Examining the Dynamic Trends in Variation of Property Tax Liability and Value of Rateable Hereditaments in Selected States in Nigeria

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Abstract

The burden of tax is the property tax liability and is assessed on the value of hereditaments within a rating authority prerogative. However, inefficient operations and processes of property tax administration system in Nigeria has brought about the shortfall in property tax generated over total tax liability on rateable hereditaments. This study focuses on examining the trends in variation of property tax liability and value of rateable hereditaments in three selected states in Nigeria (Lagos, Kaduna and Kano States). Multiple case designs, structured questionnaire survey, as well as documentary source were used to collect data from the three selected states. The study employed descriptive, inferential and content analysis techniques to analyse the quantitative data obtained. The results of trends analysis in property tax liability value over the period (2000 – 2017) revealed that, Lagos had highest collection rate followed by Kano and Kaduna at 69%, 31% and 28% respectively and the result of trend importance index revealed that income level from hereditaments, level of education of payers and availability of community services were identified as the most predominant determining factors at 93%, 93% and 92%. Further result of simple regression modeling revealed that 75%, 71% and 73% variations in property tax liabilities are significantly influenced by economic,, institutional, social, individual and socio-economic factor in Lagos. The study therefore concludes that, value of hereditaments level of education of tax payers, availability of community services, simple and transparent property tax system are the most effective factors that activate positive and responsive attitudes towards property tax compliance. The study therefore recommends complete overhauling in institutional framework in Nigeria's property tax system in order to address factors that can positively influence total compliance to property tax liability.

Keywords: Hereditaments, Property Taxation, Tax Liability, Tax System and Value

INTRODUCTION

The oldest form of taxation levied on land value and landed property is the property taxation and the actual burden of the tax which is property tax liability is usually assessed on the value of hereditaments within rating authority jurisdiction. The bases of property tax liability are the dynamic elements influencing resolutions of the taxpayer on whether to pay property tax or not Ali *et al*., (2014). It is a veritable tool for revenue generation and source of finance available particularly to local government council and its determinants is conceptualised into economic, fiscal, social, and political accountability (Aluko, 2005). It is a major source of revenue generation in advanced countries such as United Kingdom and Austria, and this type of tax is called wealth tax because it is levied annually on the value of the landed property, and it is a form of tax confined to land and building which is based on estimated market value or rental value of the hereditament

(Munro, 2000). The foundation of property taxation can be drawn from Ricardo theory of economic rent which specifies that excess payment made to land both over and above transfer earning should be taxable in a way that follows the requirement of a good tax system (McChuckey *et al*, 2005).

Property taxation has become progressively significant to all levels of government-financing range as more several responsibilities are being delegated from central to other tiers of government, the reason is, property taxation is the single but most important source of revenue generation in many parts of the world and is considered a reliable source of revenue for governments (McGuire, 2001; Sullivan, *et al.,* 1995; Dillinger, 1992). Property tax remains, among known local taxes, the most viable source of revenue for a truly independent local government administration (Tomori, 2006).

Property tax is also considered a suitable source of revenue as a result of the connection between the type of services often provided by the government and direct improvement in property values. The expenditure on essential services such as fire, police protection, roads, drainage and street lighting brings about increase in property values within a jurisdiction. McCluskey (2000) observed an international trend of increasing demand for public services and specifically those provided by local government authority. Subsequently the growing need for revenue to finance these services has resulted to an increase in amount of taxes on real property (Cagdas*et al.,* 2003).

In developing countries such as Nigeria, the context of property tax is of particular importance because more responsibilities are devolving to local government, hence the need for a major local government revenue source to generate sufficient revenue to finance local expenditure (Aluko, 2005) and comparatively there is much less reliance on property tax for local governments in the country because other productive revenue sources are assigned to other tiers of governments and the lucrative sales and income tax bases are exploited by the central government, leaving local governments to rely on property tax.

The increase urban population has placed stress on the available public services in Lagos, Kaduna and Kano States, and this has led to increase in financial burden on governments to supplement current demand for communities' services. Proceeds from property tax liability are not proportionate with the increasing number of rateable properties in these states and practically, governments have not sufficiently exploited the potentials in landed property taxation as an alternative source of revenue to finance the community social services and infrastructure (Aluko, 2005; Ajayi *et al.,*2014; This insufficient exploitation of revenues from property tax has handicapped the financial capability of the selected states to provide required services to meet up with current challenges. The shortfall in funds for financing urban services as opined by Ogunba *et al.,* (2006) is believed to have been created by the disparity between expected property tax generation and tax base capacity.

