

‘Roof and Wall’ Tax Rate Reform in Addis Ababa: The Legal Conundrum and Socio-economic Pitfalls

Zelalem Teferra *

Abstract

The recent “roof and wall tax” reform in Addis Ababa was mainly prompted by economic imperatives to generate adequate and stable fiscal revenue for the City Government. The effort, however, is not supported by in-depth and detailed assessment of the socio-economic conditions and the paying capacity of different segments of the society. The new tax increase was not guided by up-to-date and comprehensive legal framework grounded in public consultation and parliamentary debate. Instead, it has relied on outdated Derg period legislation – Proclamation No. 80/1976. Qualitative research approach was used to generate the necessary data. Besides review of relevant legal instruments, in-depth and key informant interviews were employed. Despite generating robust revenue for the City Government and unlocking its capacity to plan and execute development projects, the study result has shown that the abrupt tax hike has negatively impacted the well-being of the low-income segment of the society, particularly the house owner-occupants, people with fixed income and female-headed households, all of whom have borne the burden and brunt of soaring cost of living induced thereof. It has also implied potential negative impact on the construction of affordable houses by the low and middle income groups; and this indicates the need for targeted interventions including initiating tax relief programs, low interest rate loan services, and exemptions to minimize the burden. Drawing on the pitfalls of the high ‘Roof and Wall’ tax hike, this article shows the need to take into account the potential cost of imposing high property tax while adopting and implementing the upcoming Federal Property Tax Law.

Keywords:

Property tax, roof & wall tax, legal conundrum, socio-economic pitfalls

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Contents

Abstract

1. Introduction
 2. Methods and approaches of the study
 3. Conceptual framework on the features, benefits and challenges of property taxation
 4. Theoretical framework of the study
 5. Overview of legal instruments governing property tax in Ethiopia
 6. The origin of “Roof and Wall Tax,” and the legal controversy
 7. Data presentation
 8. Discussion
 9. Concluding remarks
-

1. Introduction

After 47 years of near obscurity, the “Roof and Wall Tax” in urban Ethiopia was rekindled in 2023 by Addis Ababa City Government, this time around, with full biting force and severe implications for the urban poor. This article examines the legal foundations on which the municipal authority’s new tax reform was anchored, and reflects on the socio-economic challenges faced by the low-income segment of the society as a result of the abrupt tax rate hike. Save the shortfalls (due to its role as a near substitute for property tax in urban Ethiopia for the past five decades) ‘Roof & Wall Tax’ is treated (herein) as a form of property taxation, yet with peculiar characteristics attributable to Ethiopia’s Derg period socialist oriented economy. Even though the tax reform claims to be based on Proclamation No. 80/1976, this article uses the words tax hike, tax rate increase, etc. because (i) the rate has (in reality) been changed due to the drastic change in the tax base, and (ii) the new tax is many-fold higher than the nominal land use fee and housing tax under Article 6(2) of Proclamation No. 80/1976.

Property tax¹ is financial backbone of governments and important tool for regulating the real estate market and income redistribution.² Virtually in all countries, property tax has become an important source of local fiscal revenue and plays a pivotal role in local development. It is particularly important for urban governments that are in dire need of adequate, stable and reliable fiscal

¹ See Section 3.1 for a brief discussion on property tax.

² Junming Gu (2023). Research on the Influence of Property Tax Policy on Residents’ Consumption Based on Difference-in-Differences Model, School of Economics and Management, Xinjiang University Dongyang, Zhejiang Province, China
https://doi.org/10.2991/978-94-6463-042-8_77

revenue to meet the ever growing demand for both social services and infrastructure development.³

As cities grow, the wealth they create becomes capitalized in the rising land value and properties attached to it in the form residential houses and real estates. Taxing land and properties, therefore, allows city authorities to capture the enormous wealth generated by urbanization, and use it for the public good.⁴ More specifically, it is used to provide social services including education, health care, local security such as police force and fire departments, parks, and infrastructure development. Property taxes also shape local housing markets by influencing the costs of buying, renting, or investing in homes and apartment buildings.

There are two ways in which a city can capture rising land values: owning land or taxing it. In countries where the government does not own much land, large-scale acquisition is a political impossibility. Taxing land and the properties built on it is, therefore, an attractive alternative -and typically represents the largest source of untapped municipal revenue for city authorities.⁵

In contrast, in countries where land is deemed the property of the government or public property instead of individual citizens, various modalities including land lease, land use fee, and tax on structures built on the land are used as a means to generate revenue. For example, in China, where land is under public ownership, localities almost never tax homeowners to support public services like schools. Cities rely instead on selling long-term leases to real estate developers. Revenue from these land sales constitutes the basis of urban financing. Central government bailouts are a possibility to rescue cities whenever deep budget problems arise.⁶

Historically, diverse and complex forms of land ownership system thrived in Ethiopia. Despite the dearth of detailed scholarly inquiry into the land tenure system operating in each region of the country before its centralization

³ It is often assumed that property taxes provide a stable fiscal revenue, which once introduced can be collected on regular basis as it is virtually difficult to conceal, hide or evade in comparison to other forms of taxation.

⁴ P Collier *et al* (2018). *Land and property taxes for municipal Finance: Cities that Work*. International Growth Center.

⁵ Ibid.

⁶ See The New York Times May 10, 2023 on why China Doesn't Have a Property Tax. Moreover, see Yuzhe Wu, Hinqiong Zhu and Sheng Zeheng (2022), "The Local Land Finance Transformation with the Synergy of Increment and Inventor: A Case Study in China", *Land*, 11(9), 1529.

Available at <https://doi.org/10.3390/land109152>. Accessed 29/06/2024.

under the imperial rule by Emperor Menelik II, existing works allude to the presence of diversified landholding system based on livelihood strategies of each community. *Rist* and *Gult* holding systems⁷ predominated in the northern highland Kingdom while communal holding system prevailed among the pastoralist societies in the peripheries.⁸ Tenancy became the defining feature of the incorporated lands in the south, southwest and southeastern parts of the country after the institution of the imperial rule therein.

With regard to urban landholding, as aptly noted by Ronald Horvath (1970),⁹ pre-twentieth century Ethiopia represented a land of large homesteads than a nucleated urban polity. Its roaming medieval capitals seem to have lacked a distinct form of landholding that sharply departs from what has been practiced in their surrounding rural vicinities. This means that before the rise of Addis Ababa as a large metropolis, Ethiopia lacked a discretely discernable urban landholding and clear normative act governing its allocation and administration.

A normative framework governing urban landholding was introduced for the first time by Emperor Menelik in 1907. The promulgation of the 1907 decree as noted by Pankhurst (1966)¹⁰ and Brightman Gebremichael (2017)¹¹ was of paramount significance. The decree had duly recognized private ownership of land that allowed wider right in the use, inheritance, and sale of urban land. Despite its novelty and significant departure from longstanding tradition, this decree was not accompanied by a well-crafted system of taxation and enhanced property valuation. Thus, the class of land owning urban aristocracy who controlled the large chunk of urban land and collected charges on its holdings was reluctant to pay taxes to the central government.

⁷ '*Rist*' land holding was a peculiar lineage (descent) based tenure barely amenable to commercial transaction. It was predominantly practiced in northern Ethiopia until the fall of the imperial regime in 1974. .

