PROBLEMS AND PROSPECTS OF LAND FEES ADMINISTRATION IN RIVERS STATE, NIGERIA

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PROPERTY TAXATION IN NIGERIA

AN EVALUATION OF THE RIVERS STATE PRACTICE

1.0 INTRODUCTION:

The need to exploit every available revenue source, in the bid to generate sufficient funds to finance public goods and services, has led to the introduction of different tax regimes. Taxation of property though dates back to the Poor Relief Act of 1601 (the Elizabethan Statute), is only beginning to gain acceptance in the Urban Local Governments in Nigeria. While most Less Developed Countries (LDCs) have exploited the full potentials of property taxation, majority of the local governments in Nigeria are yet to understand the potentials of this form of taxation in its generic form. This study, will examine how property taxation is implemented in Nigeria, drawing illustrations from the Rivers State practice.

Property refer to

Tax is a compulsory level imposed by the government (Federal, state or local), on the subject of the country, state or local government area. Property taxation, is a tax based on the value of properties owned by individuals and enterprises. It always includes land and residential construction and industrial and commercial constructions. Publicly owned properties and certain specialized properties like schools and churches are generally exempt from tax.

By virtue of (law), property tax IS the responsibility of the state and local governments in Nigeria.

2.00 IMPORTANCE OF PROPERTY TAX:

To appreciate the importance of property tax as a source of revenue, we need to survey the revenue sources of Local Governments. McMaster (1991) lists seven (7) major sources of revenue of Local Governments in Developing Countries thus:-

1. Local Taxes
    - 1.1 Real Property
    - 1.2 Personal Property.
    - 1.3 Per Capital (Head)
    - 1.4 Business and Professional Services
    - 1.5 Sales
    - 1.6 Excise
    - 1.7 Income or Graduated Personal Tax
    - 1.8 Agricultural Production Personal Processing
2. Licenses
    - 2.1 Occupational
    - 2.2 Vending
    - 2.3 Business premises
    - 2.4 Vehicles
    - 2.5 Special Event
3. Patrimony
    - 3.1 Sale of Municipal Property
    - 3.2 Municipal Enterprise Profits
    - 3.3 Rent from Municipal Property
4. User Charges
    - 4.1 Betterment Levies'
    - 4.2 Charges from Public Services Consumers
5. Other Non tax Revenue
    - 5.1 Fines

5.2 Payment for Serivers to Higher Level Government
5.3 Interest

6. Central Governments' Transfers
6.1 Shared National Taxes
6.2 Formula Grants
6.3 Ad Hoc Grants

7. Borrowing
7.1 Long - Term Capital Investments
7.2 Short - Term Debt

7.3 Local Inter-fund Borrowing

Among all these, the most widely used sources are:-

Property Taxes
Business Taxes
Other Local 'faxes
Market Fees
Other Licence Fees
Utility User Charges
Central Government Grants
Borrowing

The Taxes and Levies (Approved List for Collection) Decree 1998, Part III, lists the taxes and levies to be collected by the Local Governments as including

1. Shops and Kiosks rates
2. Tenement rates
3. On and off Liquor Licence fees
4. Slaughter slab fees
Marriage, birth and death registration fees
6. Naming of Street registration fee, excluding any street in the State Capital
7. Right of Occupancy fees on lands in rural areas; excluding those collectable by the Federal and State Governments.
8. Market taxes and levies excluding any market where state finance is involved.
9. Motor park levies
10. Domestic animal licence fees
11. Bicycle, truck, canoe, wheelbarrow and cart tees, other than a mechanically propelled truck.
12. Cattle tax payable by cattle farmers only.
13. Merriment and road closure level
14. Radio and television licence fees (other than radio and television transmitter) .
15. Vehicle radio licence fees (to be imposed by the Local Government of the State in which the car is registered).
16. Wrong parking charges
17. Public convenience, sewage and refuse disposal fees.
18. Customary burial ground permit tees
19. Religious places establishment permit fees
20. Signboard and Advertisement permit fees.

Most local governments, have expanded this list and have different items now enforced. A sample list for two typical Local Government Areas is attached as Appendix 1.

3.00 REVENUESOURCESOFALOCALGOVERNMENT

From the list of approved taxes for a local government, tenement rates constitute major property tax that has been exploited by most local government areas.

From an international perspective, the contribution of tenement rates to income can be illustrated as in Table 1.