Many authors, for example, Ishaya *et al,* (2012), Mohammed and Isiyaku (2013), Caleb and Ibitoye (2014), Ajayi *et al,* (2014), Awunyo and Victor (2015), have shown that property tax liability fall-short of expectations and there is need to examine the trends in variation in property tax liability and factors determining the decision to pay the property rate and reasons for low property tax generation in the study areas. It is on this note this study is examining the dynamic trends in variations of property tax liability and value of rateable hereditaments in Lagos, Kaduna and Kano state in Nigeria.

The rationale for the choice of selected states for the study is based on the historical development of political and economic activities; and the large number of rateable hereditaments. Difference in the level of urbanisation, urban finance, economic opportunities, property tax administration, land use patterns, land value and infrastructure development across the selected states also serve as basis for their selection

The composition of property tax (tenement rate) is defined by the state tenement rate law and consists of land with or without building held or occupied for a beneficial purpose and includes open storage facility, wharf or pier within a local government area legal liability for the property tax rests with property itself (Kuppusamy, 2008). Occupation is one the composition of rateable hereditament, tenement rating (property rating) is imposed on occupation primarily by local authority. The term occupation is referred to the owner or tenant depending on who is in the occupation as at time of assessment (Olusegun, 2002). Rateable hereditaments in a particular rating local government area are composed of three: commercial, residential and industrial. Each of these hereditaments also composes of features that make them rateable such as evidence of income generation in form of rental income and assessed market value which is the basis for its assessment. A property must have a rateable value. Other composition of reateable hereditament are physical features such amenities and facilities that make up the value of the property (Kuye, 1999).

Trends in Variation of Tax Liability and Value of Hereditaments
Social influence theory is one of the property compliance theories; it states that compliance behavior and attitudes towards the tax system is thought to be affected by the behavior and social norms of an individual's reference group (Snavely, 1990). The assumption is that, human behavior in the area of property taxation is influenced by social interactions, much in the same way as other forms of behaviour. Compliance behavior and attitudes toward the tax system and payment may therefore be affected by the behavior of an individual's reference group such as relatives, neighbours and friends. Therefore, if a taxpayer knows many people in groups important to him who evade taxes, his/her commitment to comply will be weaker. On the other hand, social relationships may also help deter individuals from engaging in evasion in fear of the social sanctions imposed once discovered (Sah, 1991).

According to the political legitimacy theory, tax compliance is influenced by the extent that citizens trust their government (Tayler, 2006; Kirchler*et al.,* 2008; Fauvelle-Aymar, 1999). Legitimacy could be described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, proper, just and work for the common good. Persson, (2008) argues that African countries upon independence emphasized building national over ethnic identity have been more successful than those who allowed ethnicity to become the main animus of politics. All these tax-payers-compliance theories explaining people's attitude towards taxation in African countries. Property tax liability is a tax gap that exists between the expected property revenue and realisable property tax revenue; it is basis for measuring tax collection efficiency and performance (Umar *et al.,* 2012). For tax purpose, the sole objective in defining tax liability is to make the tax collectable and to find a person to whom the taxing authority can apply sufficient leverage to extract the tax.

Loo (2006) and Kirchler (2007) approached tax compliance from an interdisciplinary viewpoint which exemplifies a wider standpoint of tax compliance determinants compared to other researchers. Kirchler (2007) divided tax compliance determinants into five categories and the study was based on psychological and tax authority and taxpayers' view namely, political perspectives,

social-psychological perspectives, decision making perspectives, self-employment and interaction between tax authorities and taxpayers.

Muhammad and Ishak (2013) examined the comparative analysis of property rate charge between local government across peninsular in Malaysia, The study employed qualitative approach using purposive sampling technique with valuation officers to local authorities. Required information is sought and acquired from local authorities, are used. Findings revealed that there is no uniformity in operation of property rating within local authorities especially in the areas of percentage rate charges across the areas and the classification of properties' uses based on which rates percentages were applied thus diversity within intended uniformity.

Birskyte (2013) assessed the determinants of the property uniformity in Vilnius, Lithuanian. The study employed regression analysis to test the factors that contribute to the variation in property tax. The result of the analysis revealed that economic structure and condition are the most determinants of property tax assessment. Awunyo-Victor *et al.,* (2015) examined the determinants of property tax defaults in Ashanti region, Ghana. The study employed multi-stage sampling techniques to sample 540 respondents across the region. The study utilised the descriptive and regression to analysed the data, the result showed that lack of awareness and high tax rate as reasons for default and the study further revealed that income level, property value and property location significantly influenced the rate of default, and raising in awareness of property tax is recommended.

