

Land Titling: A Sine Qua Non For Enhancing Property Taxation

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ABSTRACT

The use of property tax to salvage the recurrent financial insolvency of government at all levels in Nigeria have achieved little success over the years. Concerted efforts to improve this situation have achieved little success. This study therefore investigates the potential of titling at enhancing property taxation in Akure, Ondo State, Nigeria. Data was obtained from the purposive selected areas of Akure and the Ondo State Ministry of Lands and Housing as well as the Ondo State Board of Internal Revenue. Data analysis reveals that 85.5 percent of the residents are without title to their land, while only 11.86 percent of the residents who titled their land paid their ground rents up to date. The difference in the means of the ground rent paid as a form of property tax by residents with titled land and the ground rent anticipated from residents without title to their land is statistically significant at 0.001. Stringent requirements, poor service delivery as well as lack of sensitization on guidelines and procedures to follow are major constraints to titling in the study area. There was a strong negative correlation between titling and property tax. Capacity building in systematic titling project is a worthwhile policy option for improved titling culture in the study area.

Keywords-- Internally Generated Revenue, Land Titling, Property, Taxation, Tax Evasion

I. INTRODUCTION

The concern of many Nigerian states and local governments is to make their municipalities engines of growth and structural transformation. Yet, adequate funding is a cog in the wheel of implementing this expensive and necessary public investments. The challenge of funding public service and infrastructure provision at all levels of government in Nigeria have been further aggravated by over relying on the dwindling revenue allocations from the Federal Government which majorly depends on fluctuating global crude oil price. As a consequence, different State Governments in Nigeria have resulted into property taxation as one of the internally-generated revenue alternatives to complement the declining federal revenue allocations. Regrettably, property taxes management in most of the Nigerian states are at the moment in disorder, whereas, the magnitude of governments control over property taxes is an important determinant of the extent to which independent expenditure decisions can be made.

According to Jean (2016), property taxation has been described as one of the important revenue sources within the reach of governments in most developed and many developing countries. Tax is the amount imposed on an individual, group or corporate body and payable to government to meet overheads on infrastructure and keep the organs of governance running effectively (Ogbuefi, 2004 cited in Oni, 2010). Property taxation on the other hand includes the property taxes and fees such as; ground rent, capital gain tax, land use charge and capital transfer tax, amongst others paid by property owners or occupants in accordance with the extant law. Property taxes are usually levied on all types of properties including residential, commercial, industrial and agricultural properties.

However, while there has been low response to property taxation in many Nigerian states, it has been very difficult for any form of government to check those that shun property tax. Correspondingly, property taxation will be impossible without proper identification of tenure; assets; boundaries; mapped and transaction-based records on property values; tax assessments; payments and receipts. Dearth of proper records of the properties to be considered for tax have a negative impact on property taxation implementation (Sclar and Garau, 2003).

As a measure to achieve effective property tax administration and ameliorate property tax evasion; De Soto (2000) argues that land titling provides support for property taxation as it enable governments to improve tax networks to administer property tax. Land titling has been defined by Nwokolo (2012) as the process of providing enforceable legal and secure rights to the ownership and use of a given expanse of land. The process also involves provision of reliable documentary evidence of the title granted. Good land record through land titling improves efficiency and effectiveness in collecting property tax by easily identifying property locations and titleholders. On the other hand, where absence of land titling is prevalent, the government will typically be unable to extract rent or property taxes (Chirisa, 2008). Unless a well-functioning mechanisms such as land titling is engaged in governing property tax, the potential for society to benefit from property taxation is limited. Consequent upon this, poor revenue generation is likely to persist. The World Bank ideas as regards land titling show that they are considered essential prerequisites for establishing a land-based taxation system (Csaki, 1996).

From the foregoing, the influences of land titling on property taxation has to be acknowledged. However, in spite of the wide-ranging studies on the significance of land titling, only limited studies have been carried out on how land titling can contribute to enhancing property taxation. The objective of this study is therefore to demonstrate how the use of land titling by the tax authorities can enhance property taxation and boost government revenue. Following this brief introduction, potentials of property taxes are briefly considered in section 2 of this paper. The paper then discusses the nexus between land titling and property taxes in section 3, before considering the methodological approach in section 4. Data analysis and discussion of findings was presented in Section 5, while section 6 concluded and presented policy implications for the study.

