



An Open Access Journal available online

Administration of Land use Charge in Lagos State, Nigeria

Adebayo Michael Adedayo & Arimoro Theresa A

Department of Estate Management,
Federal University of Technology, Akure, Nigeria
maadebayo@futa.edu.ng

Abstract: The Land Use Charge Law of Lagos State was enacted in year 2001 with a view to increasing the State's internally generated revenue as a result of the dwindling federal government allocations and the need to meet increasing demand for the provision of infrastructures. Since its inception, the enactment of the law has generated diverse controversies. Hence, this research is aimed at assessing the administration of land use charge law in Lagos State. Data collection for the study was through structured questionnaires administered on one hundred and eighty randomly selected Estate Surveying and valuation firms operating within Lagos metropolis, and the results were presented using factor analysis and descriptive statistics of mean score and ranking. Findings revealed that the inherent problems associated with the administration of the land use charge include the method of assessment, payment of charges by Estate Surveyors & Valuers and penalty. This is evidenced by a mean score of 4.6200, 4.4667, and 4.3467 thereby ranking 1st, 2nd and 3rd respectively. It is concluded that the law should be amended to make annual return the basis of assessment.

Keywords: Land administration, land use charge, revenue generation, taxation

1.0 Introduction

Land use charge is a form of taxation, whose objective is to increase the generation of internal revenue for financing public

spending. According to Harvey (2000), it is a tax levied on property and its basis of assessment could either be, Net Annual Value (NAV), Capital Value or Site Value. Oni

(2010) expressly stated that the tax is based on an annual income obtainable from a property and not on capital value in the case of income that is receivable in perpetuity. It is also based on profit rent in the case of income receivable for limited period. Accordingly, land use charge as a form of taxation is expected to be fair and equitable; set in simple clearly understandable language; consider the ability of an individual to pay based on income; politically acceptable to the payers to avoid incurring hostility; and consistent with goals of promoting stable economy (Kuye, 2002; Ogbuefi, 2004).

The migration of people from the rural areas into cities such as Lagos, Abuja, and Port Harcourt impose adverse challenges on the available infrastructures, whereas, funds allocated for improvements in these areas are far from being enough for managing them. Sequel to the rapid population growth and decrease in available funds, the standard of maintenance of public infrastructure was reduced to the barest minimum. There have been concerted efforts by all tiers of governments in Nigeria to increase internally generated revenue bases through various forms of taxes on land and landed properties. This problem which is most pronounced in Lagos State, has influenced the action of the State government to eliminate multiple taxes imposed on residents through the enactment of Land Use Charge Law. The main objective of the law by the Lagos

State Government is to generate additional revenue needed to enhance the standard of the state in terms of physical and social infrastructure (Oserogho, 2002). Based on foregoing, this research seeks to assess the administration of Land Use Charge law in Lagos State with a view to enhancing government revenue without undue hardship on the tax payers.

2.0 Literature Review

2.1 Provisions of the Land Use Charge Law

The Land Use Charge Law was promulgated by the Lagos State Government on June 22, 2001 and made applicable throughout the state as the sole legislation for the collection of land based rates and charges. The law consolidates all property and land based rates and charges into a new property land use charge, to make provision for the levying and collection of the charge and for connected purposes, as the stated objective. The law was introduced to generate more revenue for both the State and local governments by establishing a new regime as a means of eliminating the malpractices under the old law through an overhaul of the old tax payment procedure. The law was an attempt by the Lagos State Government to control and regulate the collection of levies on all real property in the state. According to Section 1(1) and (2) of the law, the charges shall be payable on all real properties within the state with the local government area empowered as

the only body to levy and collect the charge within its territory. Nevertheless, Section 1(3) of the law stipulates that the local government authority could delegate its function with respect to property assessment and collection of rates by written agreement to the State. According to Section 5 (1) of the law, the formula for determining the annual amount payable is:

$$LUC = M \times \{(LA \times LV) + (BA \times BV \times PCR)\} \quad (1)$$

Where,

LUC = annual amount of land use charge in Naira

M = the annual charge rate expressed as a percentage of the assessed value of the property. The assessed value in this case may vary between owner-occupied residential and commercial properties at the discretion of the State Government. Commercial property refers to those that are revenue-generating.

