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The Analysis of Site Value Tax as a Key Indicator to Revenue Mobilization in Nigeria

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Abstract

Site value tax is a form of property tax which is levied on bare site without development. It is normally based on the open market value of land. Previous studies have shown that land value tax has been practiced in other developed countries and has contributed to the revenue generation and also curbing of land speculation. Despite this, it has not been implemented in Nigeria before. In view of this, this study analysed the role and relevance of this tax in countries where it has been established and evaluate it. This is to serve as an avenue for revenue mobilization and also to curb land speculation in Nigeria. To achieve this, questionnaires were also administered to 171 residents in developing towns in Ogun state. Likewise, interview were conducted amongst 4 Top-government officials at the Bureau of Land and Survey in Ogun state. The information gathered were analysed using the frequency distribution table and relative importance index. The study revealed that most residents owners would prefer the introduction of site value tax to other form of property taxes because it would make land accessible to private individuals rather than land speculators, and this would improve government revenue. The result of RII from residents surveyed as the most preferred choice of property tax is 0.90, followed 0.89 ranked as second for tenement rate.

Introduction

BACKGROUND TO THE STUDY

Orekan, (2020) discussed that taxes often forms bulk of government revenue which relates to monies mobilized from real estate's resource base in the economy. Generally, resources of government come from revenue generation and this can be from external or internal sources. External source refers to outside the government while internal source is within. These financial sources are from sales of investment, agency or private trust transactions and public revenue. Siddique and Illyas, (2010) made it known that revenue from public consist of taxes and fines, fees, gifts and grants. In view of this, it was made known that government revenue can be classified into tax and non-tax revenue.

Taxes are known to be levies paid by citizens of a community for the services and amenities provided, such as town halls, markets, road and electricity (Muhammed and Ishiaku, 2013). Furthermore, Stock, (2005) buttresses that the most populous country in Africa is Nigeria in West Africa. This high population no doubt would cause the social amenities and infrastructure to be overstretched. This infrastructure would require regular repairs and upgrade not to mention high costs of expansions and replacements. If this is the case, taxation (direct or indirect) is an important element that cannot be underestimated in the mobilization of revenue. Property taxation which is an indirect tax is another form of taxation for mobilization of revenue for the government. This property tax includes Stamp duty, Capital gain tax, Capital transfer tax, site value tax etc. These taxes are Major Avenue for realizing income for local and state authority. They are fundamental instruments for effective land administrator and a tool for generating government revenue.

Property taxation role has also been recognized as a main drive in the reinforcement of domiciliary resource mobilization and thereafter to look for ways of extending the tax base and enhancing tax governance (Atta-Mills, 2002, Teidi, 2003 and Oloyode, 2010).

Site value tax or land value tax is a value on land without taking into consideration the structure or personal property and other improvements on it. Site value tax is known to be a fair means of taxation of taxing land, most especially in agricultural regions, where land is productive. Oyegbile, (1996) revealed that this tax is based on the determined open market value of the land. Invariably, it is seen that site-value tax or LVT would encourage new capital investment, instead of leaving land to the hands of land speculators which do not intend to create extra land, but higher land prices. One should expect that there would be more development on bare land, instead of acquiring and leaving them un developed. Site value tax has the potential of using the tax to generate more revenue to the government. This study will unleash the benefits of site value tax and why it is necessary to implement site value tax in Nigeria.

LITERATURE REVIEW

Concepts of Land/Site Value Tax

It was reported then in the late 1800s, there was a more to charge and tax land value. This was initiated and led by the great economist, Henry George. Henry George believed that gains accumulated on land should be earned and enjoyed by all. Land which was believed to be a free gift of nature, then it implies that all gains and reward should be re-distributed amongst all. Rybeck, (2019), discussed that in “ new classical economics”, land and natural resources disappeared as a separate factors of production instead they were combined together with capital. This has led to some the reasons the unearned income from land and resources value have been obscured.

Roles of Site-Value Taxation

Land taxation is being implemented in different forms in various countries. Some countries tax only the land, some tax both land and improvement while some countries concentrates on only the buildings. Black and Slack, (2003), give examples of different countries with their ways of implementing land tax. According to them, countries like Kenya and some other part of Australia and South Africa tax only the land portion of the property, while country like Tanzania, tax only buildings.

Kagan, (2020) considered site value tax to be a more fair method of land taxation for agricultural regions where land is productive. This shows that land value taxes which are examples of ad valorem taxation finds to be more stable. Land cannot be shifted to other locations of lesser value, so the value seems to be stable than that of structures or buildings on it. In the same vein, land is seen as an assets that cannot be owned by an individual, but a rent can be collected from

One generation to the other. The level of development or commitment on the land would determine the overall value of it in the real sense of it. This can be linked to the main reason in the modern day system why land is taxed separately from the building.