Aleknavicius (2001) analysed real property taxation trends in Lithuanian between 2008 and 2010. The study employed the descriptive analysis revealed that average market price by mass appraisal is far below the real market value, and shifting the market value to market price as a taxable value provides no harm to the land owner and difference in value of market price and real market value ranges between 7%-98%.

These existing studies analysed the trends in property tax generation in relation to property market growth, income generation through property tax has been very low due to lack of re-assessment of various hereditaments to capture recent growth in the market value of properties. This study intends to capture the recent development in property tax that is due to economic growth over a given period.

The view of previous studies has been firstly on assessing the administrative challenges in property tax system (Olima, 2001; Aluko, 2005; Ogunba and Tomori, 2006; Muhammad and Ishiyaku, 2013). Some dwelled on factors affecting property tax liability (Stucere and Mazure, 2012; Birskyte, 2013; Awunyo-Victor et al., 2015). Also some previous studies addressed impact of property tax on business activities (Dye et al., 1999; Aleknavicius, 2001). But the recent shortfall in revenue available across the country, Nigeria required urgent argumentation to revive the distressed facilities and save the communities from infrastructure decay, hence the need for this study to examine the trends in variations of tax liability and value of rateable hereditaments as well as factors which influence property tax liability.

METHODOLOGY

The study is framed on experimental design that is specifically based on factorial analysis that requires both dependent and independent factors and variables and it was designed upon the background which revealed the variations in trends of property tax liability and value of rateable

hereditaments. The two sources of data collection for this study are primary and secondary sources. Primary sources of data were on rateable hereditaments from both occupiers and Rating Valuation Offices in each of the respective States. Secondary sources of data comprises of the published materials by Valuation Offices of selected states. The study adopted multiple case designs, a triangulation of questionnaire survey, as well as documentary source and non-participant observation to collect quantitative data from the three selected states. Questionnaires were administered through a stratified sampling technique; with 5869, 881 and 3336 but only 4395, 725 and 2479 were retrieved in Lagos, Kaduna and Kano respectively. Data analysis techniques used include, Inferential and Content Analysis techniques to analyse the data obtained. Analysis of Variance (ANOVA) was also adopted to test the difference of mean of property tax liability and value of rateable hereditaments.

Available Data in Selected States on Tables
This study carried out the analysis of the trends of variation in the property tax liability, collection rate and value of rateable hereditaments in the study areas (see table 4)

Table 4:   Amount of Property Tax Liability and Collection Rate in the selected Study areas in millions (M) of Naira.

State	LGA	Liability Value as at 2017 (M naira)	Amount Collected (M naira)	Collection Rate (%)
Lagos	Lagos Mainland	57	54	95
	Lagos Island	71	68	96
	Apapa	79	75	95
	Eti-osa	21	19	90
	Surulere	43	39	91
	Ikeja	29	26	90
	Total	300	281	94
Kaduna	Kaduna North	41	11	27
	Kaduna South	50	19	38
	Total	91	30	33
Kano	Kano Municipal	27	21	78
	Nassarawa	19	9	47
	Taraoni	15	5	33
	Ungogo	21	7.5	36
	Dala	12	4	33
	Fagge	16	3	19
	Gwale	6	2	33
	Kubotso	4	1.5	38
	Total	120	53	44

Source: Extracted from States Valuation Offices (Bureau of Lands Gazette) 2017

The result of 2017 property tax liability and collection rate across the study areas in Lagos, Kaduna and Kano is presented in table 5, 6 and 7. In Lagos, Lagos Island had highest collection rate at 96% followed by both Lagos Mainland and Apapa at 95% collection rate for each of the area. In

Kaduna, Kaduna South achieved higher collection rate than Kaduna North at 38% and in Kano, Kano Municipal achieved highest property tax collection rate at 78%.

Trends of Variations in the Property Tax Liability and Value of the Rateable Hereditaments

This study carryout the analysis of the trends of variation in the property tax liability, collection rate and value of rateable hereditaments in the study areas. The results of the analysis are as presented in this section of this work.

The total liability value of rateable hereditament and annual amount collected presented in table 5 revealed annual rate of property tax collection across the rating area in Lagos. Annual collection rate increased annually from 2014 to 2017 but there isfluctuation in the rate of collection from 2000 to 2013. The collection rate is low in 2000 and very high 2017, this showed that there is high compliance in property tax and improvement in the property tax system.Over the period of 18years, the total liability value of hereditament is given N3,059,000,000and total amount of collection is given at N2,098,000,000 therefore the collection is derived at 69%. This revealed that over the period of 18years, tax authority in Lagos achieved 69% property tax collection rate which is over 50%.