TABLE I: TENEMENT CONTRIBUTION IN SELECTED COUNTRIES:

COUNTRY	RATE AS PERCENTAGE OF INTERNAL REVENUE
Isreal	49%
South Africa	37%
U.S.A	49%
Canada	74%
Great Britain	62%

Source: (Orewa, G.O., 1982 "Property Rating and Local Government Finance" Symposium on Property Rating as a source of Revenue, NIESV, Bendel State Branch 1982).

Locally, the tenement rate contribution can be highlighted by the Revenue Estimates of PHALGA/OBALGA.

4.00 EVALUATION OF SELECTED PROPERTY TAXES
4.01 PROPERTY RATES:

Property or Tenement Rate, is definecl as a local tax, levied by a Rating Authority on the ownership or occupation of a tenement (whether real or personal, private or commercial), within the local government area, to offset the expenses of the rating authority in the provision of services. Such services may include provision of Educational Health and social welfare, water supply, public transport, markets e.t.c.

4.02 HISTORY OF PROPERTY RATING

The Assessment Ordinance of 1915 known as Cap 15A of May 21, 1915, provided the basis fro Assessment and Valuation procedure for rating. It applied to Lagos and the then Southern Cameroon.

On September 23, 1954, Cap 15B was passed as the Assessment Law of Western Region. This law established Valuation Courts and Panels in the region. This was followed on May 13, 1956 by Cap 16 which was the Assessment and Rating (Public 1. Ttilities Corporation) Ordinance. This law was applicable to the Federal, territory of Lagos and provided for' the assessment of tenements other than dwelling houses, owned by Public Utility Corporations for rating purposes. Cap

16 consolidated all the earlier laws and was later adopted as the applicable legislation in the defunct Regions of Nigeria. In the Eastern Region, it was later recoded as Cap 11 Laws of the Eastern Region and it became the operational law until the publication of the Guidelines for Local Government Reform of August 1976. The operational law today in Rivers State of Nigeria is the Local Government Law No.3, of 1999.

4.03 PROPERTY TAX SYSTEMS

A property Tax System, describes the basis of levying the tax on property. There are basically, three types: annual or rental value systems; capital value systems and site or land value systems. The main differentiating feature, IS the type of property covered, the rate structure and the assessment practices.

Annual Value System: This is a derivative of the British Rating System and is predominant in most countries colonized by the United Kingdom. There are assessment problems with the system an such problems have led to the adoption of a type of Capital Value System or the assessment of some components of the tax base on a Capital Value System.

The main feature of the annual value system, is the definition of the tax base as the "expected" or "notional" rental value of property. Generally, this is the rent a willing tenant would be willing to pay under normal circumstances. The main problem of the system, is the assessment of a taxable based under such a subjective definition, as different tenants will be prepared to pay different rents, depending on their need and perception of the suitability of the property in question. It is in the bid to solve this problem, that many users resort to using capital value assessments.

In using the Annual Value System, residential properties are assessed by estimating rental value, that is the amount on which a willing Landlord and Tenant would agree in a free market situation. Such a free market is only deemed to exist, where there is no compelling need to rent and there is a perfect knowledge of prevailing market conditions. In establishing the free market rent, an attempt is made to determine a net rent by reducing the gross value by a flat percent amount e.g. 10%. Where actural rent passing is known, it may be used. The presence of rent control compounds the assessment procedure. In practice, while some use the prescribed rent, others ignore it and this invariably results in default in payments.

For non-residential properties, the annual rent is "the annual expected rent or the amount for which the property could be let. If capitalized, it is equivalent to the present value of the expected future flow of earnings from the property. In practice, this involves translating the base of the tax into a fixed proportion of the estimated capital value.

Where Vacant Land is included as in Singapore and Calculate, the value is assessed as 5% of Capital Value:

For Public Utility Corporations. in Nigeria, the annual value will be 5% of the Capital Value, as provided for by the Assessment and Rating (Public Utility Corporations) Ordinance Cap 16 of 1956.

Capital Value Systems: This system adopt') the capital value of land and improvements, as a base for levying the tax. It adopts an assessment ratio of between 0 and 1, i.e. ·the ratio of assessed to market value. Site value taxation is a variant of the Capital Value System.