⁸ Since the historical assessment of land tenure in Ethiopia goes beyond the scope of this article, for a detailed understanding of the issue, please refer the works of Richard Pankhurst, "Tribute, Taxation and Government Revenues in Nineteenth and early Twentieth Century Ethiopia, Part I (1967)," *Journal of Ethiopian Studies*, Vol. 5, No. 2, pp. 37-87.

⁹ Ronald Horvath (1970). "The Process of Urban Agglomeration in Ethiopia," *Journal of Ethiopia Studies*, Vol. 8, No. 2, pp. 81-88, Addis Ababa University Press.

¹⁰ Richard Pankhurst (1966). *State and land in Ethiopian history*. Addis Ababa: Oxford University Press.

¹¹ Brightman Gebremichael (2017). "Heartrending or Uplifting: The Ethiopian Urban Land Tenure System Reform and Its Reflection on Tenure Security of Permit Holders" Faculty of Law, University of Pretoria, South Africa, unpublished manuscript.

This state of affairs diminished the revenue accruing to the central treasury,¹² which in its turn had a detrimental effect on the capacity of municipal administrations to foster development in urban centers, including Addis Ababa.

It was only in the post-Italian invasion period (1935-1941),¹³ presumably in view of generating commensurate revenue in a more systematized way that the imperial government introduced a system of property taxation (albeit rudimentary).¹⁴ The 1940s were, therefore, considered as the foundational years for modern property tax laws in Ethiopia.¹⁵ As will be discussed in the next sections, it was during this period that the imperial government took a vital step toward systematic levy, collection and administration of property tax ushering a new era of enhanced revenue generation and law based taxation.

With the advent of the tumultuous period of the Derg rule that followed the deposition of the imperial government in 1974, the country entered into a period of legal quagmire the predicament of which creates puzzle to date in terms of law-based governance of property taxation. The Provisional Military Council called the ‘Derg’ that took the helm of power following the 1974 Revolution also took all legal matters into its own hands and issued two *fait accompli* Proclamations: Proclamation No. 31/1975 that brought all rural lands under public ownership and Proclamation No. 47/1975 that nationalized urban land and extra houses without compensation.¹⁶ Claiming to have been guided by a socialist ideology¹⁷ and revolutionary zeal instead of legal

¹² See Andargachew Tiruneh (1990). *The Ethiopian Revolution 1974-1984*, PhD dissertation, London School of Economics.

¹³ After liberation from the five year Italian occupation (1935-1941).

¹⁴ See Tadesse Lencho (2012). “Towards Legislative History of Modern Taxes in Ethiopia (1941-2008),” *Journal of Ethiopian Law*, Vol. 25, No.2, pp. 104-158. See also Eshetu Chole, “Towards a History of the Fiscal Policy of the Pre-Revolutionary Ethiopian State: 1941-1974”, in Eshetu Chole (2004), *Underdevelopment in Ethiopia*. Organization for Social Science Research in Eastern and Southern Africa.

¹⁵ Even though the sweeping codification of laws in Ethiopia has only emerged in the 1960s, the separate laws enacted and proclaimed in the 1940s were indeed foundational. They ushered in a new era of rule based taxation that significantly departed from earlier traditions of arbitrary exactions.

¹⁶ See JM Cohen & PH Koehn (1977). “Rural and Urban Land Reform in Ethiopia” *African Law Studies*, No. 14. Land Tenure Center, University of Wisconsin-Madison, Reprinted by permission from African Law Studies, No. 14/1977.

¹⁷ The concept ‘socialist ideology’ is used here to indicate the ideological leaning underpinning the development pathway pursued by the Provisional Military Government (the Derg) following its ascendancy to the helm of power, while the phrase

reasoning, the military government abolished private property rights on land and designated nominal property taxation instruments. Subsequently, Proclamation No. 80/1976 that repealed all imperial time property laws and introduced a nominal system of taxation called ‘*roof tax*’ “*ye taria gibir*” in Amharic was enacted. This Proclamation has become the legal foundation on which the current “*Roof and Wall tax rate reform*” is built.

This article examines the legal conundrum and the socio-economic pitfalls of an abrupt roof and wall tax rate hike introduced based on outdated proclamation. Constitutional and statutory provisions underpinning the City Government’s decision to make a sharp tax rate increase based on half a century old proclamation along with its socio-economic ramifications have been examined. Emphasis was made on the impacts of the tax hike on the lives and livelihoods of the low-income segment of the society: the condition of the house owner-occupiers, people with fixed income; senior citizens at the pension age and female headed households. The historical juncture at which the tax rate hike took place was also assessed taking into account the current grave economic woes facing the country at large.

2. Methods and Approaches of the Study

In an overly legal and financial matter, which property taxation constitutes, this article uses a sociological approach wherein analysis of legal instruments is corroborated by in-depth and key informant interviews. Both structured and semi-structured interview questions were used to canvas the necessary information from Key informants, i.e., people with special knowledge about taxation as academic professionals or practitioners working in the sub-cities as tax administrators, and in-depth interview informants, particularly taxpayers who were willing to share their opinion with the researcher.

Overall, 27 individuals were interviewed in the course of this study. Among them, five were tax experts at sub-city level; two of the respondents were academic professionals specializing in tax law. The rest, twenty respondents were taxpayers from different sub-cities contacted using snowball sampling method, which is a non-probability method of data collection based on referral by a knowledgeable person. The respondents were asked to provide their opinion on how the new *roof and wall* tax rate was

“instead of legal reasoning’ is used to emphasize the spontaneous nature of the 1975 Land Proclamation, which was hastily adopted without undergoing the necessary legislative drafting process of initiation by a competent authority (elected government in this sense), public hearing and enactment by the Parliament.

introduced, level of public consultation, its legal foundation and socio-economic impacts, both positive and negative.

Primary data was supplemented by review of primary legal research sources (constitutional provisions, laws embodied in various proclamations, etc), and other sources such as written policy documents, tax appeals, and research outputs including books, journal articles, theses and dissertations. Library search and desk review has been made to generate adequate information that was used for interpretation. As the study is qualitative, data generated from primary and secondary sources are organized thematically and analyzed critically. Transcription of verbal data and translation into English language has been carried out with utmost care to enhance clarity and avoid misinterpretation.

3. Conceptual Framework on the features, Objectives and Challenges of Property Taxation

3.1 Conceptualizing property taxation

Property tax (also known as “real estate tax”, ‘real property tax’, “land and building tax”, and ad-valorem tax” for its assessment based on a property’s value), is a tax imposed on a property (real or personal; immovable or movable; corporeal or incorporeal) owned by individual or entity.¹⁸ In its narrow sense, it is a levy that is imposed primarily upon land and buildings or a tax levied on the owner of the property [especially real property] usually based on the property’s value.¹⁹ As Joan M. Youngman states, property tax in its broader sense covers a range of levies and related policies. As such, it is defined as “a tax on ownership and other legal interests in land and buildings to achieve important fiscal, political and legal objectives.”²⁰

The scope of property tax varies greatly between nations because of varying legal regimes, administrative realities, tradition, availability of other sources of revenue, the organization of government (especially at the level of local government, where the income from this levy may be of key significance), and the public services provided. In the United States for

¹⁸ Tilahun Dires and Misganaw Gashaw (2022). “Issues of Design in Ethiopia’s Property Tax Reform: Lessons from Previous Legislative Regimes and Other Jurisdictions” *Bahir Dar University Journal of Law* Vol.13, No.1, pp. 163-202.