LA = the area of the land parcel in square metres

LV = the average value of a land parcel in the neighborhood, per square metre in Naira

BA = the total developed floor area of building on the plot of land in square metres, or the total floor area of apartment unit in a building where apartment has a separate ownership title

BV = the average value of medium quality buildings in the

neighborhood, per square metre in Naira

PCR = the property code rate for the building and which accounts for the building being of higher or lower value than the average buildings in the neighborhood and which also accounts for the degree of completion of construction of the building.

$$(LA \times LV) + (BA \times BV \times PCR) = \text{the assessed value of the property} \quad (2)$$

The Lagos State Land Use Charge (LUC) has consolidated all property and land-based rates and charges payable under Lands Rates, Neighbourhood Improvement Charge and Tenement Rates Laws in the State.

However, the implementation and enforcement of the LUC have continued to raise dust. The modus operandi of the law has been generating controversies since its introduction and some residents of the State are still at loss as to what the LUC is all about as it does not apply to all properties in the state. Examples of properties that are exempted from the operation of the law include government-owned properties and those used for public, religious and charitable activities. This exemption can however only be granted where an application for exemption is made to the State Government through the State Commissioner for Finance. The Local Government Authority in the jurisdiction/locality where the

property is located constitutes the authorized collecting authority. In order for there to be compliance with the constitutional requirements on the division of powers between the State and the Local Governments, the Land Use Charge Law is predicated on the principle of mutual delegation of authority between the Lagos State Government and each of the Local Governments in the state.

Under the Land Use Charge law, properties are assessed per unit by the government and the cost of assessment is free to property owners as they are not expected to pay for assessment of property. For any two similar properties, the physical appearance, aesthetic features and age will determine the property class rate (i.e. high, medium and low) to be adopted in the valuation of the property. However, it is possible for same property type in the same location, occupying the same size of land to be charged different rates because of the usage and status. Property assessment under land use charge is classified into three broad categories - commercial, industrial and residential land uses. Commercial property attracts a rate of 0.5 per cent of the assessed value while Industrial properties, where the property owner is the occupier of the property, are assessed at a rate of 0.5 per cent of the assessed value. Assessments of residential properties are further categorized into three, with each at different rates. Properties which are solely occupied

by the owners as resident purpose only are charged at a rate of 0.15 per cent, while a similar properties occupied by the property owners and tenant(s) or third parties are charged at a rate of 0.15 per cent. The third category consists of investment properties fully occupied by tenants or third party/parties for revenue generation which are charged at a rate of 0.5 per cent. Land use charge does not provide for installment payments particularly since 15 per cent discount is granted for early payment. However, any amounts left unpaid are carried over to the following year and attracts with its full interest compliment (LUC, 2001).

The charge is statutorily imposed on the owner of a property but where the owner is not in occupation of the property, the Law authorizes the collecting authority to appoint the occupier, usually the tenant, to be assessed and pay for the tax while the tenant in turn is to offset such payment from monies that may be due to the owner of the property. There is thus an indemnity in favour of the tenant/occupier against the owner, where a property owner did not receive the First Demand Notice. In cases where property owner is confirmed to have received Land Use Charge bill notice for the first time and are yet asked to pay arrears, demand notices issued with arrears are reviewed against proof of delivery of the Land Use Charge demand notices on such properties for the previous year(s) for necessary

correction. In a situation where the property owner received the tenement rate demand notice and has accordingly made payment before receiving the LUC demand notice for the first time, the amount paid is to be deducted from the LUC (if it is higher than the tenement rate), then pay the outstanding balance. Evidences of payment of both tenement rate and LUC are to be forwarded to the LUC office. However, if payment is made within 15 days of the delivery of the demand notice, a discount of 15 per cent is applicable.

2.2 Empirical Studies

Oni (2010) assessed the provisions of the Lagos State Land Use Charge Law and determined the effects on stakeholders. In doing so, a process of inferences, interviews and evaluation of the law were carried out. The study found great disadvantages of the law, and recommended appropriate basis to determine fair and equitable charge. Oni (2010) further attempted to determine the short and long-term effects of the law on housing delivery which is one of the thematic areas of Vision 20:2020 for Nigeria, by surveying 120 estate surveying and valuation firms, using desktop inferential review of literature. The process of inference revealed that the basis for calculating the land use charge was inappropriate, and that the provision for penalty for delayed settlement of the land use charge was considered too harsh and that

Estate Surveyors and Valuers should not be held liable to make deductions for the Charge from rents collected on behalf of their clients, and also that the burden of land use charge should not be too much so as to encourage investment in provision of housing, and prevent neglect of proper maintenance of existing housing stock.

