

Policy Implication on Property Tax and Revenue Maximization in South East Region of Nigeria

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Abstract

Property taxation has been reported as the most stable source of revenue to government especially in south east region of Nigeria; hence the South East governments had at different time implements property and land taxes to aid their internally generated revenue in their various states. This study assessed the effect of property taxes on revenue maximization in South East Region of Nigeria. The study also identified factors that hindered the effectiveness of property taxes in the Region. Survey research design was used by the study and questionnaires were administered to the staff of states internally generated revenue in the region. T-test was used to test the formulated hypotheses and the study found that found that property taxes improve the internally generated revenue of government enhance economic development. The study then found that property tax is being affected by some factors like; rapid increase in the cost of land; corrupt practices among the tax administrator and likes. This has been attributed to the permanent and fixed nature of land and landed property. This research recommended that property taxes should judiciously implement in the region to enhance the needed funds for sustainable development in these states.

Key words; Property tax, Revenue maximization and Infrastructural development

Introduction

Tax is known to be levy paid by citizens of a country for the services provided such as town halls, markets, roads, electricity and so on. Taxes have existed since in the ancient society where people pay either tribute or sweat tax to the local chiefs. Since the discovery of crude oil in the early 1960's in Nigeria, the government has depended on it as the main source of revenue thus overlooking other sources such as agriculture and taxation. Of recent the Nigerian government has turned its attention towards intensive revenue generation through taxation; which in other nations proves to be a major source of revenue, and this includes property taxation which is said to be one of the most stable forms of taxation (Maryam & Bala, 2013).

Among the sources of internally generated revenue approved (Otubu, 2018) which is equitable, certain, unhidden and can be monitored is property tax (Corker & Nieminen, 2001). Property tax is an important local revenue source that is often underused as a source for financing local expenditures. According to Kelly (2003) property taxes account for about 40-80 percent of local government revenues, except in developing countries where the property tax may generate a maximum of 40 percent of local government revenues. For example, Ghana property tax accounts for about 14% of the total revenues of local assemblies, an average of about 6% of total

local revenue in local councils in Sierra Leone, and less than 10% in The Gambia (Fjeldstad, Ali & Goodfellow, 2017) .Thus, the amount generated from this source is very small compared to the potentials of property tax. Although property tax has great potentials yet it is faced with the problem of ineffectiveness and unreliability which seriously limit its ability to generate enough revenue. In particular, weak administration and technical limitation hinder the extent to which local government can tap on an expanding tax base and enforcing compliance to property taxation.

Property tax which is a form of tax chargeable by government was defined as “a tax imposed by municipalities upon owners of real property within their jurisdiction based on the value of such property” (Wikipedia, 2008). The Food and Agriculture Organization (FAO) (2002) defines property tax as an annual tax imposed on real property usually by reference to an advalorem tax base (i.e., the tax is calculated according to the value of the property). Such taxes have been in existence for millennia and their benefits are well known. They are transparent, cheap to administer, efficient to collect and well understood by the taxpaying public.

Although the focus of many state governments is currently on property tax, review of property tax administration in various states in Nigeria however shows varying degree of challenges militating against its success as a source of internally generated revenue. Recently, some states in Nigeria articulated all land based taxes and charges into a new land based charge. These states includes; Osun, Enugu, Ondo, Edo, Anambra, Lagos, Bauchi, Akwa Ibom, and others. These taxes charged under the Assessment law before now, the Tenement Rates Law, the Land Rates Law, the Neighbourhood Improvement Charge Law, Property Rates Law were merged into a single Property Land Use Charge. The concept of Land Use Charge is fundamentally not far apart from the concept of property/tenement rating (Agwubike, 2018).

Maryam and Bala (2013) examined the prospects of property tax administration; Igwe, Emengini and Obodoh (2017) analyzed Anambra State land –based taxes with a view to ascertaining the principles and objectives behind them. Ugonabo, Igwe and Oladejo (2018) ascertained the effect of lack of effective land administration on housing delivery in Onitsha; Toju (2019) observed that property tax revenue mobilization in Benin Metropolis is ineffective due to unsystematic tax administration procedure employed by land use charge department; Maksym and Daowei (2014)

assessed the effect of property taxes on changes between agricultural, forestry, conservation reserve program, and developed land uses in Louisiana.

