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EVALUATING GOVERNMENT REVENUE THROUGH PROPERTY TAXATION IN NIGERIA

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ABSTRACT

Property taxation is a durable and under-utilized source of government revenue in many developing countries. This paper evaluates the contribution of property taxation to government revenue, examines institutional and administrative obstacles to effective implementation, and proposes strategies for reform suitable for the Nigerian context. Using a conceptual and evaluative approach based on secondary data (academic literature, international reports, and national policy documents), the paper highlights contrasts between jurisdictions that have successfully mobilized property tax revenue (e.g., Lagos State, Kenya, South Africa, United Kingdom) and contexts where the potential remains unrealized. Key findings indicate that digitization of cadastral records, regular revaluation, legal harmonization, capacity building, and transparent use of proceeds are central to improving yield and compliance. The study concludes with policy recommendations for Nigerian subnational governments to strengthen internally generated revenue through property-based taxation.

Keywords: Property Taxation; Government Revenue; Fiscal Policy; Estate Management; Nigeria

1. Introduction

Public finance is the foundation of every functional government. Sustainable revenue enables the provision of infrastructure, education, healthcare, and welfare services necessary for economic growth and social stability. Among the wide range of fiscal instruments, property taxation remains one of the most stable and transparent sources of public revenue, especially at the subnational level. Property tax is levied on the ownership, occupation, or transfer of immovable assets—primarily land and buildings. Its predictability and visibility make it a unique form of taxation compared to income or consumption taxes that fluctuate with market cycles.

Globally, property tax is recognized as a vital component of local government finance. According to the Organization for Economic Co-operation and Development (OECD, 2020), property tax contributes between 2% and 4% of GDP in developed countries. It serves as the main source of internally generated revenue for municipalities and counties in North America and Europe. In contrast, developing countries—including Nigeria—have yet to realize the full potential of property tax systems. The contribution of property tax to total revenue in most African countries is typically below 0.5% of GDP (Fjeldstad & Heggstad, 2012).

The Nigerian context illustrates both the promise and the challenges of property-based taxation. While Lagos State has recorded success through the introduction of the Land Use Charge (LUC) and digital mapping of properties, other states have struggled due to weak administrative capacity, outdated valuation rolls, low compliance, and political interference. Understanding these disparities provides insight into how reforms can improve fiscal performance across the federation.

The purpose of this paper is to evaluate government revenue through property taxation with emphasis on:

1. The importance of property tax as a revenue source.

2. The efficiency and equity of property tax collection.

3. The institutional and administrative challenges affecting performance.

4. Policy measures required to strengthen property tax systems in Nigeria.

This study adopts a **conceptual and evaluative approach** rather than empirical fieldwork, synthesizing existing research and case studies to identify lessons for enhancing government revenue mobilization through property taxation.

2. Literature Review

2.1 Theoretical Perspectives

The theoretical foundations of property taxation are grounded in two major principles: the **benefit principle** and the **ability-to-pay principle**.

According to the benefit principle, property owners should contribute to the cost of public goods and services—such as roads, drainage systems, and waste management—from which they derive direct benefits. This principle provides a moral and economic justification for property tax at the local level (Bird & Slack, 2014).

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The **ability-to-pay principle** posits that property serves as a reliable indicator of wealth. Since wealthier individuals typically own higher-valued properties, property tax ensures equity by imposing a greater tax burden on those with greater capacity to pay (Musgrave & Musgrave, 1989).

Classical economists, notably **Henry George (1879)** advocated for a "single tax" on land. George argued that taxing land values alone—excluding improvements—would encourage efficient land use, discourage speculation, and provide an equitable, non-distortionary source of public revenue. This notion remains influential, particularly in discussions about land value taxation (LVT).

Modern fiscal theory extends these ideas by emphasizing that property taxes promote local accountability. When local authorities depend on property tax revenue, taxpayers have a stronger incentive to demand transparency and efficient service delivery, leading to better governance outcomes.

2.2 Empirical Studies

Empirical evidence reveals wide variations in property tax performance across countries and regions.