Those protagonists of this system, argue that:-

i) It is easier to estimate the Capital Value of a property than it is to estimate the rental value.
ii) Using annual value does not allow adequate flexibility in adjusting the tax rate and base structure, to achieve the desirable allocative effects.
iii) The definition of annual value, makes it very subjective and uncertain in any particular circumstance.
iv) In defining the base and its coverage there is less confusion between market values and annual rents. This makes the determination of assessed value more certain.
v)

In using the Capital Value System, there is hardly any graduated rate structure. There is a more frequent use of different rates for land and improvements. This thus makes the system more allocative and equitable in effect.

The valuation methods of comparison, Replacement Cost or Discounted Cash flow, in one variation or another, are used. The distinguishing feature of the methods are:

a) the extent to which value IS a product of some formulae or IS judgmentally determined;
b) whether land and improvements are separately valued; and
c) the frequency of systematic reassessment.

In the Nigerian practice, the Capital Value System is adopted for the rating of Public Utility Corporations and Statutory Undertakings. Here the aim is to minimize the value of such properties for rating purposes as a valuation to determine market value which will result in a rather very high annual values. It is also the method that was introduced since the promulgation of
CAP 16, the Assessment and Rating (Public Utilities Corporation)
Ordinance of 1956. This law remains the only law that has specified the percentage of the Capital value that will equate the annual value

This percentage is 5%. Subsequent laws that specify the use of the Capital Value System have been silent on the percentage that will yield the annual value.

SITE VALUE SYSTEMS:

This system does not tax improvements but taxes only the bare land. The value of land under this system, has no relevance to the development') or potential developments. In taxing the base site, there is no penalty for improving the property as implied under the Capital Value System. It is argued that since only land is taxed, that owners are encouraged to make optimal use of the land (Bahl 1984).

S/NO	DETAILS OF REVENUE	PHALGA		OBALGA		KHANA	
		₦	%	₦	%	₦	%
1.	Statutory Allocations	110,684,526.00	46.75	134,646,333.00	67.26	46,662,765.78	91.47
2.	Tenement Rates	34,950,000.00	14.76	44,005,000.00	21.98	1,389,375.00	2.72
3.	Earnings From Commercial Undertakings	12,755,000.00	5.39	6,617,000.00	3.31	2,024,510.00	3.97
4.	Local License Fees & Fines	8,663,000.00	3.66	11,448,000.00	5.72	724,910.00	1.42
5.	Taxes	4,050,000.00	1.71	2,250,000.00	1.12	00	00
6.	Rent From Property	800,000.00	0.34	20,000.00	0.02	00	00
7.	Interest Payments/Dividends	00	00	00	00	00	00
8.	Miscellaneous	64,862,900.00	27.40	190,000.00	0.09	00	00
9.	Other Grants	00	00	1,000,000.00	0.50	215,000.00	0.42
	TOTAL	**236,765,426.00**	**100.01**	**200,176,333.00**	**100**	**51,016,560.78**	**100**

SOURCE: 1998 Revenue Estimates from Annual Budgets. **PROBLEMS OF LAND FEES ADMINISTRATION**

McMaster (1.991) states that:
It is not enough to raise adequate revenue Irom land fees. It must be raised in an equitable fashion as unfairness is in itself an obstacle to revenue collection. Resistance of pay taxes or charges will increase if individuals perceive that they pay more than they can afford, or feel that they are bearing an undue proportion of the burden compared .to others or the level of services they receive. These fees are actually local taxes on land and buildings.
Taxes on land and buildings are normally general-purpose and constitute the most common form of direct internally generated revenue for urban local/state governments. Revenue from this source contribute to the provision of a range of urban services particularly physical infrastructure like roads, drainage, refuse collection, street lighting water supplies and so forth.
The administration of a land fees regime fares two broad categories of problems, namely structure and practical.

Structural Problems:

These problems will manifest in. the form of the following:-

1. Coverage: Land fees may be collected from all types of property-commercial, industrial, institutional and residential. Usual exemptions include places of worship and charitable institutions; government properties, owner-occupied properties, nature settlements. Some countries exempt small properties below a stipulated value; this may be a legal exemption or simply an administrative choice, which ignores squatter settlements and so forth.