Oserogho (2002) in assessing of the land use charge law maintained that the delegation of authority to State Government has led to the institution of various litigations in Lagos State. The paper cited the decided case of Knight, Frank & Rutley v. A.G of Kano State [1990] 4 NWLR (Pt 143) 210 where the Nigerian Court of Appeal had expressed the view that ‘it was not constitutional for a tier of government to delegate its constitutional powers to another tier. This case was affirmed by the Supreme Court as reported in [1998] 7 NWLR (Pt. 556) 1; [1998] 4 S.C. 251. Egwuatu and Egwuatu (2016) examined the imperatives of valuation as a prerequisite for effective assessment and enforcement of property based taxation in Nigeria. Using a process of inferences and evaluation, it concluded that though the government generates much revenue from Land use Charge, the taxation exercise is not effective because of the raging controversies of over assessment of properties which resulted to high charge; and that the inconsistency in the assessment

process impinges on the integrity of the process. The determination of appropriate values for property taxation requires expert opinion hence Estate Surveyors and Valuers should be involved in the assessment and allowed to apply suitable method for the valuation of assessed property.

3.0 Research Methods

One hundred and eighty five (185) firms of Estate Surveyors and Valuers practicing in Lagos

metropolis were randomly selected for use in this study. Structured questionnaires drawn up on a 5-point Likert scale, was subsequently administered on them. However, one hundred and fifty questionnaires representing 82% response rate were retrieved and used. Both descriptive and inferential statistics of weighted mean and factor analysis respectively were employed for data analysis

4.0 Data Analysis and Discussion

Table 1: Details of Respondents' Bio Data

Qualification/Experience	Option	Frequency (%)
Academic	BSc/HND	132(88)
	MSc/MBA/M.Tech	18(12)
	PhD	0
Professional	Associates	120(80)
	Fellow	27(18)
	RICS	3(2)
	Below 5	4(3)
	6-10 years	10(7)
Experience	11- 15 years	70(47)
	16-20 years	46(30)
	Above 20	20(13)
	Above 20	20(13)

Source: Field Work (2017)

In order to determine the reliability of the respondents' opinions, their academic and professional qualifications and their work experience were examined. As shown in Table 1, out of one hundred and fifty respondents, 88% have the first degree (B.Sc.); about 80% are Associates of the Nigerian Institution of Estate Surveyors and Valuers, while about 27% are

Fellows; and about 3% of the respondents also belong to the Royal Institute of Chartered Surveyors. In respect of work experience, 70 (about 47%) of the respondent have been practicing for more than ten years. This implies that the respondents possessed the capacity to understand the questions and that their opinions and the research findings are reliable.

Table 2: Respondents Opinion on the Inherent Problems associated with Administration of Land Use Charge

	Estate Surveyor & Valuers					Mean	Std. Dev.	Rank
	SA	A	UD	D	SD			
Ability to pay tax liability	39.3	19.3	22	13.3	6	3.7267	1.27388	11 th
Acceptance of the LUC	-	-	16.7	38	45.3	1.7133	0.73582	16 th
Administration of the Law	42	22	12.7	16	73	3.44	1.37806	15 th
Consistency in administration	-	-	16	28	56	1.6	0.75084	18 th
Expert Opinion	52.7	32	-	15.3	-	4.22	1.0483	5 th
Fair & Equity	33.3	30	26.7	30	33.3	3.8667	0.99439	9 th
High incidence of tax	42	22	12.7	16	73	4.0667	1.06605	8 th
Information about the Law	40	20	13.3	16.7	10	3.6333	1.40668	13 th
Integrity	-	-	-	20.7	79.3	1.2067	0.40627	20 th
Litigation	50.7	26.7	10	12.7	-	3.86	1.34628	10 th
Local Government Autonomy	-	2.7	6.7	38.7	52	1.6	0.73274	18 th
Method of assessment	62	38	-	-	-	4.62	0.48701	1 st
Owner occupier acceptance of demand notice	52	12.7	26.7	8.7	-	4.1533	1.04744	7 th
Payment of LUC by Estate Surveyor and Valuer	60	24	8	8	-	4.4667	0.69192	2 nd
High Penalty	48.7	15.3	18	9.3	8.7	4.3467	0.95529	3 rd
Qualification of Appeal tribunal	50.7	34.7	10	4.7	-	4.3133	0.83655	4 th
Role of commissioner in setting values	-	-	10.7	42	47.3	1.6333	0.66974	17 th
Status of Assessor	46.7	32.7	16	4.7	-	4.2133	0.87919	6 th
Tax avoidance	58	30.7	11.3	-	-	3.6733	1.38301	12 th
Understanding of the Law	36.7	23.3	14	9.3	16.7	3.54	1.47748	14 th

