Assessing Land Value Taxation As A Tool For Achieving Sustainable Land Use In Anambra State, Nigeria

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Abstract: Urban expansion in Nigeria has brought in its stead land speculation, artificial land scarcity, exorbitant land prices and consequent urban sprawl in the cities. This necessitates a move towards making land available for developers who are keen on immediate development and curbing the anomalies on land use. This study assessed land value taxation as a tool for achieving sustainable land use. It looked at the two components of property value- land value and building value in Anambra State Nigeria with a view to showing the possibility of taxing both components separately for a sustainable land use and development. In order to partition property value, the study adopted a variant of contribution value approach to suit the study area. Survey design was used to generate data on land and building variables which were used to arrive at land values, building values and property values with the aid of excel spreadsheet. An operational regression equation was developed for low and high density areas of the study area. The study discovered that property value can be effectively partitioned into its component values and up to 40% of property value accrues to land. Land value variables, when compared to building value variables are very significant in the overall property value, hence the cogent need for its taxation. Urban land value taxation can effectively function as a tool to curb unsustainable practices (land speculation, urban blight and urban sprawl), manage land- use, urban density and expansion. The study recommended urban land value taxation in view of the fact that land value is a major contributor to property value and can be separated from building value in built up areas. This will guarantee equitable taxation of the components according to their contribution in the overall property value while encouraging sustainable land use and development.

Keywords: Land value taxation, Sustainable land use, Land value.

I. INTRODUCTION

Land is a very important resource, perhaps the most important natural resource, as it affects all aspects of people's lives and access to land is basic to human life. Most human activities that determine the existence of man are embedded on land and as a result every man is desirous to own land and better still develop it. Land is a scarce resource and its renewal or increase is usually an uphill task. Therefore it must be judiciously and efficiently managed in a sustainable manner for the use and good of all. It is for this reason that different countries the world over have evolved land tenure systems to protect various "interests" in land and for effective land governance and management (Atilola, 2010)

The Land Land Use Act Cap L5 L.F.N. 2004 aims to make land easily and cheaply accessible to the people especially in urban areas where land prices practically go through the roof as well as discourage land speculation and perpetuity in land ownership, hence the 99 years Certificate of Occupancy issue to land users (Abiama, 2011)

On the contrary, land has become increasingly difficult for people to secure for development in our urban areas. Artificial scarcity of land on the free market is created which drives up the price of land in general thus discourages intending developers, favors speculators who sit on vacant or

underutilized land in the hearts of our cities and towns. Developers move further out of the urban area to get affordable land thus creating a vacuum between their improvements and the developed areas creating urban sprawl, squatter settlement that presents a scattered and untidy environment.

There is increased demand for land in the major cities of Anambra State especially Onitsha and Awka thus driving the prices of vacant land up. In recent times residential structures are seen springing up in neighboring towns like; Nkwelle Ezunaka, Nsugbe ,Ogidi and Ogbunike which are villages near Onitsha and Amansea, Isuaniocha, and Nise near Awka. This outward development is as a result of very high land prices in these areas and their immediate environs. Putting up structures though not bad, has resulted in scattered development, urban sprawl and residential areas that lack the most basic amenity-road.

There is need to tax land out of the hands of speculators so as to encourage land use while discouraging urban sprawl, sparse development and urban blight. The snag to achieving this feat is the problem created by Nigeria's policy on ownership of land. Land which is in the hands of its owners is 'literally' owned by government thus cannot be taxed. Another problem that is envisaged in achieving this is separating the property value into its various components- land and building for effective taxation. It is against this background that the study developed a model that can partition property value into its various components for sustainable land use and development.