¹⁹ See ‘Property Tax,’ *Encyclopedia Britannica*, updated July 22, 2024; Bryan A. Garner, *Black’s Law Dictionary*, Seventh Edition, West Publishing Co., St. Paul Minn., United States of America, 1999, p.1526.

²⁰ Joan M. Youngman (1996). “Tax on Land and Buildings, in Victor Thuronyi (eds), *Tax Law Design and Drafting*, IMF, p. 9.

example, apart from land and buildings, property tax is also imposed on business and farm equipment and inventories. Sometimes the tax extends to automobiles, jewelry, and furniture and even to such intangibles as bonds, mortgages, and shares of stock that represent claims on, or ownership of, tangible wealth. This might not be the case for other countries. In a technical sense, property tax is not imposed on the physical land and buildings but rather on intangible rights to them.²¹

Property tax can be recurrent or non-recurrent depending on the nature of the property, its form and frequency of exaction. Recurrent property taxes are taxes collected on continuous and annual basis, a very good example being land tax or building tax. In contrast, non-recurrent property taxes are taxes that are collected as a single time levy including taxes on the transfer (acquisition, alienation, or both) of property such as stamp duties, real estate transfer taxes, capital gains taxes, gift taxes, and death and inheritance taxes. However, these are transaction taxes and such definitions are used mainly for purposes of national statistics.²²

At present, property taxation is practiced in almost all countries despite varying modalities and rates imposed on tax payers.²³ Particularly, since the collapse of the centralized and command economies in Eastern Europe following the decline of communism, property taxation is vigorously pursued in transitional economies and developing countries as a form of fiscal decentralization that enables regional governments and municipal authorities raise meaningful revenue and ensure local autonomy.²⁴

Despite the above stated trend and the generally accepted argument that the property tax is local, sub-national governments in developing and transitional economies make relatively little use of it. On average, the property tax revenues they raise are equivalent to only about 0.6 percent of GDP. This is far below the level of revenue generated by developed countries which

²¹ *Id.*, p. 267.

²² See Misganaw Gashaw, Zerihun Asegid, Mulugeta Akalu and Aschalew Ashagrie, (2022). *Ethiopian Tax law, A Text Book*, Addis Ababa, Ethiopia, p. 385.

²³ Despite emerging interest, countries like China have not yet adopted property tax law. Instead of land tax, land lease policy is serving as a strong foundation for land allocation and real estate development. For more information on this see Yuzhe Wu, Hinqiong Zhu and Sheng Zheng (2022), *supra* note 6.

²⁴ Roy Bahl & Jorge Martinez-Vazquez (2008), “The Property Tax in Developing Countries: Current Practice and Prospects” in *Toward a Vision of Land in 2015: International Perspectives*, pp. 23-46. Lincoln Institute of Land Policy.

stands at 2.12 percent of GDP in the OECD countries, while reaching between 3 and 4 percent of GDP in Canada and USA respectively.²⁵

3.2 Advantages and disadvantages of property taxation

Property taxation is endowed with multiple virtues and is fraught with myriad of pitfalls. Despite the assertion that it is a tax that everyone loves to hate,²⁶ existing literature and practical experience show that property tax has the following advantages: it is often regarded as the main source of local government discretionary revenue, and thus an essential component of fiscal decentralization that supports local autonomy and complements intergovernmental fiscal transfers. Revenue generated from property tax is reliable, predictable and buoyant; thus, it helps make tailor-made investments in essential services such as schools, roads, public safety and meet specific community needs. It is very difficult to avoid or evade property tax, hence, collection success rate is very high; it is a form of progressive tax whereby high-valued property owners pay more taxes and create favorable condition for fair distribution of tax burden based on ability to pay.

These advantages notwithstanding, property tax is fraught with several disadvantages. One significant disadvantage of property tax is that it puts heavy strain or huge burden on fixed-income homeowners. It can exert heavy pressure on people with fixed incomes, such as retirees and homeowners. As their property value increases, and so does the tax, but their income does not increase. This can lead to significant financial strain or might even force these homeowners to sell their homes. This can create severe difficulties in their livelihoods, especially for those who have heavy reliance in such houses during their later lives.

The other disadvantage is its regressive nature, which adversely impacts the poor as compared to the rich property owners. Even though it is meant to be progressive, property taxes often end up becoming regressive. Homeowners with lower incomes might see their property taxes as too high relative to their earnings, particularly in places where property prices have made substantial increase while incomes have not kept pace. This imbalance can deepen financial inequality and put enormous pressure on less wealthy homeowners, threatening their ability to keep their homes.

²⁵ Ibid.

²⁶ See Jay K. Rosengard (2012). *The Tax Everyone Loves to Hate: Principles of Property Tax Reform*. M-RCBG Faculty Working Paper Series, Harvard Kennedy School. See also, Roy Bahl & Jorge Martinez-Vazquez, *supra* note 24, p.25.

Property tax is not investor-friendly. Particularly high property taxes pose heavy burden on real estate developers. They can make real estate a highly unattractive investment, and this extra cost may make real estate investments less preferable to other alternative investment options. This, in turn may slow economic growth while at the same time yielding fewer employments with decreased property development activities, all of which may negatively impact individual and community wellbeing.

The complexity of property valuation for taxation purpose is another difficulty related to property tax. Property valuation for tax purposes is a complicated affair, and thus, many disputes and acts of unfairness happen. If properties are wrongly valued, it exposes some homeowners to unjust tax demands (paying too much) while some may pay too little. This complexity erodes public trust in the system, and results in expensive and long litigation.

Another disadvantage of property tax is that it can lower or decrease property values. In some areas, for example, where property taxes are very high, that reflects negatively on the resale value. Sometimes, high continued costs put off the possible buyers and this leads to declining demand and lower property prices. This can trap the homeowner in a situation of no recovery of investment, which could shake the financial security and long-term planning.

The downsides related to property taxation should thus be taken into consideration while planning for it or in the course of implementation. As noted by Bahl & Martinez-Vazquez,²⁷ taxpayer attitudes shaped by the above pitfalls make property tax terribly unpopular with voters, and as a result, politicians loathe to rely heavily on it. Per dollar of revenue raised, property taxes may generate more negative reaction than any other levy. There are several reasons for this degree of unpopularity. One is that the tax is levied on (unrealized) accretions to the wealth of an individual or a business, and those accretions do not necessarily correspond to income received. Even without increases in value, the property tax is essentially a tax on the potential income from some form of property (real estate) via the opportunity to rent or the value of using one's own home. If these limitations are proactively taken into account and properly handled, the merits of property taxation can outweigh its pitfalls.