Source: Field Survey, 2017. Where SA: Strongly Agree; A: Agree; UD: Undecided D: Disagree; SD: Strongly Disagreed

The inherent problems associated with the administration of land use charge are enormous. Various problems identified

in the literature were assessed and presented in Table 2. The research revealed that all the problems identified

are associated with the administration of the land use charge. The method of calculating the assessed value, payment of charges by estate surveyors and

valuers and penalty are identified as the major problems associated with the administration of land use 1st, 2nd and 3rd respectively.

4.1 Analysis of the Inherent problems of Land Use Charge using Factor Analysis

Table 3: KMO and Bartlett’s Test of Sphericity

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.942
Bartlett’s Test of Sphericity	Approx. Chi-Square	6860.567
	Df	190
	Sig.	.000

The Bartlett’s test of sphericity was used in the test for the appropriateness of the sample from the population and the suitability of factor analysis. It tests for the adequacy of the sample as a true representation of the population under study (Alese and Owoyemi, 2004). The Bartlett’s test in Table 3 shows a chi-square of 6860.567 and a significant level of 0.000, which is an indication of the adequacy of the sample. The Kaiser-Meyer-Olkin (KMO) test is another measure of sample adequacy. It is an index for comparing magnitudes of the observed correlation coefficients between all pairs of variables. It is small when compared to the sum of the squared correlation coefficient. A KMO value of 1 represents a perfectly adequate sample. A KMO of 0 represents a perfectly inadequate sample. The KMO value in Table 3

above is 0.942, which shows that the sample is reasonably adequate.

4.2 Communalities

The communalities are shown in Table 4 It shows the proportion of the variance explained by the common factors. The communalities are in the range of 0 and 1, with 0 indicating that the common factors explain all the variance in the variable. It could also be expressed as a percentage. For instance, the ability of pay tax liability provided which indicates that 94.8% of the variance is accounted for by the common factors while the remaining 5.2% is accounted for by unique (unexplained) factors. The initial communalities are always 1.00 before the extraction of factors because at that initial stage every variable is regarded as a factor with a mean of 0 and standard deviation of 1.

Table 4: Communalities

Communalities		
	Initial	Extraction
ATPL	1	0.948
AXEPTLUC	1	0.924

ADMLUC	1	0.944
APPTR	1	0.903
STASSE	1	0.777
TAXAVO	1	0.965
METOASS	1	0.822
ROCOM	1	0.828
CLUC	1	0.655
ESVL	1	0.861
EXPOPI	1	0.933
F&EQ	1	0.91
INFOLUC	1	0.968
INT	1	0.835
LG	1	0.841
LITI	1	0.974

4.3 Extraction Method: Principal Component Analysis

The criticality of the twenty identified inherent problems from the literature was also explored using Factor Analysis. Factor analysis was used to assess the multivariate relationship among the inherent problems associated with the administration of land use charge in Lagos State based on frequency of occurrence. The analysis was conducted using Principal Component Analysis (PCA) (extraction method) to determine possible cluster relationships of the inherent problems

associated with the administration of land use charge and Varimax with Kaiser Normalization (rotation method) to make factors easily interpretable. The number of factors to be retained was specified on the basis of social science rule which state that only the variable with a loading equal to or greater than 0.4 in absolute terms and percentage of Variance greater than 1 should be considered meaningful and extracted for factor analysis. The result presented in Table 5 below was obtained based on this rule.