Developed Economies:

In the United States and much of Europe, property tax is a cornerstone of subnational finance, often accounting for **70–80% of local government revenue** (OECD, 2020). Advanced valuation systems, digital cadastres, and well-established enforcement frameworks contribute to high collection efficiency and taxpayer compliance.

Developing Economies:

In Sub-Saharan Africa, property tax contributes less than **0.5% of GDP** (Fjeldstad & Heggstad, 2012). Administrative weaknesses, poor property identification, and political reluctance undermine performance.

Nigeria:

Property taxation in Nigeria contributes less than **3% of internally generated revenue** in most states (Onuoha, 2021). Lagos State is an exception, due to the introduction of the Land Use Charge (LUC) and the use of Geographic Information Systems (GIS) for property enumeration and valuation.

Overall, the literature suggests that while property taxation has immense potential, its success depends on strong institutional frameworks, reliable property records, public trust, and political commitment.

3. Methodology

This study adopts a **conceptual and evaluative research design** based on qualitative analysis of secondary data. The aim is not to collect new empirical data but to synthesize existing academic

research, government publications, and international policy reports on property taxation and revenue performance.

3.1 Research Design

The research is structured as a **desk-based analytical study**. It systematically reviews literature on property taxation, identifies key themes, and evaluates global and Nigerian experiences to draw relevant lessons. This approach is appropriate because property tax systems are well documented in literature, and existing data offer rich insights into their functioning.

3.2 Data Sources

The study relies primarily on:

- Scholarly journal articles on public finance, taxation, and estate management.
- Official reports and statistics from the World Bank, OECD, and Nigerian tax authorities.
- Policy papers and publications from state ministries of finance and local government councils.
- Case studies from Lagos, Nairobi, and OECD countries.

3.3 Analytical Framework

The analysis focuses on five major dimensions:

1. Importance of property taxation as a revenue source.

2. Revenue contribution to government finance at national and local levels.

3. Administrative efficiency and compliance.

4. Equity and fairness in tax incidence.

5. Reform strategies that enhance property tax systems.

Data and insights from the reviewed sources were categorized and compared to reveal strengths, weaknesses, and emerging patterns in property tax administration.

3.4 Limitations of the Study

As a conceptual paper, this research does not include quantitative fieldwork or primary data collection. Therefore, the analysis depends on the accuracy and timeliness of secondary sources. Additionally, differences in data availability across countries may affect comparability.

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Nonetheless, the study provides a comprehensive evaluation of property taxation as a tool for enhancing government revenue.

4. Findings and Discussion

4.1 Importance of Property Taxation in Government Revenue

Property taxation remains a cornerstone of fiscal stability and local government autonomy. Its importance can be analyzed through several dimensions:

1. **Stability and Predictability:**Property tax is less volatile compared to taxes on income or consumption. Property values change gradually over time, making this tax a reliable source of income for budgeting and long-term planning (Bird & Slack, 2014).

2. **Revenue for Local Governments:**

Property taxes are commonly assigned to local authorities, providing them with independent revenue to finance essential services such as sanitation, roads, public lighting, and primary education. This enhances fiscal decentralization and strengthens local governance.

3. **Wealth Redistribution and Equity:**

Since property ownership reflects wealth, property taxation promotes social equity. Progressive tax rates on high-value properties ensure that affluent individuals contribute proportionally more to community development.

4. **Efficient Land Use:**

High property taxes on idle or underutilized land discourage speculation and encourage productive land use. This aligns with urban planning objectives and supports sustainable city growth.

5. **Reduced Dependence on Oil and Trade Taxes:**

In resource-dependent economies like Nigeria, property tax offers an alternative and sustainable revenue base that can reduce vulnerability to external shocks.

4.2 Contribution of Property Taxation to Total Government Revenue

Globally, property tax contributes between **1% and 2% of GDP** on average (World Bank, 2019). In advanced economies, the contribution is significantly higher—ranging from **2% to 4% of GDP**, and sometimes more than **70% of local government revenue**.