²⁷ Roy Bahl & Jorge Martinez-Vazquez, *supra* note 24, p. 29

4. Theoretical Framework of the Study

This study is informed by and builds on three important theories that have long been considered the intellectual basis and philosophical anchors of taxation policy and practice. These are: the expediency theory, the socio-political theory and the benefit received theory.²⁸

4.1 The expediency theory

Rooted in the general principles of tax administration and efficiency, this theory maintains that the primary objective of taxation should be to raise revenue for the government in the most efficient, convenient and least burdensome way possible.²⁹ The theory emphasizes the practical aspects of tax administration, such as ease of collection, simplicity of tax laws, and minimization of compliance costs for both taxpayers and the tax authorities. The assumption is that every tax proposal must pass the test of practicability as the tax which cannot be levied and collected efficiently is useless. Practicability and revenue maximization are the most salient considerations. From this perspective, economic and social welfare considerations are irrelevant as they hinder revenue maximization as a primary goal of taxation.

The theory is criticized for ignoring distributional justice embedded in tax policies –lack of equity considerations, and prioritization of administrative convenience at the expense of fairness and social justice. According to critics, exclusive reliance on expediency pathways leads to regressive tax measures that disproportionately affect low-income taxpayers.³⁰ They further argue that the expediency theory (by prioritizing revenue generation as a single most relevant objective), neglects other social and economic objectives, such as improving the living standards of the poor. It is also assumed that expediency theory has a higher propensity toward undermining tax compliance. When tax laws are overly burdensome or confusing, taxpayers may more likely tend to evade or avoid taxes, and this adversely affects overall compliance and revenue collection.

²⁸ Take note that while the expediency theory and the benefits received theory were used to explain the motives of the city government to increase the tax rate, the socio-political theory was employed to explicate the socio-economic pitfalls of abrupt tax rate hike.

²⁹ Alfred G. Buehler (1936). “The Principles of Expediency and Justice in Taxation”, *The Bulletin of the National Tax Association*, Vol. 21, No. 5, pp. 130-137, University of Vermont.

³⁰ For instance, Joseph Stiglitz (2012), in his book entitled “The Price of Inequality: How Today’s Divided Society Endangers Our Future”, explores the causes and consequences of growing income inequality in modern society and discusses the role of taxation in addressing these challenges.

4.2 The socio-political theory

This theory was advocated by a German political economist Adolph Heinrich Gotthelf Wagner (1835-1917), and it has been prompted by the urge to enhance fair distribution of tax burden across different income groups and promote economic and social equity.³¹ It suggests that a system of taxation should not merely aim at efficient provision for public revenue, but also fulfill the second and perhaps the ultimately superior social and political purposes of correcting distributional justice of market system in the direction of greater equality.

According to this theory, people agree to pay property tax when they believe that the authority imposing it is legitimate and constitutional. In the opposite case, it provokes resentment and popular protest fraught with grave social and political backlashes.³² This means that property taxation is not only about generating stable and adequate fiscal revenue that enable governments keep going and invest in development ventures, it is also about winning public trust and earning political legitimacy.

4.3 The benefits-received theory

This theory is built on the assumption that there is basically an exchange or contractual relationship between tax-payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received. In this *quid pro quo* setup, the benefits received are taken to represent the basis for distributing the tax burden in a specific manner.³³

As noted by Tadesse Lencho, despite its popularity in tax literature, this theory suffers from severe practical limitation. “It is extremely difficult for taxpayers to challenge a tax on the ground that they receive no benefits, and it is equally difficult for the government to establish correspondence between what it collects from taxes and the public services it provides to taxpayers.”³⁴

³¹ From the perspective of socio-political theory, expediency theory besides undermining social justice has a higher propensity toward undermining tax compliance. Because when tax laws are overly burdensome or confusing, taxpayers may be more likely to evade or avoid taxes, reducing overall compliance and revenue collection.

³² See, Marc Leroy (2008). “Tax Sociology: Sociopolitical Issues for a Dialogue with Economists”, *Socio-Logos*. Available at: <http://doi.org/10.4000/socio-logs.2073>. Accessed on 2/07/2024.

³³ Graeme S Cooper (1994). *The Benefit Theory of Taxation*, PhD dissertation, Faculty of Law, Columbia University.

³⁴ Tadesse Lencho (2010). “The Ethiopian Tax System Excesses and Gaps,” *Michigan State International Law Review*, Vol. 20:2, p. 347.

To sum up, the theories presented above can offer important lenses through which the "Roof and Wall" tax rate reform (recently introduced in Addis Ababa) could be seen and evaluated. As will be discussed later, they also implicitly show the policies pursued and the reasons that prompted Addis Ababa City government to impose high 'Roof and Wall' tax in 2023.

5. Overview of Legal Instruments Governing Property Tax in Ethiopia

Various literature attest the long tradition of taxation practice in Ethiopia.³⁵ As one of the oldest nations with a long history of statehood, Ethiopia has had a deep-rooted practice of taxes from land and its proceeds albeit in the form of tribute than formal taxation. In this regard, Eshetu Chole writes:

When talking of traditional Ethiopian tax system, one is really talking more about tribute than taxation, so much so that some have been led to characterize the system as a tributary mode of production. The system of traditional taxation was tied to the system of land ownership, itself a phenomenon of no small complexity.³⁶

Taxes were collected on land in ancient times as vital means for funding government activity, and as feudal obligations owed to kings and landlords during the medieval ages.³⁷ As elsewhere, land constituted a source power, wealth and social status everywhere in the Ethiopian realm and was the main object of taxation. Yet, a marked difference existed in the mode of levy and collection of land tax.³⁸ A semblance of a uniform and modern taxation practice began to take shape only in the late nineteenth and early twentieth century under a centralized rule and following the early economic transformation and modernization efforts set in motion by the imperial

³⁵ See Richard Pankhurst (1985), "Ethiopian Taxation Prior to the Time of Menelik: A Collection and Analysis of Estimates, Part II." *Journal of Northeast African Studies*, Vol. 7, No. 1, pp. 23-47 published by Michigan State University. See also Eshetu Chole (1987), "Income. Taxation in Pre- and Post-Revolution Ethiopia: A Comparative Review," *Ethiopian Journal of Development Research*, Vol. 9, No. 1, pp. 50-77.

³⁶ *Ibid.*

³⁷ Land use and ownership taxation in pre-twentieth century Ethiopia was diverse, complex and arbitrary in the sense that no systematized regulatory framework existed. Given the multiplicity of contexts under which it was applied, it is barely amenable to neat generalization. What is discussed here is largely applicable to a land taxation applied in the highland territories (as tribute paying vassals).

³⁸ Before the emergence of a centralized government at the turn of the Twentieth century within the internationally recognized borders of the nation, each region followed its own tradition and no unified system existed.

government. The *Qalad system* –a system of land measurement and classification for taxation purpose into three categories (infertile, semi-fertile, and fertile)– that began during the reign of Emperor Menelik II laid the foundation for diversified taxation that continued until 1974, with various forms of amendments, repeals and modifications.³⁹

A relatively modern and proclamation-based levying and collecting taxes on land and other properties, began in the 1940s after the Italian (1935-1941) invasion.⁴⁰ Since then, various proclamations regulating land related taxes (particularly in the rural areas) were enacted by the imperial government along with successive amendments, repeals and improvements.⁴¹

Given the lack of marked difference between rural and urban lifestyles until the rise of Addis Ababa, there was no significant difference in the system of land taxation between the two. Nor do we find a robust research work reflecting on pre-twentieth century property taxation in urban Ethiopia. This is no surprise given the overwhelmingly rural nature of the Ethiopian polity and the roaming style of Ethiopian capitals that could have lent ‘an urban character’ to a rather large homesteads sprawling across the nation. Thus, means of living from off-farm activities did not constitute a significant tax base in Ethiopia until the turn of the 20th Century.⁴²

The rise and development of Addis Ababa as a permanent seat of the government and as a modern metropolis in the twentieth century with a steady concentration of a large population has spurred the rise of land and property value. This in turn had a luring effect on landlords who were eager to earn maximum benefit out of the lucrative income accruing from their private

³⁹ Misganaw Gashaw *et al*, *supra* note 22, p. 402; *see also* Temesgen Gebeyehu (2011), Land Tenure, Land Reform and the Qalad System in Ethiopia, 1941–1974, *Journal of Asian and African Studies* Vo. 46 No 6, pp. 567–577.