Table 5   Trends in Annual Amount of Property Tax Liability and Collection Rate in Lagos from 2000 to 2017 in millions (M) of naira.

Year	Liability Value (M naira)	Amount Collected (M naira)	Collection Rate (%)
2000	89	39	43
2001	91	49	54
2002	101	44	44
2003	115	61	53
2004	121	65	54
2005	129	71	55
2006	134	83	62
2007	140	77	55
2008	145	73	50
2009	149	80	54
2010	165	78	47
2011	179	97	54
2012	188	129	69
2013	201	159	79
2014	250	198	79
2015	273	245	90
2016	289	269	93
2017	300	281	94
Total	3,059	2,098	69

Source: Lagos State Valuation Office
(Bureau of Lands Gazette)

Table 6   Trends in Annual Amount of Property Tax Liability and Collection Rate in Kaduna from 2000 to 2017 in millions (M) of naira.

Year	Liability Value (M naira)	Amount Collected (M naira)	Collection Rate (%)
2000	5	2.7	54
2001	15	3	20
2002	31	8	26
2003	40	11	28
2004	45	17	38
2005	49	15	31
2006	51	14.5	28
2007	60	18	30
2008	63	19	30
2009	65	16	25
2010	68	13	19
2011	70	14	20
2012	72	19	26
2013	75	21	28
2014	79	22	28
2015	83	25	30
2016	87	23	26
2017	91	30	33
Total	1049	291.2	28

Source: Kaduna State Valuation Office
(Bureau of Lands Gazette)

The total liability value rateable hereditament and annual amount collected presented in table 6 revealed annual rate of property tax collection across the rating area in Kaduna. Annual collection rate start increasing from 2001 to 2004 but there are fluctuation in the rate of collection from 2005 to 2017. The collection rate is low in 2010 and very high 2000, this showed that there is poor level of property tax compliance and lack of improvement in the property tax system. Over the period of 18years, the total liability value of hereditament is given N1, 049, 000, 000 and total amount of collection is given at N291, 200, 000 therefore the collection is derived at 28%. This revealed that over the period of 18years, tax authority in Kaduna achieved 28% property tax collection rate which is lower than 50% average.

The total liability value rateable hereditament and annual amount collected presented in table 7 revealed annual rate of property tax collection across the rating area in Kano. Annual collection rate start increasing from 2004 to 2007 but there are fluctuation in the rate of collection from 2007 to 2017. The collection rate is low in 2004 and very high 2017, this showed that there is poor level of property tax compliance and lack of improvement in the property tax system. Over the period of 18years, the total liability value of hereditament is given N1, 101, 500, 000 and total amount of collection is given at N343, 500, 000 therefore the collection is derived at 31%. This revealed that over the period of 18years, tax authority in Kano achieved 31% property tax collection rate which is lower than 50% average.

Table 7: Trends in Annual Amount of Property Tax Liability and Collection Rate in Kano from 2000 to 2017 in millions of naira

Year	Liability Value (M naira)	Amount Collected (M naira)	Collection Rate (%)
2000	18.5	7	38
2001	23	8.5	37
2002	25	10	40
2003	31	9	29
2004	39	8	21
2005	42	10	24
2006	49	13	27
2007	53	15	28
2008	58	13.5	23
2009	63	15	24
2010	67	17	25
2011	69	19.5	28
2012	74	20	27
2013	79	25	32
2014	83	29	35
2015	96	31	32
2016	112	40	36
2017	120	53	44
Total	1101.5	343.5	31

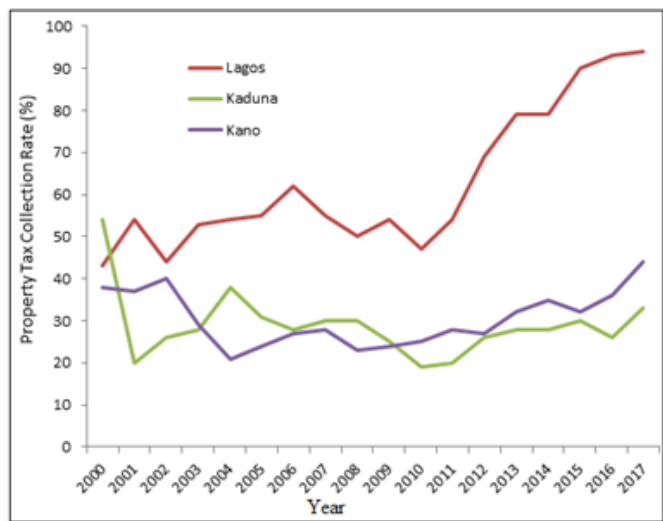Source: Kano State Valuation Office (Bureau of Lands Gazette)

Figure 1: Trend in Property Tax Collection Rate across the Study Areas.