In Akwa Ibom State, Ndehedehe and Kolawole (2012) in their study reported that land administration is carried out using hard copy revenue data either in the form of maps or descriptive documents. In Minna, Niger state, Babatunde and Sunday (2008) revealed that the issue of property tax in Niger State includes lack of political support. In Bauchi State, Muhammad and Ishiaku (2013) reported that lack of political support, poor records of taxable properties, unpopularity of the tax, unskilled personnel and corrupt practices of tax officials attributed to the challenges rising against the success of property tax administration. However, the reason that the cost of collection of the tenement rates as well, high cost of land were above the actual revenue generated from the exercise rate the whole exercise uneconomical.

Most of these studies had revealed on both negative and positive effects of property and land taxes on revenue maximization of government. Besides, the previous studies focused on different areas of interest. This study however, focused on property tax - its impact on revenue maximization across South East Region of Nigeria. In respect of this, this study address these issues, via a review of current literature, give a critical summary of previous works, Journal papers, and articles produced so far.

Review of related Literature

Property tax

Property tax is generally a tax imposed by municipalities upon owners of real property within their jurisdiction based on the value of such property. This form of tax is reported to be one of the most stable sources of revenue to governments however most state and local governments in Nigeria are yet to tap revenue from this form of tax (Maryam & Bala, 2013).

Property taxes have an important influence on the management of private forest and farm lands (Hibbard, Kilgore & Ellefson, 2003). Traditionally the value of real property for the tax purposes is being assessed based on its fair market value. Because of economic pressures created by development, market value of rural lands often exceeds capitalized income producing capability of rural land uses (Hickman, 1982). While such appreciation benefits landowners, it does not improve their ability to pay taxes and often forces land development. In order to restore balance

between taxable value of rural properties and their income producing potential, every state has developed programs that allow or require preferential property tax treatment of farmland and sometimes other rural lands (Morris 1998). The most common policy is assessment of rural land according to its current use. Use value laws are seen as providing tax relief to rural landowners and allowing them to retain land in traditional uses, which are considered socially desirable (Hickman, 1982).

During the second half of the twentieth century, land use dynamics in the U.S. South have been shaped by several main trends: conversion of forestry and agricultural lands to developed use due to population growth and urban sprawl, conversion of marginal agricultural lands to forestry use, and expansion of intensive agriculture on best quality lands in the Mississippi Delta (Wear 2002; Rudel, 2001). All of these trends have a significant contribution to the land use dynamics in Louisiana.

Land Use Charge

Land use changes, while driven by maximization of economic benefits to landowners, sometimes produce negative externalities such as air and water pollution, loss of biodiversity, wildlife habitat fragmentation, and increased flooding. There are a number of public policies that seek to mitigate these negative externalities by slowing conversion of rural lands to more intensive uses, or encouraging reforestation and sustainable forest management. Examples of such policies are tax incentives, cost sharing, easements, and certification programs (York, Janssen, & Ostrom 2005). When the majority of land base is privately owned, like in the U.S. South, it is important to understand how these public policies influence private landowners' decisions concerning land use change (Maksym & Daowei, 2014).

Land Use Charge is a form of land based tax which applies to land in use. In other words, it applies to only land property in beneficial use (beneficial ownership or occupation). It is a tax directed at annual value and not at capital value of property since it is charged annually (Agwubike, 2018). The Annual Charge Rates Notice published in furtherance to the Land Use Charge Law prescribes various Land Use Charge Rates for different kinds of properties in these states where they are practiced. The law also provides the categories of properties to be exempted. Land Use Charge as practiced in Anambra State is known as Anambra State Property

and Land Use charge (APLUC). The tax consolidated all real property tax with all land based rates and charges (which were formerly charged under the Assessment Law) into one single property and land use charge.