⁴⁰ Tadesse Lencho, 2012, *supra* note 14, pp. 104-158. *See also* Andargachew Tiruneh, *supra* note 12, p.27.

⁴¹ *See for instance*, Land Tax Proclamation No. 8/1942 according to which annual land tax was collected at the rates of 15, 10, and 5 Birr respectively on a *Gasha* (equal to about 40 hectares) of fertile, semi-fertile, and infertile land. The Land Tax Proclamation No. 70/1944 repealed Proclamation No. 8/1942 and was operational for more than two decades until it was replaced by amendment Proclamation No. 230/1966. During this period, Proclamation No. 142/1954 had also introduced another property tax, according to which all cattle were subjected to taxation thereby expanding the tax base of the country.

⁴² *See* Akalou Wolde-Michael (1973), ‘Urban Development in Ethiopia (1889-1925): Early Phase, *Journal of Ethiopian Studies*, Vol. 11, issue, 2, pp. 1-16.

holdings. As indicated earlier, this laid the foundation for urban land taxation albeit rudimentary and in the absence of the necessary legal framework.

Arguably the legal lacuna pertaining to the levy and collection of urban property tax persisted until the coming into force of Proclamation No.74/1945, a proclamation that bestowed municipalities with the power to levy taxes on property and determine the tax rate.⁴³ Drawing on this proclamation, Addis Ababa Municipality issued ‘Legal Notice’ 86/1945 which embodied a legal provision for the assessment and levying of the General Rate on immovable property. According to this law, the general tax rate for land and buildings located in Addis Ababa was assessed based on the grade of the land and the income or profit a legal owner/user of the government land has generated.⁴⁴ Some of the contents on General Rate Rules Legal Notice 86/1945 were later repealed, and the general tax rate was replaced by percentage rate.⁴⁵

The other important legal instruments were the Land and Building Tax Regulation (Legal Notice No. 301/1964), and the 1968 Addis Ababa land tax classification regulation enacted by the then Kantiba (the Mayor). The former established taxation of land based on grades identified by earlier regulation, i.e., Legal Notice No. 118/1948. It prescribed levy and collection of tax on buildings based on the rental value of property rented to tenants or used by owners for business purposes. The latter, i.e., the 1968 Addis Ababa land tax classification law conferred the power to periodically reclassify land and buildings on the Land and Building Tax Assessment Department of the city thereby institutionalizing the practice of progressively updating the rate paid by property holders.⁴⁶ As we shall see later, this classification was adopted by the current Addis Ababa City Government revenue authorities for the recent ‘Roof and Wall’ tax rate reform, and they consider this approach as updating the existing rate instead of introducing a completely different rate system that departs from what is prescribed by the Derg period Urban Land Rent and Urban Houses Tax Proclamation No. 80/1976 (hereafter ‘Proclamation No. 80/1976’).

⁴³ According to Tilahun Dires, urban centers such as Addis Ababa, Harar, Gondar, Jimma, Dessie and Dire Dawa were declared as Municipalities whereas other towns in the country were classified as Townships by Proclamation No. 74/1945. See Tilahun Dires (2021), “The Historical Development of Real Property Tax Laws in Ethiopia: A critical Review of the Laws.” *International Journal of Graduate Research and Review*, Vol.7, p. 4.

⁴⁴ Ibid.

⁴⁵ Id., p.6.

⁴⁶ Ibid.

6. The Origin of “Roof and Wall Tax,” and the Legal Controversy

Following the fall of the imperial government and the ascendancy of the military government (the Derg) to power in 1974, the system of property ownership was fundamentally changed. Since then, Ethiopia entered into the enigmatic era of legal conundrum where parliament-based lawmaking in its real sense vanished leaving a huge void both in lawmaking and the study of property taxation. Urban Land Rent and Urban Houses Tax Proclamation No. 80/1976 that introduced a separate taxation of land and structures built on it – the ‘*Roof and Wall Tax*’ has become a *prima facie* legal instrument worthy of citation to date. The term clearly meant that the taxpayer owns only the ‘roof’ and ‘walls’ and not the land on which the house/building is built thereby fictitiously dissociating land from the immovable property built on it.

According to Article 5 of this Proclamation, a legal possessor of urban land is required to pay annual land rent to be assessed on the basis of the size of the plot of land its location categorized as Grade 1, 2, or 3.⁴⁷ The Proclamation clearly indicates that the plot of land used for the construction of residential or commercial purpose buildings would be treated differently. With respect to the property tax payable on urban houses, the Proclamation stipulates that the percentage of the annual rental value of the concerned house shall be used as a basis for tax determination. The schedule attached to the Proclamation specifically indicates that for the annual rental value of up to ETB 600; 1% tax rate shall apply. It determines the rate progressively based on the increase in the annual rental value; and the rate of 4.5% applies for values that exceed ETB 6,000.⁴⁸

Ethiopia underwent major tax reform since 1991.⁴⁹ The EPRDF, a coalition of four parties: TPLF (Tigray Liberation Front), ANDM (Amhara National Democratic Party, OPDO (Oromo Democratic Organization) and SEPDM (Southern Ethiopia Peoples Democratic Movement) claimed to pursue market economy as a pathway for economic development upon taking power. Owing to the nascent policy shift and the urge to modernize the system of property taxation (which was too archaic to generate the much needed revenue for the

⁴⁷ Alemayehu Negash Soressa & Bekalu Tilahun Gebreslus (2009). Property Taxation in North-east Africa: Report Subtitle: Case Study of Ethiopia, Lincoln Institute of Land Policy, p. 6.

⁴⁸ Ibid.