1.1 Potentials of Property Taxes as a Source of Governments Revenue

Property taxes are important revenue sources for governments in most developed and many developing nations. Yet, it is the largest source of unexploited government revenue in the developing countries. For instance, up till 2012, landed property taxes accounted for 0.5% of GDP across the sub-Saharan African (Fjeldstad and Heggstad, 2012). Apart from its potential to significantly increase communal revenues, property taxes are equally more efficient and fairer than other forms of tax. They have paltry influences on urban investment, and allow governments to capture increases in landed property values that arises from forces outside owner's influence and are in part the direct consequence of public investment such as road expansion. Residents who gain more from public services and population growth can therefore be taxed for the benefit of the larger community. However, existing property tax systems in some developing nations including Nigeria, did not have sufficient capacity to raise revenues as land and property information which could have been provided by active land titling are often inadequate. Consequent upon this, tax base for landed properties are seriously limited.

Notwithstanding, Paice (2015), confirmed that the implementation of property tax collection in Lagos ever since 1999 have precipitated growth in internally generated revenues from taxes five-fold to over 1 billion dollar in 2011. As a result, the government is provided with considerable resources required to deliver public facilities and infrastructure desired by the populace. The Lagos state achievement in property taxation may not be unconnected with the improved level of titling as compared to other states (Ige et al., 2017). Similarly, Mihaly et al. (2016), estimated that a 1% tax on landed property under full tax compliance in Kigali area of Rwanda could generate over 60 million US Dollar per year. Apart from this, property tax is usually rational than other forms of tax, as the revenue arising from it are expended on constructing public projects such as roads

and schools which often significantly increase the value of such property (Collier et al., 2017).

In addition, the collection of property tax is stress-free and inexpensive (Tomori, 2003). Owing to the increasing urbanization in some African cities including Nigeria, there is a corresponding rise in demand for land and the resultant land value increase. Therefore, the rise in value of property as a direct result of public investment is captured by the governments by taxing landed property. By this scenario, government will be able to project higher future streams of revenue from property taxes. This is made possible through the immobility nature of landed property which make it easier to ascertain and monitor landed property for the purposes of taxation. Property tax evaders are hence easily known and reprimanded. However, where land titling is seriously scanty or done at peace meal as obtainable in many Nigerian states, successful implementation of property tax will be challenging. Therefore, land titling reform is very essential for property taxation as it afford tax authorities to easily allocate tax to property owners or occupiers.

1.2 Nexus between Land Titling and Property Taxes

Land titling has thus been described as an antidote to the little success recorded in property taxation, particularly in developing countries including Nigeria, as it usually make available mapped and transaction-based records (Dowall and Clarke, 1996). A titling mechanism also create an enhanced basis for property taxation (Deininger and Binswanger, 1999). A good land titling system, based on maps and unique identification of each land unit, provides the information necessary for a successful tax system (Hanstad, 1998). Good quality land information is essential to support good land management practices. This can only be achieved where there is an effective land titling system. On the other hand, if there is incorrect or inadequate land information available, property tax administrators can run into serious difficulties and correspondingly denies the government opportunity to collect taxes.

Furthermore, land titling has the added advantage of providing the government with an exquisite tool for assessing property taxes (Platteau, 2000). It provides a map based tax system to ensure a visual check so as to achieve a tax system that is being effectively and transparently managed. Land titling provides governments with information on property-holders and size of plots, which is the foundation for a property tax system (Cho 2003 as observed in Lixing, 2012). Nazneen et al. (2005) corroborated this and held that land titling feeds government with information on property-owners and landholdings. This provide the basis for property taxes arrangement. On the other hand, failure to title land ownership reduces the government's potential to raise revenue from taxation. However, effective land titling that makes an effective land tax possible requires three things including the title, the official record, and the actual land parcels. This facilitates the collection of

various forms of land tax like ground rent as property owners are easily identified. Taxation will therefore, be very challenging where land parcels cannot be linked with the owner (Lixing, 2012).

II. METHODOLOGY

2.1 Description of the Study Area

The study is focused on the selected neighborhoods of Oke-ogba and Orita-Obele in Akure town, in Akure South Local Government Area of Ondo State, Nigeria. Akure is the state capital of Ondo State. Being an administrative centre, population is increasing and more people are moving in. This was evident from the total population of 324,658 in 1991 (NPC, 1991) which sprang up to 360,268. The town geographically situates at 7°15' N Latitude and 5°15' E Longitude. Administratively, Akure is segmented into core area, peripheral and the sub-urban. The total area of town is approximately 41.2km² (Fadairo, 2013).

2.2 Study Design

The study employs survey research design. The research was conducted in the selected population of

Orita-Obele and Oke-Ogba area in view of the pronounced evidence of untitled land found there. The study engaged both primary and secondary data using the systematic sampling technique.