II. STUDY AREA

Anambra state is one of the six states in South East Geographical zones of Nigeria. It has a total land mass of 4,416 of km and situates on the Eastern side of River Niger. The state has 177 communities (towns) in 21 Local Government Areas which comprises of three major towns namely, Awka, its capital city, the commercial town of Onitsha and the industrial city of Nnewi. According to 2006 national population census it has a population of 4,177,828 made up of 2,117,984 males and 2,059,844 females (NPC, 2010). According to National Bureau of statistics (2006), Anambra State is the 2nd most urbanized state in the country having 62% of its total population living in urban areas Though most Anambra population is rural, the state is experiencing rapid urbanization and because of its relatively small land mass, the state is virtually becoming one huge urban area. Consequently it has one of the highest population densities in Africa at 947 persons living within every square kilometer (UN- Habitat, 2009). However as with every other state, rural-urban migration poses serious burdens for the state's resources.   The study areas are residential properties in Awka.
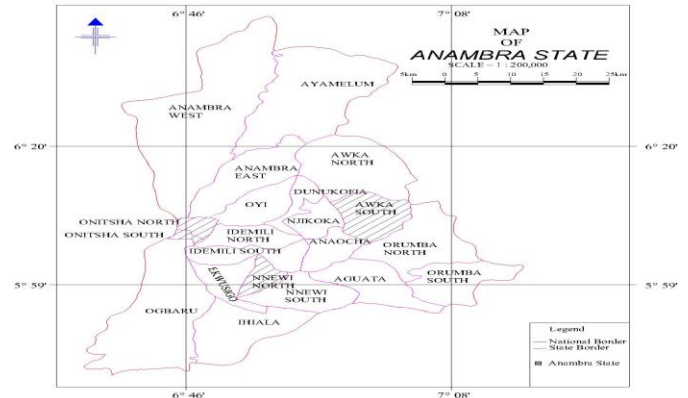
Source: Department of Surveying and Geoinformatics, Nnamdi Azikiwe University, Awka

Figure 1: Map of Anambra State showing the study area

AWKA

Awka is the capital of Anambra State whose region covers six Local Governments which include Awka Capital Territory, Awka South Local Government area, accounting for more than half of the land area. Others are Awka North, Njikoka, Anaocha, Dunukofia and Orumba North Local Government Areas. Urban growth has been rapid as the three towns of Awka, Amawbia and Okpuno have grown to merge with each other, forming a conurbation. Awka has grown into an urban centre both by natural increase and by immigration. The city had essentially remained more rural than urban in scope until it became a State Capital. The land use is distributed over residential, industrial, commercial, administrative and agricultural.
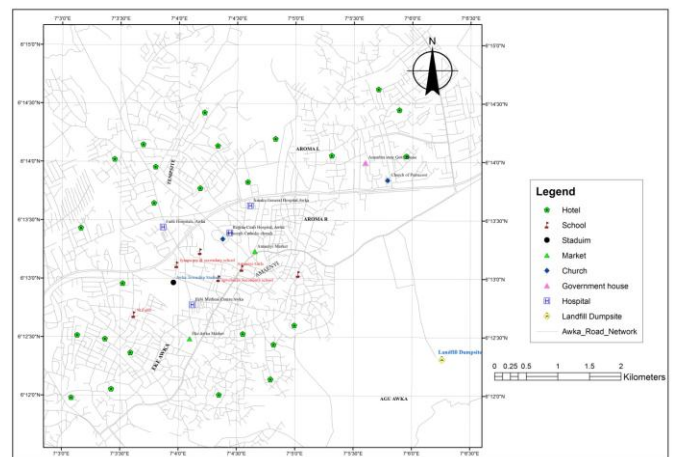

Figure 1: Map of Awka in Anambra State

III. LAND VALUE TAXATION

The revenue earned from land is a type of earning surplus achieved without any efforts and can be then considered as a suitable basis for taxes (Dadkhah, Mostafapour, Alibeygi, Sepehr 2005). In many countries, the increases in the population and the revenues have raised the demand for land and results in landowners receiving surplus on their land regardless of their insignificant shares in the increase.

Land value taxation, a reform to an entrenched institution (property taxation) is, where land value, if not the only element of real property taxed, is taxed more than improvement value (Dye & England, 2009). Within such a tax system, land speculation is theoretically discouraged as property owners face a sizable tax regardless of how they improve their property. Therefore, landowners are encouraged to develop their parcels in a way that generates the most utility because their taxes are fixed to land value and do not increase based on improvements they make to the property.

This tool splits the standard property tax into its two components of land values and building values. Separate knowledge of land and building value is useful for several reasons. First, depreciation allowances in the tax code make it necessary to separate depreciable value (building) from non-depreciable value (land). Second, real estate assessors use sales prices of properties to estimate the current market value of neighboring properties for which no recent sale prices are available. Land values of neighboring parcels are generally much more highly correlated than building values, and knowledge of land values increases the precision of real estate assessment. Thirdly, wherever adopting higher property tax rate on land than on buildings is being considered, a separate knowledge of land and building values is required. The tax rate is increased on the land part of the property and decreased on the building. The increased tax on land has a negative capitalization effect, resulting in land being priced closer to its true market value.

The user of land ought to pay the amount of its worth at best use; but the owner, facing no cost of production, need not receive all that is paid. On the long run, land owners would get less of the increments in land values and the public would get more. Socially created values would then be channeled into government use rather than private uses. Taxes could be related more closely to the cost of governmental services.