⁴⁹ See Alemayehu Geda & Abebe Shimeles (2005). “Taxes and Tax Reform in Ethiopia 1990- 2003”, World Institute for Development Economics Research, Research Paper No. 65, 2005.

country’s post conflict reconstruction), measures were taken to overhaul the system of urban property taxation.⁵⁰

Towards that end, a special project office within the Ministry of Urban Development and Construction was established in 1996 to carry out data collection on all properties including informal structures.⁵¹ A major census of properties in Addis Ababa indicated that only around a quarter of what could have been collected as property tax (according to the recalculated values) were being paid. However, this caused a huge public outcry thereby forcing the city government to slash the values to a quarter of what had been painstakingly calculated, rendering the whole exercise essentially pointless for properties already on the register.⁵²

In 2009, the Addis Ababa City Administration (AACA) tried again, putting out a tender to update property registration rolls, the land cadaster, and a street addressing system. The contractors used aerial photography to map 360,000 parcels of land and 1.15 million building or construction features.⁵³ This pursuit also failed to bear fruit. Thus the system of land administration and property taxation prescribed by Proclamation No 80/1976 remained the foci of the EPRDF and the incumbent government’s taxation system standing the test of time, and outliving multitude of political upheavals and economic woes.⁵⁴ Together with Legal Notice No. 36 of 1976 that regulated land use rent in Addis Ababa, it continues to be regarded as the legal basis of urban property taxation.⁵⁵

⁵⁰ Victoria Delbridge & Tewodros Makonnen Gebrewolde (2021). “Consideration for a Commercial Property Taxation in Ethiopia,” *IGC, Policy Brief*. See also Tom Goodfellow (2015), “Taxing the Urban Boom: Property Taxation and Land Leasing in Kigali and Addis Ababa” Institute of Development Studies, Working Paper 38; Tom Goodfellow (2017). “Taxing Property in a Neo-Developmental State: The Politics of Urban Land Value Capture in Rwanda and Ethiopia.”, *African Affairs*, 116/465, 549-572.

⁵¹ Ibid

⁵² Goodfellow, 2017, *supra* note 50.

⁵³ Victoria Delbridge & Tewodros M Gebrewolde, 2021, *supra* note 50.

⁵⁴ This can be attributed to the upholding of the land tenure system (introduced by the Derg) both by the EPRDF and the incumbent government.

⁵⁵ The 2023 tax rate hike was made without repealing this Proclamation. What has been done by Addis City Government in 2023 was rate increase without introducing a new property law. Indeed, the new draft tax law currently in the pipeline at the Ministry of Finance pending the approval of the Parliament could have been used as the legal basis for the roof and wall tax rate increase. However, the municipal authorities did not wait until its adoption presumably in an attempt to instantly generate revenue, and perhaps

Despite enduring the test of time, Proclamation No. 80/1976 is fraught with myriad of limitations and thus criticized as lacking the credence of an up-to-date legal instrument. The criticisms can be summarized as follows:

Primarily, the Proclamation was criticized on account of its obsolescence. It was considered outdated beyond repair to serve as a sound legal instrument governing property taxation in the context of market economy Ethiopia has chosen since 1991. In other words, the legal merit of using half a century old proclamation was questioned, as it was primarily designed to advance an ideology rooted in the eradication of private property rather than encouraging market-led and a rapidly changing economy geared towards maximization of property revenue.

Secondly, it was considered not comprehensive enough to capture the whole range of revenue benefits accruing to the municipal administration at the current historical juncture. The tax rate prescribed by this proclamation remained unchanged since its introduction in the Mid-1970s. It falls short of reflecting the nascent property value and is rendered minuscule to foster the fast-paced and capital intensive contemporary urban development.

Thirdly, it was challenged for fictitiously dissociating ownership of land from property built on it, and serving as a source of informal land deals and proliferation of a shadow economy both of which have obstructed formal taxation and generation of adequate revenue for urban development.

Finally, despite infusing the most radical and yet vital social change in the long history of this nation, and in spite of the emancipative role it played in terms of empowering the hitherto landless mass to freely access land, there was the criticism that this Proclamation unduly hindered freehold on vital property (productive asset), i.e., the *land*, and curtailed private initiatives to invest in urban housing and central city development, the absence of which led to dilapidation of housing stock in the center of Addis Ababa.

These criticisms have led some researchers on property taxation to assert that the country lacks property taxation in the strict sense of the term.⁵⁶ The 1995 Constitution has preserved the public ownership of the land as a common property of the nations, nationalities and peoples of Ethiopia (not subject to sale or other means of exchange). The Constitution simply bestows the power to enact laws for the utilization and conservation of the land on the Federal

anticipating the heated debate the sharp rate hike might generate, and the lengthy process before its approval by the Council of Ministers and the Parliament.

⁵⁶ Misganaw Gashaw *et al*, *supra* note 22.

Government⁵⁷ while empowering the regional states to administer the land and attached natural resources.⁵⁸

Owing to this provision, some of the regional states in the country have issued their own legislations following the decentralization of power in the post-1991 period.⁵⁹ In contrast, Addis Ababa where lease holding has become the cardinal system of urban land tenure and an important source of municipal revenue has been reluctant to introduce new regulation or amend Proclamation No. 80/1976. More importantly, however, the ambiguous position of the City in the current federal structure (where unequivocal definition of its status is lacking) seems to have complicated its lawmaking capacity including property taxation.

The status of Addis Ababa is subject to myriad of interpretations stemming from lack of clarity in the country's legislations. It is portrayed as a federal entity wielding the same status and power as other regional states in Proclamation No. 1097/2018.⁶⁰ On the other hand, despite enjoying autonomous status and being responsible to the Federal Government as a Capital City, it is not treated in par with the regional states in the 1995 Constitution.⁶¹ To borrow Tadesse Lencho's words,⁶² despite its unusual concreteness and specificity on matters of taxation, and in assigning taxation power between Federal Government and Regional States, the 1995 Constitution is muted about Addis Ababa's power of taxation.

This evokes a legitimate question: In the face of the silence of the Constitution, is Addis Ababa City duty bound to always make an appeal to the Joint Session of the two Parliaments to decide on its capacity to make tax reform? Does this mean that property taxation in Addis Ababa is an undesignated power requiring parliamentary decision pursuant to Article 99 of the Constitution?

⁵⁷ See FDRE Constitution, Article 51 (5).

⁵⁸ FDRE Constitution, Article 52 (2 d).

⁵⁹ See Misganaw Gashaw *et al*, *supra* note 22, p. 407. See also Proclamation No.131/2007, A Proclamation to Amend Rural Land Use Payment and Agricultural Income Tax of Oromia Regional State's Proclamation No. 99/2005.

⁶⁰ The definition of a "Regional State" given in Proclamation No. 1097/2018 enlists Addis Ababa and Dire-Dawa in par with other regional states. See Federal Negait Gazette No.8, 29th Nov. 2018.

⁶¹ Neither Article 47, nor Article 49 of the Constitution treats Addis Ababa as a regional state.

⁶² See Tadesse Lencho, *supra* note 34, p. 331.

Owing to lack of constitutional power or lack of assertiveness, the City Government introduced a new ‘Roof and Wall’ tax rate in 2023 without the need to amend the old Derg period Proclamation. Yet, to give it a constitutional force, the municipal government sought and (on January 11, 2023) received the blessing of the Joint Session of the two parliamentary houses to carry out the reform.⁶³

In effect, the nominal land use fee and housing tax stipulated in Article 6(2) of Proclamation No. 80/1976 has been increased many-fold. As will be presented later, despite the latent effects of a sharp hike, the City Government believes that the tax rate increase and concomitant revenue generated will boost its capacity to meet the rising demand for urban social services, infrastructure development and other urban amenities and better serve the rapidly rising urban population.