2. **Land Fee Structures:-** Land fees are normally assessed on a percentage of the valuation of the property. This tariff may be differentiated between types of property, for instance being heavier on industrial or commercial than on residential properties. The percentage may also differ between localities.
3. **Valuation:-** May be based on one or more of the following basis:-
   - Annual rental values, that is, the potential income to the owner from renting a property, whether actual or notional;
   - Improved Site Values, that is, the potential market sale price of the land plus its improvements; or
   - Unimproved site values, that is, the potential market sale price of the land as if vacant, disregarding any actual development on it.
4. **Frequency of Valuation:-** Some countries adopt a quinquenial revaluation of the properties while others adopt a ten-year routine. Here, while we claim a five-year term, revaluations are hardly clone. Even the annual updating of the valuation list is hardly done, due to the practical problems.
5. **Inadequate capacity to administer fees:-** Most agencies concerned with the administration of land fees are very poorly equipped for the task of determining appropriate fees and collecting such fees. The valuation experts are lacking in most local governments and even those in the state service lack the modern technical know-how to embark on the mass-valuation required for a comprehensive determination of land fees.

PRACTICAL PROBLEMS:

At the practical level, the effective administration of land fees faces multiple problems viz:-

1. Non registration of proprietary land parcels and delays in transfer of title to land in Rivers State. This absence of a land cadaster and lack of adjudication machinery compounds the administration of land in the state. The promulgation of the Land Use Act, notwithstanding, the State Governments have not taken steps to document their land holdings, which should commerce with the setting up of a Land Information System (LIS).
2. **Multiplicity and Non-Uniformity of Definition of Fees:-** Different local governments within the state charge different land fees. Some charge fees like Agricultural levy, Customary fees, Sanitation fees, Local Government Support Levy Operation Permit, Sewage Fee, Tenement Rate, in addition to the State Government's Ground Rent and Plan Approval Fees. Within each neighbourhood there is Youth Levy, Community Development Levy, Matching Ground Fee etc.
3. Multiplicity of Collection Points: Some fees are paid to the Lands Bureau, some to the Ministry of Housing and Urban Development, some to the Local Government Councils and some to Youth Bodies and Community Associations. This multiplicity of collection points and personnel leads invariably to gross under-collection and most of the funds not being reflected in Public coffers.
4. Admixture of Native Settlements with Planned Neighbourhoods. The existence of native settlements within the planned neighbourhoods creates problems of implementation of any regulations in such settlements).

Natives generally feel the absence of government in their towns and are thus reluctant to pay any fees to government.

5. Overlap of Local, State and National responsibilities of many public service functions results in non-availabilities of many public service functions results in non-availability of such services in many urban areas. The lack of services compounds the difficulty of collecting land fees, no matter how small.
6. The Institutional Framework of Local Covcmmcnts renders them incapable of collecting land fees. Most local government councils do not have any enabling law to enforce any payment and where they do; there is no machinery to enforce compliance. Many inhabitants do not relate payments of fees to the provision of services and are thus reluctant to pay. Councilors do not have the requisite knowledge to provide the enabling laws to ensure collection of land fees.
7. Absence of records of building owners/developers within the municipality makes service of relevant demand notices impossible.

PROSPECTS OF LAND FEES ADMINISTRATION

1. Government can raise additional revenue through increasing user fees and charges, raising local taxes, introducing new taxes and charges and selling off assets like unused land. (see Al to A7)
2. Improve efficiency and effectiveness of their operations through productivity improvement programmes; more efficient programmmg, planning and budgeting, cutting back some programmes, using law cost approaches; achieving cost savings through use of private contractors (see BI to B5)
3. Greater use of private participation in the provision of urban services through self-help and mobilization of non-government resources. (see Cl).

A1. Updating and maintaining existing local tax bases like property tax 2.

2. Improving local tax administration by revify tax rolls, intensifying inspection and checking, establishing systems of collection targets and introducing modern computerized record-keeping methods.

3. Eliminating taxes of insignificant yield, to concentrate efforts on those which provide significant yields.

4. Removing tax exemptions like on government properties and owner-occupied lisg
5. Getting from central government's more flexibility m setting local taxes.
6. Introducing new local tax revenue sources
7. Revising and extending service charges and
8. Establishing enterprise for profit.

B1. Improving the budgeting and programming of financial management systems.

2. Implementing lower cost methods of service delivery
3. Ensuring that adequate funds are available for the operation and maintenance of capital infrastructure.
4. Contracting out services to the private sector where cost savings can be ensured.
5. Implementing productivity-improvement schemes.

