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## **Lagos LUC: Academia calls for valuation procedure review**

Real estate and tax experts at the University of Lagos have called for the review of certain aspects of the Lagos State Government’s Land Use Charge.

One particular aspect focused on was the property valuation method used to determine the LUC rates.

According to the professionals, the 40 per cent general relief on all assessed capital values does not in any way provide relief for persons not in beneficial occupation of their properties.

Most of them noted that the state government’s valuation should be based on annual rental value, a tax method that focuses on the average gross rental income a property is expected to generate in normal market conditions.

The Head, Department of Estate Management, UNILAG, Prof. Modupe Omirin, noted that without a proper review, the new tax law would discourage real estate investments in an already depressed market plagued by a rising housing deficit.

Omirin and others spoke during a roundtable with the theme: ‘Property tax reform: Towards a sustainable Land use Charge administration in Lagos State’, organised by the Department of Estate Management.

She stated that recourse to the use of annual rental value should be the basis of property valuation under the new law, adding that the process was more transparent and easier to achieve, and tax would be on actual earnings from a property.

“The annual rental value approach will ensure reduced need to adopt an arbitrary general relief rate, and the potential inflationary effect of the LUC rate review will be better understood and dealt with. Capital values are subjective and unreal because they do not actually accrue to landlords until a sale occurs and may never do,” she added.

While commending the sensitivity of the state government to criticisms and reducing the rates by 15, 25 and 50 per cent, Omirin said capital value of properties was subject to various influences that could make it suspect as a basis for an annual levy.

She explained that while the new assessment formula was clearer than the one used before the re-enactment of the law, it would need to be amended to make it amenable to the use of annual rental values.

She added, “We are advocating a careful consideration of the key issues underlying the law in order to ensure sustainable administration, which, in addition to Adam Smith’s canons of taxation of certainty, convenience and economy, will include acceptability, enforceability, affordability, legality or legitimacy and transparency.

“A good property tax system and the LUC for that matter must be seen to comply with the principles of good governance.”

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An Associate Professor in the department, Gabriel Babawale, stated that the valuation process under the new law had no standard but was rather done arbitrarily.

He said the rental value procedure should be the preferred option as it was more straightforward.

Babawale noted, "People are ready to pay taxes but they are not satisfied with the process of assessment of their properties. There are also so many properties that are not captured and various other leakages in the system such as taking out an aspect of the law and over flogging it.

"The rental value is better. It is generally considered more appropriate, pragmatic, objective, transparent, logical, equitable, cost-effective, with higher potential for compliance and therefore revenue yield buoyancy; and it is highly recommended for Lagos State."

According to a Professor of Economics at the university, Olufemi Saibu, 80 per cent of Nigerians do not pay tax, and based on the rising need for infrastructure development and the dwindling revenue from crude oil, the only alternative remains tax, especially from properties.

He, however, noted that the process should be based on economic values, adding that the government should improve on the system of tax collection.

On the LUC, he said the valuation should not be based on current market value.

Saibu stated, "The worth of properties should not be based the current market value, because this does not really mean what the property can earn today but over a period of time.

"The value should rather be based on a discounted value, because the market value is based on what the property can earn in future. We should begin to look at the lifespan of a property, discount it and use it as the base value of that property."

A director at the Office of Valuation, Lagos State, Mr. Kunle Awolaja, said the issue of property tax could not be avoided.

"All over the world, governments get revenues from taxes, but the dependence on oil has made us to believe that everything should be free. As a responsive government, however, the state is working on the policy," he added.

A Professor of Architecture, UNILAG, Olumide Olusanya, stated that while it was important for the state government to review the LUC, there should also be a review of the style of building construction.

He added that the value of land had a lot to do with the infrastructure on it.

The Dean, Faculty of Environmental Sciences, Prof. Mike Adebawo, said the faculty would prepare a communiqué from the roundtable for both the government and the general public.

### **Academics caution on property tax, urge objective assessment**

With the poor recovery levels of property tax in the Lagos metropolis, university teachers have proposed that the state government adopt greater tax equity and efficiency.

They argued that the government should exercise caution and avoid hasty actions, which could result into errors that can literally stump the real estate sector resulting into a situation akin to killing the goose that lays the golden egg.

Making their submission at a one-day round table on the Lagos State Land Use Charge Law, 2018: Towards Sustainable Administration and Best Practice organised by the Department of Estate Management, University of Lagos, the dons said that the State Government is in a dilemma as revenue from Land Use charges will be boosted better by increasing the tax base.

In a joint address, the Head, Department of Estate Management and Dean, Faculty of Environmental Sciences, Prof. Modupe Omirin and Prof. Mike Adebawo respectively, pointed out that "rather than over burdening existing property owners and

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occupiers this can be achieved by creating more hereditaments through land use intensification or densification particularly in prime areas where land is presently underused.”

While offering technical assistance to the government to boost revenue generation for the sustained development and provision / maintenance of critical infrastructure for a strong fiscal base and resilient economy, they called for the reconsideration of the key issues underlying the law to ensure sustainable administration such as acceptability, enforceability, affordability, legality or legitimacy and transparency.

Setting the tune for the discussion, the duo commended the Lagos State Government for being at the forefront of property tax reform in Nigeria and recent efforts to review some aspects of the LUC in response to the reactions of stakeholders across board.

“Since the promulgation of the Land Use Charge Law of 2001 several other states of the federation have attempted to replicate it in their areas of jurisdiction. “We commend also, the State Government’s sensitivity to public opinion and efforts to reduce the chargeable rates although prior consultation and adoption of advocacy planning before the new law was passed could have helped avoid some of the problems leading to further amendments at such an early stage,” they said.

According to the lecturers, the forum was planned as part of their contributions to help forge a better way forward for the implementation of a more appropriately reviewed land use charge law. “We believe the best approach to a clear reform in the property tax system requires extensive consultation and an objective assessment of the various issues at stake.

“We therefore do not wish to be embroiled in emotive arguments that swamp factual information and lead to further confusion; although we must acknowledge that property owners and investors are not altogether unjustified in their protests against the astronomical rise in their tax bill in some instances,” they said.

They said: “A good property tax system and the Land Use charge for that matter must be seen to comply with the principles of good governance which also include inclusiveness, subsidiarity, accountability and efficiency. It is the seeming absence of evidence of some of these characteristics that has engendered so much of the negative reactions.”

The gray areas, pointed out include:

ONE: Adoption of capital values as basis of assessment of all properties. “Unlike annual rental values which are receivable by property owners and evidence of which is easier to obtain through market surveys and records of actual collection, capital values are not realizable until a sale occurs.

TWO: The 40 per cent general relief on all assessed capital values does not in any way provide any relief for persons not in beneficial occupation of their properties.

THREE: Erroneous Depreciation Rates; “This is an anomaly given the fact that, under normal circumstances, older buildings would, on account of their age be subject to more wear and tear. Although it is a truism that age may not reflect the true state of obsolescence of a property, the recommended rates may be misleading.”

“Age should not be the sole determinant of depreciation. Rather, it should be determined by a realistic assessment of the state of the property and the level of maintenance as a property can be new but functionally obsolescent or poorly maintained or, on the other hand very old but in excellent condition.”

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