7. Data Presentation

Assessment of City Government directives and regulations pertaining to the new tax rate shows that the rate adjustment was made as a separate legal tool without reference to the yet to be adopted federal property tax law currently under the scrutiny of Parliamentary Legal Standing Committee. At the heart of this new wall and roof tax rate reform is the assumption that the city government has ambitious development plans that need robust financing, and homeowners who benefit from public investment should contribute proportionately.⁶⁴

The reform was made in accordance with a housing property inventory conducted in April 2023. Pursuant to the inventory, urban land was categorized into three levels/grades: 1, 2 and 3 & 4 whereas urban houses were categorized into residential and business properties to assign deferential taxation.⁶⁵ Based on the materials they are made of, the houses were subdivided into three: (a) Wood and Mud houses, (b) Condominiums, and (c)

⁶³ This can be considered as the legitimization of the illegitimate because, from a legal point of view, Proclamation No. 80/1976 was not enacted by a constitutionally instituted legislature. Rather, it was issued by a military regime which illegally took power and promulgated a decree.

⁶⁴ See Selamawit Mengesha, “City admin to rake in 6 billion birr from walls and roofs but property tax waits in wings.” *The Reporter*, June 24, 2023.

⁶⁵ Pursuant to Proclamation No. 80/1976, rate setting depends on two factors; plot size (for land rent) and assessment of annual rental value (for building tax). To this effect, cities define the grading of urban land in light of the infrastructure and urban growth preference.

Villas made of blocks (brick and steel bars) including apartments and similar buildings.

With regard to the exemptions related to this Roof and Wall taxation, lack of clarity abounds. What can be taken as a guiding principle is the one stipulated in Art 14 of Proclamation No. 80/1976. Accordingly, exemptions are made to: (a) public roads, squares, recreation and sports centers and cemeteries, (b) places of worship and their compounds, non-profit making private schools, hospitals, charitable institutions, and (c) Government institutions drawing their budgets from the central treasury. Furthermore, properties with annual rental value less than ETB 300 were provided exemption.⁶⁶

It should be noted that the tax rate was determined according to Article 6(2) of Proclamation No. 80/1976. Pursuant to this provision, the monthly rental value of the house, which in turn depended on the material from which the house is made, its category (level), and square area constituted the basis of rate calculation (see the table below).

Table 1. Tax rate estimation for each category (level).

Standard Category/ Level	Tax rate for residential houses (in ETB)			Tax rate for business oriented houses (in ETB)		
	Wood and mud houses	Condominiums	-Villas made of bricks and steel bars; - Apartments and similar buildings	Wood and mud houses	Condominium	Villas made of bricks and steel bars; Apartments and similar buildings
1	214	247	361	444	493	632
2	156	182	317	417	428	542
3 and 4	148	161	267	282	398	417

Source: *Adapted from the directive of Addis Ababa Revenue Agency*

To calculate the tax owed to the government, the new rate is multiplied by the total area of the property and then multiplied by 12 months rental value and the tax rate as indicated in the table below. Property tax is calculated in the following manner:

⁶⁶ See Alemayehu Negash & Bekalu Tilahun, *supra* note 47.

Property tax = Area of the house (in meter square) x (monthly rent x 12) x tax rate

For example, for a 54 m² condominium categorized as level 1 building, the tax will be estimated as follows:

$$\text{Property tax} = 54 \times (247 \times 12) \times \text{tax rate} = 7,097.52 \text{ Birr}$$

Table 2. Urban house tax estimation table

Annual house rent estimation (in Birr)	Amount (in Birr)	Rate	Tax (in Birr)
Up to 600	600	0.01	6
600 – 1,200	600	0.015	9
1,201 – 1,800	600	0.02	12
1,801 – 2,400	600	0.025	15
2,401 – 3,600	1,200	0.03	36
3,601 – 4,800	1,200	0.035	42
4,801 – 6,000	1,200	0.04	48
> 6,000	154,127.28	0.045	6,935.72
Total			7,103.72

Source: *Adapted from the directive of Addis Ababa Revenue Agency*

With regard to soliciting pertinent data, two strategies were employed. To obtain valid information on affordability of the new tax rate and its socio-economic costs, 20 (twenty) university students residing in Arada, Addis Ketema, Bole, Kolfe-Keraniyo and Nifas-Silk Lafto sub-cities of Addis Ababa⁶⁷ have been purposively selected and deployed to carry out in-depth interview.⁶⁸ Moreover, the researcher personally carried out face to face interviews with key informants: experts in the revenue bureaus and legal scholars from the academia.

With regard to affordability of the current tax rate, the respondents were asked to select (from the list provided) categories of house owner taxpayers who face difficulties to pay tax according to the new rate, and their responses are presented hereunder.

⁶⁷ A combination of sub-cities located in the center and peripheries of Addis Ababa were purposively selected to assess how opinions vary across central and peripheral areas and know how their residents react to locational disparities in taxation and property valuation.

⁶⁸ Capable students who have successfully completed a course on research methodology were carefully selected. To further enhance their capacity, they were given the necessary orientation on how to accurately and ethically conduct interview based on pilot-tested interview questionnaires.

Table 3. Respondent opinion on the level of affordability of the current ‘Roof & Wall’ tax rate.

S/ N	Category of tax payers facing difficulty to pay “Roof & Wall” tax according to the new rate.	Do you think that these category of people face difficulty to pay ‘roof and wall’ tax based on the new rate?				Raking in terms of difficulty
		Yes		No		
		No. of respondents	%	No. of respondents	%	
1	House owner-occupiers with casual/ low income	18	90%	2	10%	3
2	House owner-occupiers with high and diversified source of income	-	0	20	100%	
3	House owners who partially let their houses for rent	-	0	20	100%	
4	Owners who use their houses both for residential and business purposes.	-	0	20	100%	
5	Retired house owner-occupiers with meager pension	20	100%	-	0	1
	Old people with extra houses for rent	-	0	20	100%	
6	Employee house owner-occupiers with low wages/salaries.	19	5%	1	95%	2
7	Employee house owner-occupiers with high salaries	-	0	20	100%	
8	Female-headed family house owner-occupiers with low income	20	100%	-	0	1
9	Female-headed family house owner-occupiers diversified income	6	30%	14	70%	4
10	House owner-occupiers with disabilities	20	100%	-	0	1

Source: *Field data.*

As could be seen from Table 3, despite slight variation, participants of this research maintained relatively similar opinion on the categories of people facing difficulty to pay the ‘roof and wall’ tax imposed by the City Government in 2023. The responses show that:

- retired house owner-occupiers with meager pension,
- house owner-occupiers with disabilities,
- female-headed family house owner-occupiers with low income,
- employee house owner-occupiers with low wages/salaries and
- house owner-occupiers with casual/ low income

face serious difficulties to pay the current housing tax rate owing to the dismal economic condition they face. Interestingly, it was found that it is not fixed income or the conditions in female-headed households that determine the capacity to pay, but the aggregate income of a person and its continuity.

Concerning the merit of the 2023 ‘Roof and Wall’ tax rate reform, the in-depth interview participants and key informants (legal professionals from the academia and experts from revenue authorities) indicated that it has both advantages and disadvantages. The respondents opined that given the meagerness of the old tax rate and its insignificant contribution to the City’s capacity to foster development, the idea of periodically updating and adjusting the tax rate was a long overdue process.