<u>Factor Groupings (Components)</u>		
	1	2
to pay tax liability	.938	
istration of the law	.901	
ication of Appeal tribunal	.947	
of assessor	.834	
oidance	.938	
d of assessment	.822	
f commissioner in setting values	-.854	
tency in administration	-.451	
opinion	.966	
equity	.887	
ation about land use charge	.934	
ty	-.891	
Government autonomy	-.905	
ion	.973	
y	.975	
occupier acceptance of the demand notice	.975	
idence of tax	.916	
standing of the law	.938	
ance of the law		-.952
tent administration		-.672
nt of LUC by Estate Surveyors and Valuers		
Eigen value	15.534	2.352
Percentage of variance explained	77.669	11.762
Cumulative % of variance explained	77.669	89.431
Rotation Sums of Squared Loading	14.565	3.321
Percentage of variance explained	72.827	16.604
Cumulative % of variance explained	72.827	89.431

Note: Extraction Method: Principal Component Analysis
 Rotation Method: Varimax with Kaiser Normalization
 Rotation converged in 3 iterations

All factor analysis produced two factor groupings with Eigen values of 2.35 to 15.53as shown in the Figure below, and variance

cumulative percentage of 89.43%as shown in Table 5 above. Rotation converged in 3 iterations.

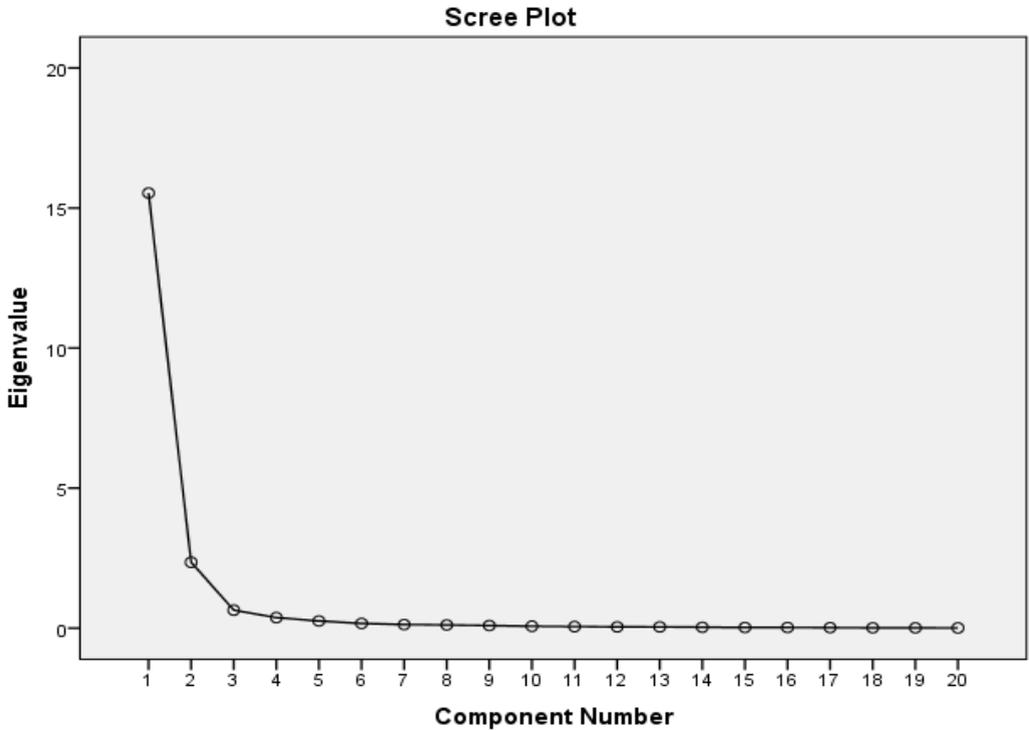


Fig. 1: Scree plot showing the Eigen value

From the factor loadings in Table 5, it could be observed that all the variables of factor 1 contribute 72.83% to administration of land use charge, while acceptance of land use charge, consistency of the law and payment of charges by Estate Surveyors and Valuers factors contribute 16.60% respectively. The two factors contribute a total of 89.43% while the remaining 10.57% is accounted for by extraneous factors which are unique to the variable and other variables outside the control of the research. The two factor groupings are:

Factor Grouping 1: Expert Opinion

This factor grouping comprise Ability to pay tax liability (.938), Administration of Land Use Charge (.901), Appeal Tribunal (.947), Status of Assessment (.834), Tax Avoidance (.938), Method of Assessment (.822), Role of