The trends in property tax collection rate in figure 1 above revealed the annual percentage of amount of tax liability collected to that total annual liability. The result showed that Lagos maintained a fluctuated movement between 2000 and 2010 after which there is progressive and steady rise till 2017.

The collection rate in Lagos showed is high and overlapped both Kaduna and Kano. Property tax system in Lagos showed high level maturity with a significant gap when compare with Kaduna and Kano. The progressive movement between 2010 and 2017 showed the reflection of new tax policy in called Land Charge in Lagos State. This has proved successful. This further revealed that Kaduna and Kano are yet to improve in their property tax system.

Table 8: Analysis of Variance of Rate of Property Tax Collection across the Study Areas

	Sum of Squares	Df	Mean Square	F	Sig.
Between Group	13093.000	2	6546.500	50.283	,000
Within Group	6639.833	51	130.193		
Total	10732.833	53			

The analysis of variance in property tax collection rate across the study areas presented in Table 9 in collaboration with factor analysis of the variance of the rate of property tax collection showed in table 10 indicates that the f-statistic at 50.283 is statically significant at p-value at 0.000 is less than 0.05. This indicates that there is statistical significance difference in the rate tax collection across the study, in other words, the rate of tax collection is not the same in the study areas. While some areas are more effective others are less effective.

Table 9: Factor Analysis on the Variance of Rate of Property Tax Collection across the Study Areas

(I) Factor	(J) Factor	Mean (I - J)	Std. Error	Sig	95% Confidence Interval	
					Lower Bound	Upper Bound
LAGOS	Kaduna	33.833*	3.803	.000	24.65	43.01
	Kano	32.167*	3.803	.000	22.99	41.35
KADUNA	Lagos	-33.833*	3.803	.000	-43.01	-24.65
	Kano	-1.667	3.803	.900	-10.85	7.51
KANO	Lagos	-32.167*	3.803	.000	-41.35	-22.99
	Kaduna	1.667	3.803	.900	-7.51	10.85

The result of Honesty Significance Difference (HSD) and factor loadings in all the selected areas revealed that Lagos maintained a statistical significant different more than what is obtainable in across Kaduna and Kano, therefore the bulk of variation is found in Lagos. This means that the bulk of property tax collection is emanating from Lagos.

As shown earlier in table 7, the variation in the value of hereditament in the study areas showed that Lagos maintained large amount of ratable value than other states. the table revealed that there is significant variation in the value of rateable hereditament across the study areas as p-value at 0.00 is less than level of significance therefore there is significant variation in value of hereditaments and definite the liability value varied across the area with Lagos have highest value.

The study revealed that the composition of rateable hereditament differ across the nation has worked out in percentage, with 27.5%, 22.2% and 20.7% for Lagos, Kaduna and Kano

respectively. Also, over the period of 18years, the total liability value of hereditament is given at N3,059,000,000, N1,049,000,000 and N1,101,500,000 and total amount collected is given at N2,098,000,000 N291,200,000 and N343,500,000 in Lagos, Kaduna and Kano respectively. Only Lagos was able to achieve 69% collection rate which is higher than that of Kaduna and Kano at 28% and 31% respectively. Therefore, Lagos property tax system is more developed and more successful than other cities under study. This finding is consistent with that of Ogunba *et al.* (2006).

Table 10: Variation in Value of Hereditament in the Study Areas

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	57063369	2	28531684	37.9816	0.000	3.190727
Within Groups	36057482	48	751197.5			
Total	93120851	50				

CONCLUSION

The trends in variation of property tax liability and value of rateable hereditaments across Nigeria have been examined and appropriate statistical techniques were used to investigate the trends in variation. The study has found that improvement in economic activities increase in government expenditure on infrastructure play a significant role in property tax liability compliance among the taxpayers in the study areas. This is because; availability of community's infrastructure is necessary pre-condition for boosting the moral of tax payers toward property tax liability compliance. The compliance level is high in Lagos than other selected states. Therefore, formidable institutional-framework capable of promoting compliance to property tax liability should be put in place and property tax system be made simple with clear process to make the attitudes of taxpayers towards compliance positive and responsive as this will create sustainable property tax market. Finally, re-orientation of importance of tenement rating among the taxpayers is important as it will positively improve the level of compliance to pay.

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