According to oyegbile, (1996), site value tax has encouraged joint participation in property development. Instead of keeping land that one cannot develop immediately, then arrangements such as sales and lease back and other equity participation agreement can be worked out. This will definitely improve developments of abandoned land. If it continues, it will also curb or reduce land speculation to the barest minimum. This is because those hoarding undeveloped lands may not find it profitable to do so for they are normally called upon to pay tax on such undeveloped land.

Site value tax also makes it possible for land to pass on to those that are in a position to develop them into immediate economic use. This is so because owners of unimproved land who do not have the capital to develop such lands are compelled to transfer such lands to other capable hands.

He further made it known that it helps to promote better land use planning, control and development. The amount of the tax fixed can be used to encourage or discourage a land use option.

Economic Theory and Site Value Taxation Analysis

This study is hinged on the capitalization Theory of taxation, which is based on the assumption that whenever a tax is imposed on land as an asset, the capital value of the land is diminished by an amount equivalent to the capitalized value of the tax at the prevailing rate of interest. In essence, it is assumed that subsequent landowners/buyers would pay a diminished price for the value of the land (Mcclusky,Owiti, Akumu and Olima, 2011). This theory is not applicable in all cases most especially in Nigeria where most of the lands are not registered, thus making it difficult to tax land since there are no records.

Banzhaf and Levery, (2010), Plassmann and Tideman, (2000) in their studies revealed that land value tax LVT can generate more intensive capital investment or improvements on land. Despite the establishment of this fact, one may want to find out if LVT is acceptable by all so that it would be easier for its implementation and monitoring. Based on this, Dike and Gao, (2017), used an economic experiment to investigate on whether land value tax (LVT) is acceptable to homeowners and voters. Harrisburg, Pennsylvania that allow utility-maximising landowners to allocate their income to improvements and other consumption in an experimental environment. From this analysis, it was assumed that community consists of 15 households (i), and heterogeneity is introduced with three “neighbourhood” types and five individual utility types. There are five household in each of three neighbourhood with low, middle and high incomes and housing value;

(K= L, M, H)

Census data from Harrisburg, Pennsylvania model, income

= Ii^k and property value = $PV1^k$

Property values sum land V and improvement value

$PV1^k = LV_1{}^k + IV_1{}^{k,}$ and they are apportioned following the observed averages in the Harrisburg, Pennsylvania assessment.

This experimental economics investigation revealed that land tax produced greater welfare than the uniform property tax in only half of the treatments even though it was designed to produce 1% of greater welfare.

Land value tax varies from property taxes, in the sense that property tax impinges higher tax rate on land than the improvement / structure on land. This is evident in Dye and England, (2010) study. They observed that the higher taxes being charged from property tax has undesirable side effect, such as unfairness and non-efficiency of tax policy. This implies that land value taxation would encourage both the fairness and efficiency of property tax. When tax rate is increased on land , the effect is that it is likely to be desirable without distorting the incentives for owners ,than increased tax on improvement on land because this would bring increase in revenue. Land value tax is a direct tax in which the burden of tax falls entirely on the landowners, he does not have the opportunity to shift the burden of the tax to the third party.

Lincoln Institute of Land Policy (2010) revealed that more than 30 countries in the world have implemented land value taxation, and it is often stated in their tax statue that it should have higher tax rate than property tax. Countries like Pennsylvania, Pittsburgh, Scranton, State of Hawaii, Virginia and state of Connecticut have been implementing this form of tax. Vickrey, (1999) made a comparison between property tax and land –value tax. He observed that taxing only land (land value tax) will yield more or the same result as than the traditional property tax.

Mangioni, (2014) made it known that Australia is ranked 9^{th} highest of 34 OECD nations who has benefitted from land value tax in form of revenue mobilization. Other developed countries were like New Zealand, United States, Canada and United Kingdom. The Australia’s Future Tax System Review (AFTS 2009) revealed that significant revenue can be raised from re-current land tax, most especially from a tax on land in other to improve lower tax at the local government level.

Comparison of Ground Rent and Site Value Tax in Nigeria.

Nigeria as a country is a place where all lands belong to the state government. This include land in villages, urban centers and cities, etc. All lands in Nigeria are vested on the state governors to hold the land in trust for the benefits of all Nigerians. This is to say that there is no freehold interest again in Nigeria, everyone is a leaseholder. Invariable the so called landowners need to pay rent to the government since they are leaseholders. This mostly is for a period of 99years, has stated in the certificate of occupancy (C. of. O). This type of rent paid by landowners to the government is what is referred to as Ground rent.

According to Umah, (2021) is he described ground rent as a tax charged and collected by state government on both developed and undeveloped land. He further made it known that having access to land in Nigeria, the land owners must occupy and put the land into use according to the stipulation of the government on the certificate of occupancy issued. Some of the stipulations, terms and condition required of the landowners is the timely payment of ground rent and the duty to obtain the governors consent before any sales. The land can be revoked by the government, if the landholders refuse to meet up with these requirement.