In contrast, developing countries in Africa collect less than **0.5% of GDP** from property taxes (Fjeldstad & Heggstad, 2012).

In Nigeria, the overall contribution of property tax remains marginal. Lagos State leads with substantial internal revenue due to the Land Use Charge and modern cadastral systems. However, most other states depend largely on federal allocations, with property tax accounting for less than **3% of Internally Generated Revenue (IGR)** (Onuoha, 2021).

These disparities underscore the need for structural reforms in valuation, enforcement, and taxpayer education to unlock the full fiscal potential of property taxation.

4.3 Efficiency and Administrative Capacity

The effectiveness of property taxation largely depends on administrative capacity — the ability of government institutions to identify taxable properties, assess their value accurately, and enforce payment.

Efficiency can be measured through the **tax gap**, defined as the difference between potential and actual revenue. Studies reveal that in many African countries, only about **20–30% of potential property tax revenue** is collected (Fjeldstad & Heggstad, 2012).

Major determinants of efficiency include:

- The **accuracy and completeness** of property valuation rolls.
- The **frequency of revaluation** to reflect market changes.
- The **use of technology**, such as GIS and digital cadastres.
- **Transparency and accountability** in revenue utilization.

Where these elements are in place, compliance improves because taxpayers perceive fairness and benefit. Conversely, where property records are poor or corruption prevails, evasion and noncompliance increase.

4.4 Equity and Fairness

Equity in property taxation involves both **horizontal and vertical fairness.**

Horizontal equity ensures that taxpayers with similar property values pay similar amounts, while vertical equity demands that those with higher-value assets contribute proportionally more.

In practice, achieving equity is challenging. In Nigeria, property valuation is often inconsistent, with similar properties assessed differently across locations. This undermines taxpayer confidence and breeds resentment. Moreover, informal settlements—home to a large share of the urban population—are rarely taxed, which limits inclusiveness and shifts the burden to formal property owners.

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To promote fairness, regular revaluations and standardized assessment procedures are essential. Adopting **market-based valuation methods** and transparent public notice systems can also build credibility and trust.

4.5 Key Challenges Affecting Property Taxation

Despite its promise, property taxation in developing countries faces persistent obstacles that hinder efficiency and fairness. These include:

1. **Poor Property Records:**
Outdated or incomplete cadastral systems make it difficult to identify taxable properties accurately.

2. **Low Compliance Levels:**
Many property owners resist payment due to distrust in government, weak enforcement, and lack of visible benefits from tax proceeds.

3. **Informal Settlements:**
A significant portion of urban housing exists outside formal land registration systems, preventing effective assessment and taxation.

4. **Political Resistance:**
Property tax is often unpopular among voters, leading politicians to avoid reforms or enforcement during election periods.
5. **Administrative Weaknesses:**
Inadequate training of staff, corruption in valuation, and inefficient collection processes further limit revenue potential.

Addressing these challenges requires a combination of technological, institutional, and political solutions that strengthen transparency and accountability.

5. Strategies for Improvement and Case Studies

5.1 Strategies to Improve Property Taxation

To enhance property tax performance and unlock its potential for sustainable revenue, several strategic measures are recommended:

1. **Digitization of Property Registers:**

Developing a comprehensive **digital cadastre** using Geographic Information Systems (GIS) can improve property identification, valuation accuracy, and record maintenance. Lagos State and Nairobi have demonstrated that GIS-based systems significantly expand the tax base.

2. **Public Awareness and Tax Education:**

Citizens are more likely to comply when they understand how their taxes fund local services. Awareness campaigns and visible use of funds (e.g., roads, waste management, and schools) foster a stronger tax–service link and voluntary compliance.

3. **Transparent Utilization of Revenue:**

Establishing accountability mechanisms—such as publishing reports on property tax collection and expenditure—can build public trust and encourage payment.

4. **Progressive Taxation:**

Implementing **graduated tax rates** based on property value or location ensures fairness, protects low-income households, and increases contributions from luxury or commercial properties.