IV. CONCEPTUAL FRAMEWORK

The important concepts that predicate this study are: urban land value, land value taxation and sustainable land use. It also provides an insight or in depth understanding to the need to tax land value as different from building value.
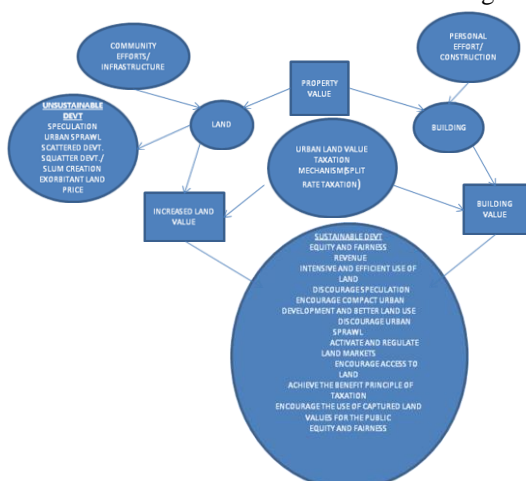

Figure 3: Urban Land Value Taxation Concept Mapping

A. URBAN LAND VALUE

Urban land is land that is situated in an urban area (a place which is surrounded by the city). Urban Land markets and prices are the chief determinants of urban land values, urban spatial expansion and geographic social patterns. Urban land prices rises with provision of infrastructures and amenities without corresponding increase in the income of city dwellers. The aftermath of this scenario is that cities living close to urban centers are increasingly faced with choices of unplanned settlement, emergence of slums or complete eviction. Furthermore population growth, urban expansion, economic development and investments in infrastructure and services, has continued to increase the demand for urban land and due to its limited supply, the ownership quest favors a few urban settlers.

In sub-Saharan Africa like Nigeria, 90% of all new urban settlements are taking the form of slum or in some cases sprawl development. Urban sprawl is responsible for changes in the physical environment, and in the form and spatial structure of cities. In many countries including the developed countries like United States, evidence of the environmental impacts of sprawl continues to mount. Kirtland et al. (1994) report that the impact of urban land on environmental quality is much larger than its spatial extent would imply.

It is recognized that over 70% of urban growth currently happens outside of the formal planning process and that 30% of urban populations in developing countries live in slums or informal settlements, i.e. where vacant state-owned or private land is occupied illegally and used for illegal slum housing.

V. DATA USED

The data was drawn from two sources, primary and secondary data. One low and high density areas from the study areas made up the crop of properties for the study. G.R.A Agu-Awka and New-Era are the low and high density areas for Awka. Twenty properties each from these areas giving a total of fourty properties for the study. Medium density properties were excluded because it was noticed that there is a very slight margin between the property values in the medium density areas and high density areas thus will not give room for better representation

Primary data on the study properties were collected from the following sources:
✓ Anambra State Housing Development Corporation (ASHDC), Awka.
✓ Anambra Property and land Use Charge Office, Awka.
✓ Professional Estate Surveyors and Valuers and Practicing Estate Surveying and Valuation Firms

Interviews (oral and telephone) were conducted to probe for further information especially from the Estate Surveyors and Valuers and Tax Officials.

Secondary data on residential buildings and land was collected from property registers of Anambra State Property and Land Use Charge (APLUC) in Anambra State.

Textbooks, journals and maps were used to generate secondary data.

VI. DATA PRESENTATION AND ANALYSIS

The study conceptualized sustainability of urban land in the context of land value taxation and identifies the benefits there from. Therefore, a number of theories and concepts identified in literature were examined by seeking opinions of practicing Estate Surveyors and Valuers and Tax Assesors who rated them according to set options. The options are Strongly Agreed, Agree, Undecided, Disagree, and Strongly Disagree, which were rated 5, 4, 3, 2 and 1 respectively with the weighted mean used. The resulting figures are shown in Table1, which contains the frequency of each option. Majority of the respondents (80%) agreed that property taxation which encourages land speculation, vacant lots and urban sprawls in core urban areas can be curbed by use of urban land tax. That urban land tax can be used to manage land use and development and to achieve sustainable development. Their opinions were abbreviated as follows:

LTBRLRAL- "Lowering tax on buildings and raising tax on land can help to achieve a revenue-neutral alternative"

SCVCGPU- "Socially created values would then be channeled into government use rather than private uses"

BPTWBA– "Benefit principle of taxation will be achieved as taxes could be related closely to the cost of governmental services"

EWTFLG - "Land value taxation will be a more equitable way of financing local government."