Nevertheless, the questions that often arose from Nigerians is that since ground rent is paid by land holders, then site value tax might not be necessary to avoid multiple taxation. It is pertinent to known that ground rent is a nominal rent on both developed and un-developed land and this would not necessarily serve the purpose of site value tax. Site value taxation particular to land cleared of building.

Empirical Results

Table 1: Some selected OECD countries and their Property Taxes

Countries	Types of Land taxes
Australia	-Stamp-duty tax -Capital gain tax - Land value tax
United Kingdom	-Withholding tax - Capital gain tax -Value-added tax - Capital transfer Tax -Stamp-duty tax
China	-Value-added tax - farmland occupation tax -Land value tax -Urban land value tax -Deed tax -Capital gain tax -Real Estate tax

United State of America	-Land value tax - Stamp-duty tax - Estate tax

Source: Field Survey, 2022.

The various property taxes implemented in various countries of the OECD are shown in the table above. It can be deduced that most of the developing countries adopt land value tax as a source of revenue mobilisation in their respective countries.

Table 2: Property Taxes as a Percentage of GDP in selected OECD Countries.

Country	Year	All property taxes as % of GDP	Re-current property taxes as a % of GDP
Australia	2009	2.48	1.45
Canada	2010	3.49	3.04
United States	2010	3.21	3.07
United Kingdom	2010	4.23	3.42

Source: OECD Revenue Statistics (2011) as reported by Norregaard (2013)

Many of the western countries depends on property tax as a contribution to the whole income realised in the province.

Table 3: Some selected Developing countries and their Property Taxes

Countries	Types of Land taxes
Tanzania	-Stamp-duty tax -Capital gain tax - Land value tax
Kenya	-Withholding tax - Capital gain tax -Value-added tax - Capital transfer Tax -Stamp-duty tax
Nigeria	-Value-added tax -withholding tax -stamp-duty tax -Capital gain tax -Capital transfer tax
Ghana	-Land value tax - Stamp-duty tax

	- Estate tax

Source: Field Survey, 2022.

The table above some developing countries have chosen site value tax as part of their property taxes being implemented in their countries. It can be implemented at the local or state levels of any nation.

Table 4: Total Tax Revenue and Property Taxes as a percentage of GDP in African Countries.

Country	Total taxes as % of GDP (2012)	Fiscal Year	Property taxes as % of GDP	Income level (2016)
Angola	43.6	2012	0.15	Upper-middle
Ethopia	9.7	-	-	Lower-middle
Egypt	18.5	-	-	Lower-middle
Central African Republic	9.9	2012	0.10	Low
Kenya	15.6	2012	0.01	Lower-middle
Nigeria	10.2	-		Lower-middle
Tanzania	11.6	2011	0.08	Low

Source: OECD Revenue Statistics (2011) as reported by Norregaard (2013)

From the results above, it can be revealed that the Anglophone countries, property tax remains the most important source of revenue in Swaziland and at least in Mbabane and Manzini, and minimal in the Francophone countries.

Table 5: Re-current Land tax as a percentage of total tax and of GDP

Countries	Percentage of total tax			Percentage of GDP			Rank in OECD
	1965	**2010**	**% change**	**1965**	**2010**	**% change**	
New Zealand	**8.3**	**6.6**	**-20.9%**	**2.0**	**2.1**	**4.4 %**	**7**
United states	**13.7**	**12.2**	**-11%**	**3.4**	**3.0**	**-10.4 %**	**3**
Canada	**11.9**	**10.1**	**-15.5%**	**3.0**	**3.1**	**2.1%**	**2**
United kingdom	**11.2**	**9.8**	**-13%**	**3.4**	**3.4**	**-0.1%**	**1**

Source: OECD Tax statistics Table 4100 as at 2010.(Bahl and Martinez-Vazque, 2008)

From table 5, United Kingdom in recent times, land tax has taken a higher proportion of the total revenue in the nation, likewise Canada and the United states. Thus contributing to their country's GDP.

Table 6: Perceived Choice of Property taxes for implementation

Option	Most Preferred	More Preferred	Preferred	Less preferred	Rarely preferred	RII	Ranking
Tenement rate	08	06	02	03	03	0.88	2nd
Site value tax	14	10	05	03	02	0.90	1st
Value-added tax	07	06	05	03	01	0.66	3rd
Witholding tax	06	05	03	02	03	0.59	5th
Ground rent	04	04	02	02	02	0.62	4th

Source: Field Survey, 2022

The table above reveals that site value tax is a tax residents believed would have positive changes on them and even for the government. This is followed by tenement rate and value added tax.