A good property tax system should satisfy Smith (1910) Cannons of Taxation which are equity, certainty, efficiency and convenience. It must also be fair, equitable, set in simple language, be politically acceptable to the payers, consistent with the goals of promoting a stable economy, have revenue adequacy, consider the ability to pay based on income, and should be proportional to the benefits received from government services (Emeni, 2000 & Ogbuefi, 2004). APLUC's performance can only be adjudged good when weighed against the principles of taxation.

Forms of Property – Based Taxes

Transfer Taxes:

According to Tomori, there are various taxes/rates associated with property value:

Planning Rates:

According to Ogbuefi (2004), it's a type of land taxation imposed on developers of landed property by various town planning authorities in their respective planning areas. It is usually collected from applicants intending to develop land or layout parcels of land, or change uses of existing buildings to new ones (e.g. a residential building being converted to commercial use).

Tenement Rates:

It is a tax charge on a real property and is payable at local level for raising the required revenue to carry out specific developmental projects. The tax is aimed at promoting the total well-being of inhabitants of the local community (Oyegbile, 1996). Franzsen (2002) also reports that property tax is an annual tax on the ownership (or occupation) of immovable property (i.e. land and/or buildings) and serves as an important source of local government revenue in many countries in the world.

Withholding Tax on Rent:

This tax is chargeable on rental income of individuals or corporate Bodies. The tax is collectable by both the Federal and State Governments. The Federal Government collects the tax due on properties rented by corporate Bodies and residents of federal Capital territory, Abuja. State Governments collect tax due on rents of individuals resident in their states. The enabling law is

section 68 of Personal Income Law Decree No. 104 of 1993 as amended by Finance (Miscellaneous taxation Provision) Decree No. 39 of 1996. It states thus: “Where a rent becomes due or payable to a person, the payer of rent shall at the date when the tax is paid or credited, which ever first occurs, deduct there from tax at the rate of 10 percent of gross rent and shall forthwith pay over to the relevant tax authority, the amount so deducted.

Empirical Studies

Various studies have been carried out on property tax and it likes with Nigeria and across the globe. The study of Maryam and Bala (2013) examined the prospects of property tax administration in Bauchi state and the factors militating against its implementation. Using the interview method, the study revealed that some of the property taxes were administered in Bauchi state such as stamp duty. Igwe, Emengini and Obodoh (2017) analyzed Anambra State land –based taxes with a view to ascertaining the principles and objectives behind them. They were entreated to give their views on property rate practice and Land use charge law in Anambra State. A percentage opined that for a land based tax to be progressive, equity and fairness should be emphasized as the major objective and not just revenue as seen in the land. Ugonabo, Igwe and Oladejo (2018) ascertained the effect of lack of effective land administration on housing delivery in Onitsha with a view to developing efficient land administration policy in Onitsha to enhance housing delivery. Findings from the study reveals: there was steady decline in housing delivery due to ineffective land administration which translates to scarcity of housing accommodation and skyrocketing of rental values. Toju (2019) The study observes that property tax revenue mobilization in Benin Metropolis is ineffective due to unsystematic tax administration procedure employed by Land Use Charge Department. It also reveals that the current property tax administration will not appreciably enhance the internally generated revenue except the mode of operation is reformed. Maksym and Daowei (2014) assessed the effect of property taxes on changes between agricultural, forestry, Conservation Reserve Program, and developed land uses in Louisiana. Their results indicate that land use changes are inelastic with respect to property taxes. Simulation shows that current use valuation policy, while slowing down development of rural lands, also affects changes between rural land uses. Olusegun (2003) stated that the ability of land to appreciate in value makes it a most reliable and dependable

source of income to individuals and government. Several governments, the world over, have been reported to have derived numerous benefits from this tax. Aliyu (2008) reports that Mongolia, a third world country in Asia depends on property tax as one of its most vibrant sources of revenue and as such maintains a sound property tax administration structure.

However, very few states in Nigeria were found to have exploited the property tax as means of maximizing government revenue as such this study determine the effect of property tax on revenue generation in South East region of Nigeria.