The Key To Analysing Property Tax performance for a single municipality is to have a good estimate of the tax base i.e. the total value of all property on which the tax is levied.

WAYS OF ESTIMATING VALUE OF TAXABLE PROPERTY

- Bareline projection method
- Cost project method
- Income profile projection methods

These estimates can be used to check recorded valuation on the tax rolls.

- **BASELINE PROJECTION TECHNIQUE**

Used where there has been a good estimate of the property values or where a historic cadastral survey was completed, giving reasonably good information on property characteristics and values, that may be used as the baseline. In using the method:

i) assume that the total amount of taxable property has increased in proportion to the population growth
ii) the value of property has increased in proportion to the rate of inflation.

Step 1: Calculate growth in the number of properties. In 2003 (bare year), a codastre survey recorded 13250 properties with a valuation of N53,OOO,OOO.OO of N4,000.OOO per property. If population growth is 5% per year, we assume the no. of properties is growing at 5% per year also. In 2004 the number of properties is 13250+ (0.05 x 13250) = 13913

Year	2004	2005	2006	2007	2008
Number	13913	14619	15350	16118	16924

Step 2: Calculate increase in value
Assuming an inflation rate of 15% p.a. from 2004 to 2008. With an average property value of N4,000.00 in 2003, we have:

Year	2004	2005	2006	2007	2008
Value (₦)	₦4,00.00	5290	6084	6997	8047

Step 3: Calculate total valuation in 2008
Total valuation in 2008 will be ₦ (l6924 x 8047) ₦I36,187, 428.00

COST PROJECTION TECHNIQUE:

Used where housing costs and housing units may be found.

Step 1: Assemble data on (A) number of housing Units, (B) average cost per unit and (C) Proportionof total property tax collected from residential housing.

Step 2: Estimate total property valuation
Step 3: Estimate total value of housing

RENTAL VALUE PROJECTION TECHNIQUE

Most useful of property tax is computed on the rental value of property, particularly the rental value of residential property. Most useful where tax base is suspected to be understated on the tax rolls.

Step 1: Assemble data on (A) Proportion of income devoted to housing (B) Total Individual household income (C)

Proportion of total property tax collected from residential property.

(A) If study indicates that 18% of household income IS spent on housing costs as rent

(B) Another study indicate a per capita income of N2,000.00 and a house hold size of 5.5 persons per household, indicating a household income of N 11 ,000.00 per annum.

(C) The proportion of the local property tax accounted for by residential properties is 80%.

Step 2: Calculate total rental value of housing with a population of 400,000 persons and an average household size of 5.5 persons, there are 72727 households. With rent as 8% of household income, average rent is 0.18 x 11000 per annum. Total rental value is thus 0.18 x 11000 x 72727 = ₦143 ,999 ,460.00

Step 3: Calculate total rental value.
If housing accounts for 80% of property valuation the Total Renal Value is 0.80 x 143,999,460.00 = ₦I15,199,568.00

4. Possible centralization of the Property tax administration system:- In the United Kingdom the assessment of land and buildings for tax IS co-ordinated by the Inland Revenue Authority, while the various local government councils collect in their respective areas of jurisdiction. In Nigeria, many States like Oyo, Osun, Ondo, Cross River etc. also practice the centralized assessment and collection. Lagos State, under the Land

Use Charge practices central assessment and collection and subsequent distribution to the Local Governments. While the Land Use Charge unifies all land fees, its implementation has been very controversial and the results have not been very encouraging.

CONCLUSION:
Rosengard (1998) state that the purpose of a property tax is NOT:

- To guide allocative decisions
- To achieve social goals
- To recover capital cost')
- To price private goods

He suggests that any process aimed at improving the property tax system must contain:

- Personal and organizational incentives
- Improving services provided
- Applying sanctions
- Mounting multimedia campaigns
- Linking policies and phasing implementation and upgrading existing

systems.

Dool (2005) state that the sustainability of the property tax system can be mazimised by increasing the coverage, emphasizing simplicity and enhancing buoyancy by indexing and re-valuations.
Looking at the present situation and experiences, for there to be improvement, the logical start is the creation of a land caclester and the setting up of an adjudication machinery. Based on the inventory provided, a comprehensive valuation and revaluation of the entire land and buildings comprise the taxable properties of the state.

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