Discussion of Findings:

The study according Birds and Slack (2007), mentioned countries in Africa where only the land portion of the property is taxed and Franzsen and McCluskey (2013) looked at tax on both the land and building. From the analysis of this study, it has been revealed that tax is charged on the income accruing from land and building. The tax realised on land alone is reliable as the supply and location of land is fixed. It is important to note that land tax is an area-based tax.

This can further buttress the principles of taxation in which fairness and equity are key. The land tax rate imposed on land alone is supposed to give more revenue than the one on property. If the taxes imposed on property is higher than the land value tax, then the canon of taxation is not justifiable.

From the empirical study reviewed, McCluskey (2013), Kjellson (2007) linked the obstacles in revenue generation through site value tax to lack of functioning register of property and the registration process. This has led to government not having data and information of property available in the state and this would lead to a major set-back in revenue mobilisation. With the issue of data problems and other definitional issues as highlighted from this study, one could observe that the land tax will only produce low revenue despite the fact that it has a high potential to give more revenue for the state.

Furthermore, it was revealed from the study of Dye and England (2010) that are of the opinion that more revenue can be realised from the site value tax rather than from improvement on the land. It was further known that home owners are likely inclined to land tax rather than other property taxes. Site value/land tax is a form of direct tax which implies that the burden of this

tax falls directly on the land owner and this cannot be shifted to anybody, unlike the property tax which can be shifted to the third party and encouraging tax avoidance. This also implies that land value tax would encourage both the fairness and efficiency of property tax.
Bahl and Martinez-Vazque (2008) have further revealed that developed countries have depended on property tax in service delivery, using an econometric analysis of the determinant of variations in the property tax share of the GDP. Franzsen (2003), revealed that property tax remain the most important source of revenue in Anglophone countries, whereas the revenue source remain minimal in the francophone countries. This can further be proven from the results of the study that site value tax will enhance revenue mobilisation in the municipals and cities.

CONCLUSION AND RECOMMENDATION

In conclusion, site value taxation has the potential for improvement if all or some of the major impediments are taken care off by the government and policy makers. Proper policy choices, good tax administration and tax law enforcement would bring a good tax system to the states. Site value tax is a popular form of tax for government at the local government. Local government can seek their own internal generated revenue through site value tax. However, it seems that the administration, logistics, assessment, enforcement and collection of this tax would need to be improved. The priority of any state or local government should be to improve tax administration system (logistics, well-defined tax base and the review of laws), this will improve the revenue yield of land taxes at all levels.
Land taxation in which site value tax is one, still remains the most reliable and durable source of revenue. It is a veritable resource for revenue mobilisation if properly managed. It is still an untapped resource as mentioned earlier which government needs to put attention to. It has a good tendency to contribute positively to the country's GDP. It is clear that all developed world are tax-based economies while all resource-based economies are developing nations. In view of this, government should strive to convert our economy from crude-oil base to productivity base through taxation. This will ensure a fast-growing nation and sustainability.

RECOMMENDATION

Site value taxation, has not existed in Nigeria, rather it is only other forms of property taxes that have been existing and this only affects improvement on the land not the land directly. Property taxation as the case maybe had not lived up to expectation over the years. For the fact that land value tax is a direct form of attached to land directly, the tax liability cannot be shifted to another person and it will continue to appreciate, it will form a major part of revenue to the government. In view of this, recommendations have been proffered which can improve the revenue yield from site value taxes which are the followings:

1. **Good property statistics and information**

   Poor statistic and data of properties and property owners is a major set-back on revenue yield from land taxes. Proper data need to be put in place by the state government, this will enable the tax authority have a clue on who to tax, which properties should be exempted, how many people are paying the tax? And how much revenue has been generated. With this, a proper accountability will be reinforced. Government needs to really upgrade the tools in getting information on property a matter of urgency. The system should generate and have accurate records on properties.

2. **Valuation/Use of experts**

   For a good land tax system, there should be a proper and well defined property market. The property market in the areas under review seems not to be efficient due to lack of formal property registration. Since government do not have enough data as evidence to use in assessing property for taxation, area-base method is applied. Most land charges and property taxes in Nigeria are area-based since there are no enough information on property. This will affect the yield in terms of revenue from properties. Also, property tax assessment needs the use of an experts in determining the rates and charges to be paid by property owners. Government should involve the use of experts, Estate Surveyor and Valuer who are the professionals licenced to assess and determine value of properties should be used for this exercise.

3. Provision of Basic Urban Infrastructure and Amenities

The purpose of tax is to generate revenue for the provision of public infrastructure. But unfortunately, there is lack of basic infrastructure for taxpayers and the ones available are not properly maintained. The tax payers do not see the value of their money since these infrastructure are not available. Government on their part should make citizen see the impact of their money by making adequate provision for infrastructure. If this is done, government might not necessarily need to spend much on enlighten campaign, the amenities and services provided are enough campaign.

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