ULVTDLD - "Urban land value taxation will encourage denser patterns of land development thus inhibit metropolitan sprawl"

HPULEBE - "High price for some urban land is essential to encourage the best employment of it"

ULVTDS – "Urban land value taxation will discourage speculation as property owners face a sizable tax regardless of how they improve their property"

RUBIWGE - "A switch to a land value tax will lead to reduced urban blight, increased wealth generation and economic efficiency"

ULVTLUSD – "Urban land value taxation is a tool that can be used to manage land use, urban density and expansion thus achieving sustainable development"

STATEMENTS	Strongly Agree (5)		Agree (4)		Undecided (3)		Disagree (2)		Strongly Disagree (1)		Weighted Mean
	F	%F	F	%F	F	%F	F	%F	F	%F	
Lowering tax on buildings and raising tax on land can help to achieve a revenue-neutral alternative (LTBRLRA)	6	19.4	14	45.2	7	22.6	4	12.9	0	0	2.74
Land value tax levied on the market value of all land would constitute a continuous pressure on land owners thus inducing them to compete favorably with intending land owners.	2	6.5	16	51.6	1	3.2	8	25,8	4	12.9	3.13
A buyer of land ought to pay the amount of its worth at best use while the owner who faces no cost of production need not receive all that is paid.	1	3.2	13	41.9	4	12.9	10	32.3	3	9.7	2.97
Sequel to the statement above; (i) The total collected from users would not change, but private owners of land would retain less, enabling the public revenue to increase as the treasury gets more.	1	3.2	7	22.6	13	41.9	9	29.0	1	3.2	2.94
(ii) On the long run, land owners would get less of the increments in land values and the public would get more.	3	9.7	18	58.1	2	6.5	6	19.4	2	6.5	3.45
(iii) Socially created values would then be channeled into government use rather than private uses (SCVCGPU)	5	16.1	23	74.2	1	3.2	2	6.5	0	0	4.00
(iv) Benefit principle of taxation will be achieved as taxes could be related closely to the cost of governmental services (BPTWBA)	7	22.6	21	67.7	1	3.2	2	6.5	0	0	4.06
(v) Land value taxation will be a more equitable way of financing local government (EWTFLG)	4	12.9	20	64.5	3	9.7	4	12.9	0	0	3.68
Urban land value taxation will encourage denser patterns of land development thus inhibit metropolitan sprawl (ULVTDLD)	2	6.5	14	45.2	2	6.5	11	35.5	2	6.5	3.10
High price for some urban land is essential to encourage the best employment of it (HPULEBE)	2	6.5	12	38.7	5	16.1	10	32.3	2	6.5	3.06
Property tax scheme (not taxing land) can encourage land speculation thus allowing for the persistence vacant lots and urban sprawls in urban cores	7	22.6	19	61.3	1	3.2	4	12.9	0	0	3.94
Urban land value taxation will discourage speculation as property owners face a sizable tax regardless of how they improve their property(ULVTDS)	5	16.1	20	64.5	2	6.5	4	12.9	0	0	3.84
Landowners will be encouraged to develop their parcels in a way	4	12.9	18	58.1	2	6.5	5	16.1	2	6.5	3.55

that generates the most utility because their taxes are fixed to land value and not improvements they make to the property										
A switch from a traditional property tax to a land value tax will lead to reduced urban blight, increased wealth generation and economic efficiency (RUBIWGE)	4	12.9	23	74.2	1	3.2	3	9.7	0	0	3.9
Urban land value taxation is a tool that can be used to manage land use, urban density and expansion thus achieving sustainable development (ULVTLUSD)	3	16.1	25	80.6	1	3.2	2	6.5	0	0	3.94

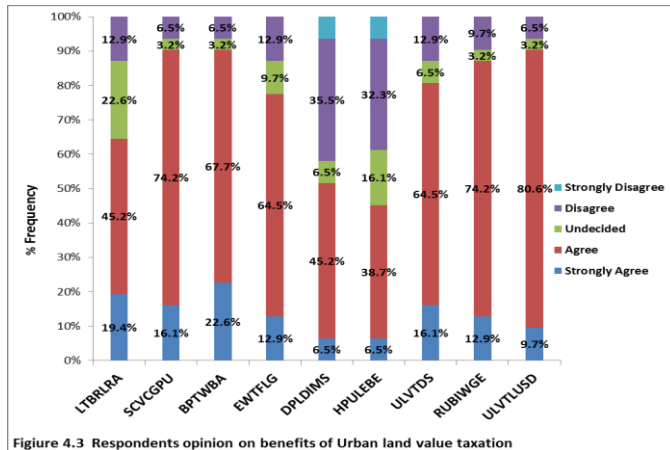*Table 1: Respondents opinion on benefits of Urban Land Value Taxation*

Figiure 4.3 Respondents opinion on benefits of Urban land value taxation

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