5. **Regular Property Revaluation:**

Updating valuation rolls every 3–5 years ensures that tax assessments reflect current market conditions. This minimizes inequities and boosts revenue.

6. **Capacity Building and Institutional Strengthening:**

Training revenue officials, estate valuers, and tax assessors enhances professionalism and reduces corruption. Collaboration between local governments and professional bodies such as the **Nigerian Institution of Estate Surveyors and Valuers (NIESV)** can improve technical expertise.

7. **Strong Enforcement and Legal Framework:**

Effective property taxation depends on a clear legal basis and consistent enforcement. Governments should strengthen laws governing property tax collection, establish penalties for evasion, and ensure fair dispute resolution mechanisms.

5.2 Case Studies

5.2.1 United States

In the United States, property taxation forms the fiscal backbone of local governance, accounting for over **70% of local government revenue**. Revenue from property tax funds schools, police, fire services, and infrastructure. The system's success is attributed to accurate property valuation, regular reassessment, and transparent administration.

5.2.2 United Kingdom

The **Council Tax** in the UK is a localized form of property taxation that supports local government budgets. Properties are classified into bands based on value, and revaluation exercises maintain fairness. Citizens' awareness and visible service improvements sustain high compliance levels.

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5.2.3 Kenya

Nairobi City County implemented GIS mapping for property identification and valuation, which significantly increased its tax base and minimized leakages. Digitization helped identify previously unregistered properties and improved billing efficiency.

5.2.4 Nigeria

Lagos State remains the most successful case within Nigeria. Through **the Land Use Charge (LUC)** law introduced in 2001, the state harmonized several property-related taxes and integrated a digital property database. However, resistance from property owners and inconsistent enforcement still present challenges. Other states can adopt Lagos's model, emphasizing transparency, digital valuation, and regular review.

6. Policy Implications and Conclusion

6.1 Policy Implications

The evaluation of property taxation reveals that its potential as a stable and equitable source of government revenue remains largely underexploited in many developing countries. For Nigeria and similar economies, several key policy implications emerge:

1. Fiscal Decentralization and Autonomy:

Strengthening property taxation empowers local governments to generate independent revenue and reduce reliance on federal allocations. This enhances fiscal sustainability and promotes local accountability.

2. Institutional Reform:

Establishing efficient property registries and valuation agencies is crucial. Collaboration between land administration offices, estate valuers, and tax authorities can ensure accurate assessments and efficient collection.

3. Technology Integration: Adoption of GIS, digital property databases, and automated billing systems enhances transparency, reduces leakages, and improves monitoring of tax compliance.

4. Legal Harmonization:

Simplifying and harmonizing property tax laws at the state and local levels minimizes overlaps and confusion. Clear legal frameworks also strengthen enforcement and dispute resolution mechanisms.

5. Transparency and Trust:

Linking property tax revenue to tangible community projects increases taxpayer confidence. Governments should communicate how tax proceeds are utilized to encourage voluntary compliance.

6. Capacity Development:

Investing in training for tax administrators, valuers, and auditors ensures professionalism, minimizes errors, and enhances overall system performance.

7. Equity Considerations:

Implementing progressive tax rates and providing exemptions or rebates for low-income households promotes fairness and social inclusion.

6.2 Conclusion

Property taxation is among the most sustainable and equitable instruments for government revenue generation. It provides a steady financial foundation for subnational governments to deliver essential services and promote development. The experiences of advanced economies and reform-driven African cities demonstrate that effective administration, digital innovation, and transparent governance can transform property taxation into a powerful fiscal tool.

In Nigeria, however, the tax remains underutilized due to poor property data, administrative inefficiency, political interference, and low taxpayer trust. To reverse this trend, policy makers must adopt comprehensive reforms emphasizing digitization, institutional strengthening, fairness, and public accountability.

Ultimately, enhancing property taxation aligns with broader national goals of fiscal sustainability, good governance, and socioeconomic development. When effectively implemented, it not only boosts government revenue but also fosters civic responsibility, transparency, and equitable growth.

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