2.3 Study Population

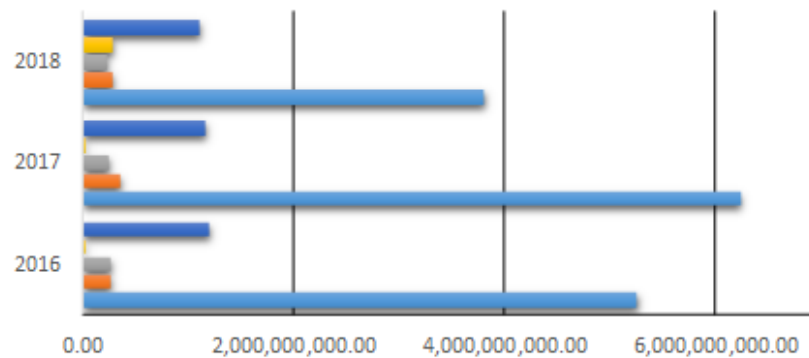
Four Hundred and Nine (409) respondents were randomly selected from the selected areas.

2.4 Data Collection and Analysis

Four Hundred and Nine (409) closed-end questionnaires were prepared and administered to residents of Orita-Obele and Oke-Ogba area. All questionnaires distributed to the neighbourhoods were responded and returned. Ground rent is considered in the study as a form of property tax. Data gotten from questionnaires were analysed through the pie chart, bar chart, weighted mean, independent sample t-test and Pearson correlation coefficient.

III. RESULTS AND DISCUSSION

The result of the analysis of the data obtained for the study are presented in this section.



	2016	2017	2018
Other Taxes	1,191,061,468.70	1,169,300,512.81	1,103,277,459.87
Land Registration and other Land related Fees	30,353,822.90	32,817,830.78	279,310,749.34
Road Taxes	270,432,876.31	245,262,830.63	217,645,443.72
Direct Assessment	266,562,870.53	360,317,690.54	280,845,460.50
PAYE	5,253,551,512.40	6,241,334,044.57	3,806,104,764.76

Figure 1: Disaggregated Taxes in Ondo State from 2016-2018

Source: National Bureau of Statistics (2018) and Ondo State Board of Internal Revenue (2018)

Figure 1 shows the aggregates of the Internally Generated Revenue (IGR) on the various forms of taxes obtainable in Ondo State from 2016 to 2018 based on the availability of data. The analysis of the data revealed that land registration and other land related fees as an aggregate of the total taxes generated was small. This implication of this scenario is that the revenue generated on land registration and other land related fees in Ondo state is so small that its contribution to IGR may not be

felt. Nevertheless, the argument of this paper is that even if there is enforcement of land related taxes or fees, it may be difficult to accomplish noticeable success in property taxation without a well-coordinated titling. According to Nazneen et al. (2005) and Cho 2003 cited in Lixing (2012), land titling is a veritable tool that can assist governments with necessary info relating to a particular landed property for effective property tax system.

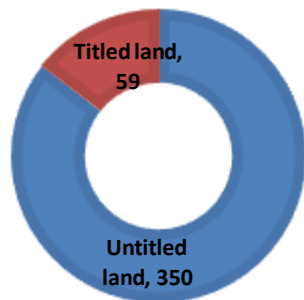


Figure 2: Titling Status in the Study Area

Fig 2, revealed that 59 (14%) out of the 409 residents considered in the selected neighborhoods of Akure titled their land, while the remaining majority representing 86% of the sample size did not title their land. This may not be unconnected with the assertion of Payne (2002), that land titling policy is rarely patronized by the targeted urban residence. The culture of not titling particularly, in Africa as earlier established by Rakodi and Leduka, (2004), may mean a serious impediment to the enhancement of property taxation. Chirisa, (2008), had earlier established that prevalent dearth of land titling makes it difficult for government to extract rent or property taxes.

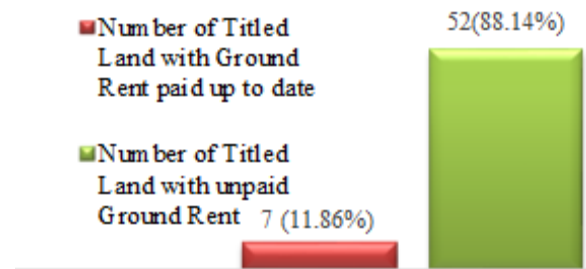


Figure 3: Status of Ground Rent Payment

Figure 3 reflected on ground rent as a component of land registration and other land related taxes or fees. From the analysis, only 7(11.86%) of the purposive selected residents paid their ground rent to date out of the 52 residents who had their property titled. Further enquiry on why some of the residents did not pay their ground rent up to date revealed that some of them felt there was no need for it, while those who paid up to date acknowledged that ground rent was required as part of the prerequisite for securing governors consent in a bid to perfect their document during assignment and mortgage as required by Section 22 of the Land Use Act, Chapter 202 Laws of the Federation of Nigeria 1990.