Methodology and Sampling

This study involves survey research; hence this research needs people's opinion. As a result, the "purposive sampling technique was applied (Non-random sample). In this method, the sample is chosen based on what the researcher thinks is appropriate for the study. The elements of the populations include the state board of internal generated revenue of the five states in South East Region of Nigeria. The total number of the staff administered the questionnaires are 78 respondents across Enugu, Awka, Owerri, Aba and Ebonyi metropolis during the data collection process.

The data collected for the study were gathered using questionnaires administered to principal officers of this body to collect data relevant for the study.

Method of Data Analysis

Data collected for the study were analyzed by the researcher using five point likert scales. The two hypotheses formulated for the study were tested with one sample t-test with aid of Statistical Package for Social Sciences (SPSS) version 20.0 software package.

Decision rule:

Using SPSS, 5% is considered a normal significance level. The accept reject criterion was based on the computed t-value. If t-value calculated is equal or greater than tab t-value there is significant interaction effect, cal t-value value > tab t-value we reject Null and accept alternate hypothesis.

Data Analysis and Results

Hypothesis One

Ho₁: Property tax has not contributed to revenue generation in South East Region of Nigeria.

Table 2: One-Sample Test

| | Test Value = 0 | | | | | |
|---|----------------|----|-----------------|-----------------|---|---------|
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Increase economic development | 8.287 | 3 | .004 | 19.25000 | 11.8575 | 26.6425 |
| Improving internally generated revenue | 42.722 | 3 | .000 | 39.00000 | 36.0948 | 41.9052 |
| Influence on the management of farmland | 1.667 | 3 | .194 | 1.25000 | -1.1368 | 3.6368 |
| Maximization of economic benefits to landowners | 3.845 | 3 | .031 | 7.75000 | 1.3356 | 14.1644 |

From the above one sample t-test table, the outcome from the questions tested shows that the calculated t-values are higher than the table t- values. This means that property tax increase economic development; improving internally generated revenue; influence on the management of farmland and maximization of economic benefits to landowners. Since the calculated t-value is 56.521 and the table t-value is 1.812; it means that calculated t-value is greater than the table t-value. We therefore reject null hypothesis and uphold alternative hypothesis which states that forensic accounting encourage sustainability of investment firms in Nigeria.

Hypothesis Two

Ho₂: The effectiveness of property tax in South East Region of Nigeria does not hindering by identified factors.

Table 2: One-Sample Test

| | Test Value = 0 | | | | | |
|---------------------------------------|----------------|----|-----------------|-----------------|---|---------|
| | T | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Rapid increase of cost of land | 8.287 | 3 | .004 | 19.25000 | 11.8575 | 26.6425 |
| Corrupt practices among tax officials | 42.722 | 3 | .000 | 39.00000 | 36.0948 | 41.9052 |
| Political instability | 1.667 | 3 | .194 | 1.25000 | -1.1368 | 3.6368 |
| Lack of trained personnel | 3.845 | 3 | .031 | 7.75000 | 1.3356 | 14.1644 |

From the above one sample t-test table, the outcome from the questions tested shows that the calculated t-values are higher than the table t- values. This means that implementation of property tax is being affected by rapid increase in the cost of land; some tax officials are corrupt; some top political official does not has political interest over property tax and lack of trained personnel. Since the calculated t-value is 56.521 and the table t-value is 1.812; it means that calculated t-value is greater than the table t-value. We therefore reject null hypothesis and uphold

alternative hypothesis which states that the effectiveness of property tax in South East Region of Nigeria is being hindered by some factors.

Concluding

Property taxation has been reported as the most stable source of revenue to government especially in south east region of Nigeria; hence the South East governments had at different time implements property and land taxes to aid their internally generated revenue in their various states. However, this study found that property tax improves the internally generated revenue of government, influence on the management of farmland. However, property tax is being affected by some factors like; rapid increase in the cost of land; corrupt practices among the tax administrator and lack of political will. This has been attributed to the permanent and fixed nature of land and landed property.

Property taxes especially the tenement rates, which are taken care at the local government level provides the platform for the provision of the much needed infrastructure development.

This research recommended that property taxes should judiciously implement in the region to enhance the needed funds for sustainable development in these states. Also records of properties should be up dating as appropriate in the state to enable the government assesse taxable properties in the state.

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