Commissioner in setting value (-.854), Consistency of the Administration (-.451), Expert Opinion (.966), Fair and Equity (.887), Information about Land Use Charge (.934), Integrity (-.891), Local Government Authority (-.905), Litigation (.973), Owner Occupier (.975), Penalty (.975), High Rate of Tax (.916), and Understanding of Land Use Charge (.938). These represent 77.67% of the variance in the inherent problems associated with the law. These factors have high occurrence and cluster together because the problems associated with law are high due to the negligence of expert opinion in the administration of the law. These factors are high and cluster together because owner occupier’s acceptance of the demand notice, penalty and litigation attached to the law can lead to the termination of the revenue expected by

the state government and hence incur more debt for the state government. These have high occurrence because of the non-involvement of the expert in the administration of the law which was the cause for tax avoidance, different cases of litigation, non-compliance with the provision of the law by the Lagos residents. From the factor loadings in Table 6, it could be observed that the variables of factor 1 contributes 72.83% to administration of land use charge, while acceptance of land use charge, consistency of the administration and payment of charges by Estate Surveyors and Valuers factors contribute 16.60% respectively. The two factors contribute a total of 89.43% while the remaining 10.57% is accounted for by extraneous factors which are unique to the variable and other variables outside the control of the research.

Factor Grouping 2: Inconsistent Administration

This grouping constitutes 11.76% of total variance which explained the inherent problems associated with the administration of land use charge. The inherent variables in this factor grouping are acceptance of land use charge (-.952), consistency of the law (-.672), and payment of charges by Estate Surveyors and Valuers (.927). These variables cluster together because consistency in administration is required in the administration of land use charge law in Lagos State. The relative newness of the Law coupled with high expectation from the law necessitated the need for consistency so that the law can be generally accepted by the Estate Surveyors and Valuers and the entire resident of Lagos State. The problem associated with the acceptance is

relatively high because the law did not meet up to its expectation as expected by the Lagos populace. Also, the Estate Surveyors and Valuers should not be held for the payment of the land use charge.

5.0 Conclusion and Recommendation

The persistent criticism of land use charge from property owners and estate surveyors and valuers who accused the LUC officials of arbitrary valuation and imposition of exorbitant charges which are sometimes are in excess of the annual rental income on the properties necessitated the need to re-examine the mode of administration of the land use charge law. The provision of the law on the method of assessment of value is inappropriate. The Law should however be amended to make the net annual rental income as the basis of valuation. The Law neither provided nor gave allowance for risk of tenants' default in rent payment which has become common tales amongst Estate Surveyors and Valuers. Estate Surveyors and Valuers should not be held liable to make deductions for the Charge from rents collected on behalf of their clients; rather the Lagos State Government should appoint Estate Surveyors and Valuers to determine the appropriate annual values, collect and remit the Charge to the Government. Also, the penalties imposed for delaying settlement of the Charge which is too harsh should be readdressed against tenants falling into arrears of rent payment of up to twelve months or more. If Lagos State Government insists on prompt payment of the Charge, there should be provisions to protect the owners against rent defaults by tenants.

References

- Alese, B.K. & Owoyemi, S.O. (2004). Factor Analytic Approach to Internet Usage in South Western Nigeria. *Journal of Information Technology Impact*, 4(3), 171-188.
- Eguwatu, U & Eguwatu C. (2016). Effective Real Estate Taxation as a Source of Revenue for Provision of Public Services in Nigeria: Imperatives for Valuation Based Property Taxation. Paper Presented at the 46th Annual Conference of The Nigerian Institution of Estate Surveyors and Valuers, held at Transcorp Hilton Hotel, Abuja 12th-16th April, 2016.
- Harvey, J. (2000). *Urban Land Economics*, 5th Ed, London: MacMillan
- Kuye, O. (2002). *Principles and Practice of Property Rating*. Lagos: Tony Terry Prints.
- Lagos State Government of Nigeria (2001) Land use charge law Ikeja, Lagos State of Nigeria Official Gazette
- Ogbuefi, J. U. (2004). *Comparative Property Rating and Taxation*. Published by Institute for Development Studies University of Nigeria Enugu.
- Oni, A. O. (2010). An Estate Valuer's Assessment of the Lagos State Land Use Charge Law 2001. *Journal of Public Administration and Policy Research* Vol. 1(7) Pp. 125-132, November, 2009. Available online <http://academicjournals.org/Jpaper©2009AcademicJournals>.
- Oserogho E. O (2002). Land Use Charge Law No. 11 of 2001 of Lagos State in http://www.oseroghoassociates.com/news/news_2002_07.shtml