Table 1: Independent Samples Test

		Land Value	
		Equal variances assumed	Equal variances not assumed
Levene's Test for Equality of Variances	F	6.557	
	Sig.	.035	
t-test for Equality of Means	T	-2.223	-2.209
	df	407	384.62
	Sig. (2-tailed)	.036	.043
	Mean Difference	-1.5748	-1.5748
	Std. Error Difference	.78565	.79469
95% Confidence Interval of the Difference	Lower	-4.58972	-4.57967
	Upper	-.25179	-.23109

Source: Field Survey, 2018

Table 1, presents independent sample t-test of the ground rent paid on titled land and the ground rent anticipated from un-titled land from 2009 to 2018. The Levene's test for equality of variance shows whether the variation of scores for the two groups is the same. The p-value for Levene's test was lesser than 0.05, hence, the equal variance not assumed was adopted. Therefore, since the p-value of 0.043 on the column Sig. (2-tailed) is lesser than 0.05, the difference in the means of the ground rent

paid as a form of property tax by residents with titled land and the ground rent that is anticipated from residents without title to their land is statistically significant at 0.000. The implication of the wide gap between the anticipated ground rent and the ground rent paid on the titled land is an indication that substantial section of the populace have not titled their land or those who titled their land may not have paid their ground rent. This may mean loss of revenue to the government in the area.

Table 2: Constraints to Land Titling

Rank	Constraints	Mean
1	Stringent requirements	3.90
2	Poor service delivery	3.80
3	Lack of sensitization on guidelines and procedures to follow	3.50
4	Complex administrative procedures in processing	2.80
5	High cost of titling	2.70
6	High land charges	2.60
7	Frivolous charges by the indigenous land owners when root of title is required	2.30
8	Unawareness of the importance for titling	2.20

Source: Field Survey, 2018

Table 2 indicates constraints to land titling in the study area. Stringent requirements was rated high with a mean score of (3.90) followed by Poor service delivery (3.80), and Lack of sensitization on guidelines and procedures to follow (3.50). This finding is in line with

the Thontteh and Omirin (2015) who acknowledged absence of institutional framework, high cost of titling and land charges and inadequacy of technical skills as the challenges of titling.

Table 3: Pearson Correlation of the association between Titled Land and Property Tax

		Residents with Titled Land from 2008-2017	Property Tax (Ground rent) Paid from 2008-2017
Residents with Titled Land from 2008- 2017	Pearson Correlation	1	-.749
	Sig. (2-tailed)		.000
	N	10	10
Property Tax (Ground rent) Paid from 2008-2017	Pearson Correlation	-.749	1
	Sig. (2-tailed)	.000	
	N	10	10

** Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey, 2018

Table 3 shows the association between Titled Land and Property Tax (Ground rent) paid from 2008 to 2017 in the selected neighborhood of the study area. There is a strong, negative relationship at $r = -.749$ titled land and the property tax (Ground rent) paid from 2009 to 2018, which was statistically significant at 0.01(1%) ($r = -.749$, $n = 10$, $p = .001$) based on 2 tailed test. The coefficient determination of .749 suggests, 56.1% of the variability in number of property tax (ground rent paid) is explained by titled land. The negative correlation implies that poor land titling is associated with decline response to payment of ground rent as a form of property tax in the study area. This is a very serious problem as there was no corresponding response to payment of ground rent as a form of property tax as land titling is poorly patronized over the years.

IV. CONCLUSIONS

In many developing countries Governments at various levels are hindered by insufficient revenues to

implement the necessary public infrastructures. Yet, the potentials embedded in landed properties as one of the notable source of revenue to government is not well exploited. However, property taxes can be a win-win approach to enable governments provide necessary public infrastructures and at the same time get revenues on the funds expended on infrastructure which could have increased the value of nearby landed property. Contrariwise, executing property taxes usually pose certain technical hitches to the policymakers including information on the quantum of property available for tax assessment and who should be responsible for the tax payment. Against this backdrop, land titling may be a holistic approach to tackling the hiccups accustomed with property taxes as property owners can be easily identified, thus, making property taxation operational. Therefore, in view of the titling culture in the study area, it is imperative that capacity building in systematic titling project will be a worthwhile policy option for improved titling culture. This will consistently sustain property

taxation as another income source to finance infrastructures and other public projects.

ACKNOWLEDGEMENTS

Appreciation goes to all staff of the Department of Deeds and Deemed Right of the Ondo State Ministry of Lands and Housing and the Ondo State Board of Internal Revenue who provided us with necessary information and documents during the field data collection.

CONFLICT OF INTEREST

There is no conflict of interest associated with this work.

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