represents residential property). This will exclude Hotels which will be rated as business.

### 9.4 Rates for mining activities

"Based on the level of services (roads, sewerage, electricity, water, refuse removal) provided by the municipality a tariff equal to 60% of the business tariff shall be applicable for the category "*mining*"."

### 9.5 Municipal

Properties in the "*municipal*" category are exempted unless a lease or sale agreement for such a property (or part thereof) exists.

## 9.6 Public service infrastructure

Public services infrastructure as per definition, relate to essential services and shall therefore be exempted from property rates.

## 9.7 Agricultural farms

Based on the general:

- extent of municipal services provided (roads, sewerage, electricity, water, refuse removal).
- contribution of agriculture to the local economy.
- extent to which agriculture assists in meeting service delivery and development obligations of the municipality and contribution to the social and economic welfare of farm workers.

The tariff for the categories "*farm used for agricultural purposes*" and "*farm used for residential purposes*" shall be determined by means of a 1:0,25 ratio in relation to residential property (the first number in the ratio represents residential property).

## 9.8 Eco-tourism and game farms

Based on the level of services (roads, sewerage, electricity, water, refuse removal) provided by the municipality a tariff equal to 60% of the tariff for the business category shall apply for farms used for eco-tourism and the trading in and hunting of game.

## 9.9 Residential or agriculture small holdings

Based on the level of services provided by the municipality and its non-urban location, the tariff for residential or agricultural small holdings shall be determined by means of a 1:0,25 ratio in relation to residential property (the first number in the ratio represents residential property). Within the urban area such small holdings will be rated as "*residential*" properties.

## 10. RELIEF MECHANISMS

The Council of the municipality may grant exemptions, rebates and reductions in recognition of Section 15(2) of the MPRA:

### 10.1 Rebates

When a specific category of owners of properties or the owners of a specific category of properties qualify for more than one rebate at a given time, each rebate will be calculated on the total levy amount.

#### 10.1.1 Indigent rebate

As determined by the municipality's Free Basic Services and Indigent Support Policy.

### 10.1.2 **Rebate to limit the increase of rates**

A general valuation of all rateable properties will be undertaken and a valuation roll compiled every four (4) years. The period for which the valuation roll remains valid may be extended to five (5) years by the MEC.

### 10.1.3 **Rebates on newly rateable property**

Newly rateable property will be phased in as follows:

- In the 2009/2010 financial year a rebate of 100%;
- In the 2010/2011 financial year a rebate of 75% of the rate;
- In the 2011/2012 financial year a rebate of 50% of the rate;
- In the 2012/2013 financial year a rebate of 25% of the rate and
- In the 2013/2014 financial year the rate will be payable without any rebate

## 10.2 **Exemptions**

10.2.1 rateable property registered in the name of a welfare organisation registered in terms of the National Welfare Act, 1978 (Act 100 of 1978).

10.2.2 rateable property registered in the name of an institution or organisation which, in the opinion of the Council of the municipality performs charitable work.

10.2.3 hospitals, clinics and institutions for mentally ill persons which are not operated with the intention to make profit;

10.2.4 rateable property registered in the name of a public benefit organisation performing specified public benefit activities;

10.2.5 museums, art galleries, libraries and botanical gardens which are registered in the names of private persons and which are open to public, whether admission is charged or not;

10.2.6 national monuments including ancillary business activities at national monuments;

10.2.7 rateable property registered in the name of a trustee or trustees or any organisation which is being maintained for the welfare of war veterans as defined in Section 1 of the Social Aid Act (House of Assembly), 1989, Act 37 of 1989, and their families;

10.2.8 sport grounds used for the purposes of amateur sport and any social activities which are connected with such sport;

10. 2.9 rateable property registered in the name of the Boy Scouts, Girl Guides, Sea Scouts, Voortrekkers or any organisation which is in the opinion of the municipality similar or any rateable property let by the municipality to any such organisation;
10. 23.10 rateable property registered in the name of a declared institution as defined in Section 1 of the Cultural Institutions Act, 1969, Act 29 of 1969, or the Cultural Institutions Act (House of Assembly), 1989, Act 66 of 1989.
10. 2.11 In addition to the first R15 000,00 of exemption as per paragraph 5.3 of the policy a further minimum of 20% of the remaining value for old age or disabled pensioners solely dependant from their pension, subjected to the following conditions:
- (a) the property is occupied by the owner.
10. 2.12 All properties as specified by Section 17(1) of the MPRA as follows:
- on the first 30% of the market value of public service infrastructure, except for power stations;
  - on those parts of a special nature reserve, national park or nature reserve within the meaning of the Protected Areas Act, or of a national botanical garden within the meaning of the National Environmental Management Biodiversity Act, 2004, which are not developed or used for commercial business, or residential agricultural purposes;
  - on mineral rights within the meaning of paragraph (b) of the definition of "*property*" in Section 1 of the MPRA;
  - on a property belonging to a land reform beneficiary or his or her heirs, provided that this exclusion lapses ten years from the date on which such beneficiary's title was registered in the office of the Registrar of Deeds;
  - on the first R15 000,00 of the market value of the property assigned in the valuation roll of a municipality to a category determined by the municipality-
    - (i) for residential purposes;
    - (ii) for properties used for multiple purposes, provided one or more components of the property and which forms the major part of the property, are used for residential purposes; or
  - on a property registered in the name of and used primarily as a place of public worship by a religious community, including an official residence registered in the name of that community which is occupied by an office-bearer of that community who officiates at services at that place of worship.

The exemptions as contained under sub-paragraphs 10.3.1 to 10.3.13 above may only be granted upon formal written applications submitted by the owners for consideration in terms of Section 15(2) of the MPRA.

#### 10.4 Reporting of all exemptions, rebates and reductions

10.4.1 The municipal manager must annually within two months from the end of a financial year table in Council according to Section 15(3) and (4) of the MPRA with relation to that financial year the following:

- (i) such exemptions, rebates and reductions;
- (ii) exclusions referred to in Section 17(1)(a), (e), (g), (h) and (i) of the MPRA; and
- (iii) the phasing-in discount granted in terms of Section 21 of the MPRA.

10.4.2 All exemptions, rebates and reductions projected for a financial year must be reflected in the municipality's annual budget for that year as:

- (a) income on the revenue side; and
- (b) expenditure on the expenditure side.

#### 11. DISCLAIMER

- Any rate to be levied on rateable property in terms of this policy or any section of applicable legislation and by way of oversight or any other error not levied, cannot be challenged on the basis of non-compliance with this policy, and must be paid in accordance with the required payment provision.
- Where a ratepayer believes that the Council has failed to properly apply this policy he/she should raise the matter with the municipal manager.