For example, a 47 year old civil servant who lives in a house he and his siblings inherited from their parents in Addis Ketema Sub-City, stated:

I and my siblings have lived a comfortable life in a house built on a 400 m² that we inherited from our parents. While occupying the service rooms in the backyard, we have rented out the big Villa for commensurate monthly payment that helped us cover all of our expenses including children’s school fee. Interestingly, however, we paid only 2,000 (Two thousand) ETB per annum in the form of tax. This I, think, was far too small to call it a genuine property tax compared to 30,000 Birr monthly income we earned from the house rent.⁶⁹

The above opinion is a graphic illustration of the limitations attributed to the old tax rate and the need for periodic updating and adjustment. However, the low-income house owner–occupants (with little disposable money) who built their houses after long years of hard work and saving, employees with fixed income, and old people with very meager pension and little or no chance to supplement their income by any means were furious about the current tax hike. For them, the current tax rate is too high and dauntingly onerous. They

⁶⁹ In-depth interview respondent No. 13; May 2, 2024.

reported to have paid with great difficulty (even at the rate of the discounted first year payment which was half the real rate) and are worried very much about what will happen when they will be required to pay the full rate next time.⁷⁰

This has shown the degree of dissatisfaction with the new tax rate and mismatch with the low-income group’s capacity to pay. Despite the theoretical merits of the underlying socio-economic imperative stated by the city authorities for introducing the new tax rate (i.e, the need to raise adequate and stable revenue to meet the rising demand for urban social services, infrastructure development and other amenities for the rapidly bulging urban population), the tax hike has heavily strained and negatively impacted the life of the low-income segment of urban dwellers.

In contrast, for the more affluent segment of the society, the recent tax rate increase was found to be less burdensome. In support of the above statement, two respondents from well-to-do families in Bole sub-City opined that the tax reform has positively impacted their socio-economic life. They argued that by fostering infrastructure development to which they have contributed their fair share, the new tax rate reform boosted their sense of citizenship. Hence, they take pride of their role as taxpayers.⁷¹

This contrasts with the opinion of the low-income group who opined that the high property tax imposed upon them has negatively affected both their economic life and sense of citizenship and even self-worth as it robbed off their hard won savings and impoverished them. For them, besides its negative economic impact, the tax rate hike had a ripple effect on their social life. This portrays the dismal condition of the poor households who acutely feel the pain of the sharp tax rate hike in the context of rising cost of living and hyperinflation.

8. Discussion

From the foregoing analysis of laws, literature review, and empirical data, it has become evident that, theoretically and empirically, property tax is among the most efficient forms of taxation, encompassing a number of other virtues of a tax instrument: transparency, equity, and direct linkage to benefits. This tax has become even more relevant in the evolving trends of urbanization and

⁷⁰ For the first two fiscal years, i.e., 2023/2024 (2015 EC and 2016 EC), by the special order of the city government, the taxpayers were required to pay only half of the designated tax rate. In the future however, they will pay the full price as per the amount set by the property valuers.

⁷¹ Interview with two respondents from Bole sub-city, May 9, 2024.

fiscal decentralization. Moreover, property tax has been, and will continue to be the main source of revenue for local governments and the demand for tax revenue from burgeoning housing construction in Addis Ababa will likely grow commensurate with the City's infrastructure needs and service demands.

Yet, owing to the limitations of the Derg period land and housing legal regime, which continued to be the foci of EPRDF and the incumbent government taxation policy, the practice of generating sufficient revenue from property tax in Addis Ababa has remained very low. Thus, for most of its history, the City depended on central government's support to finance development projects and this has obstructed its fiscal independence. Moreover, the practice has impaired development and essential services.

With what seems to be an overt attempt to break with the old tradition, and make significant stride toward fiscal self-sufficiency, the Addis Ababa City Administration has introduced the so-called 'Roof and Wall' tax rate reform in 2023. Pursuant to this reform, a many-fold tax rate increase has been made on housing properties that were formerly charged nominal tax.

House property inventory have also enabled the City authorities to expand the tax base by requiring new property owners, particularly condominium house owners (who have never paid tax until then) to pay tax according to the new rate. This has substantially increased the municipal government's revenue despite the lack of accurate information as to the amount raised since then. However, the implementation of this tax reform has raised concerns due to lack of clarity with regard to the regulatory framework because continued reliance on Proclamation No. 80/1976 has not resolved the longstanding legal conundrum.

The high tax rate abruptly imposed on urban dwellers, particularly on the poor residents, has created extra burden which was proven too onerous to shoulder in light of the current economic crisis in the country whose inflationary impact is very severe. While those who rent out their properties have transferred the burden to their tenants, those who use the only house they have for personal residence have suffered a lot. This was acutely felt among the house owner-occupiers who are at retirement age with no prospect of supplementing their livelihoods with extra income; employees with fixed income, persons with disabilities (PWDs) and single mothers (female headed households) who have been struggling too hard to make ends meet even before the tax rate hike.

Burdensome and stressful as it is, the future economic, social and health implication of heavy taxation will be grave. It will negatively impact citizen's physiological and psychological well-being by complicating the mental health, educational performance and physiological capabilities of children

from poor families who cannot afford to provide adequate nutrition to their children due to the mounting cost of living and soaring food prices. Decline in the supply of rental houses can indeed exacerbate these problems and is among the manifestations of the ripple effect of heavy taxation.

9. Concluding Remarks

The data presented earlier and the concomitant discussions reveal that attempts to periodically update property tax rate was not a new phenomenon in the Addis Ababa City Administration. There were attempts by the EPRDF government to inject sweeping reform in 1996 and 2009, but failed to produce result owing to public outcry prompted by fear of grave socio-economic implications. Following the 2023 “Roof and Wall Tax” rate increase, this public fear not only resurfaced anew, but has also caused a reality to be reckoned with as the low-income segment of the society is suffering from the adverse impact of the tax rate hike.

The current roof and wall tax rate reform shows little concern towards fairness, equity and distributional justice which are considered integral part of modern taxation policies, and it manifests lack of sensitivity to the plight of the low-income segment of the society who have borne the burden of the rate hike. It fares badly compared to urban land lease policy which remains a potent tool of revenue generation in Addis Ababa.

In terms of the legal conundrum stated earlier, the incumbent government’s continued reliance on the controversial and outdated proclamation anchored on a socialist landholding has created further confusion. Having little appeal to the officially declared free market economy, which is rooted in the sanctity of private property, Proclamation No. 80/1967 was found to be unreliable legal shield.

The ultimate goal of viable property taxation is generating maximum revenue while fostering private initiative to freely invest in property without fear of encroachment. It thus follows that unless Proclamation No. 80/1967 is repealed and substituted by a new property tax law compatible with the principles of market economy, and made in tune with contemporary advances in property tax law (where legality, equity and fairness equally matter as expediency imperatives), the problem will persist.

The discussion and analysis in this article show that the high property tax will have a negative impact on the supply of affordable housing for the low-income population and the youth. Unless mitigation strategies are sought in the form of tax relief programs, low interest rate loan services, exemptions, deferrals, or rebates to ease the burden on residential house builders (including real estate developers focusing on construction of affordable houses), the

problem will exert heavy strain on residents of the central districts of the City (where low-income groups predominate) and push them out thereby exacerbating the perils of gentrification. _____■

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