

AGRICULTURAL LAND TAXATION AND LOCAL GOVERNMENT FINANCE IN NIGERIA

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Abstract

This paper examines the prospects of agricultural land taxation in financing Local Governments in Nigeria. It also considers the influence of such a taxation policy on the use of agricultural lands in the country. Some of the constraints likely to be posed by the customary land tenure systems were also examined. The policy measures suggested for a proper implementation of a viable agricultural land taxation policy in Nigeria include, among others, joint registration of lands as whole units under single family names to reduce continuous reassessment of farmlands resulting from divisions under customary inheritance rules. A token in rem tax of N100.00 (about US \$0.75) per hectare per annum based on land area rather than land quality was recommended due to lack of a countrywide cadastral surveys.

INTRODUCTION

The creation of Local Governments in Nigeria as the third-tier of government was designed to bring developments to the grass roots. A number of functions were however stipulated for the Local Governments under Paragraph 10, Schedule of the Local Governments Law (Cap. 68) of 1961. Among others, Local Governments are expected to be the rating authority for their areas of jurisdiction.

In Nigeria, there had been a long experience in the use of taxation including poll tax, cattle tax, radio and bicycle licences, water and electricity rates as important sources of revenue generation for Local Governments. The contributions of these forms of taxation to the finances of Local Governments in the past had been very substantial. However, the introduction of direct grants (15-20% of the Federation Account) which started from 1976, as a result of Local Government reform has relegated Local Government internally generated revenue from taxation to the background. With the present poor financial situation in the country and the additional fiscal responsibilities saddled on the Local Governments under democratic rule, the need to search for other forms of revenue, through taxation, needs to be considered. Despite its

immense potential as a means of internal revenue generation to Local Governments, agricultural land taxation has not been exploited in Nigeria as a supplement to the grants from the Federal and State governments. The non-development of such rating system can however be attributed to three major problems namely: (1) valuation (2) compliance and (3) collection of the levies.

This paper examines the prospects of taxing agricultural lands as sources of internal revenue to Local Governments in Nigeria.

LOCAL GOVERNMENT INVOLVEMENT IN LAND ADMINISTRATION

The Native Authorities had been actively involved in land matters during the colonial periods. Their involvements include ownership, control and allocation of agricultural and forest lands. For example, the old Ife Native Authority (in Osun State of Nigeria) owned large areas of forest reserves on which logging permits were issued as a way of generating revenue for the Local Authority in the past. Part of this forest reserve later gave way for the establishment of the Oyere Farm Settlement Scheme during the early 1960s (Fabiya and Idowu, 1993). A similar situation also obtained in the Sudan savannah areas of the northern states where Community Woodlots owned by Local Government Authorities exist.

THE LAND USE DECREE (Act) 1978

In providing a justification for the introduction of the Land Use Decree (Act) in 1978, the then Federal Military Government stated among others that:

"...a situation whereby government , public institutions and individuals encounter serious problems in acquiring land for development purposes should no longer be allowed to continue in the overall public interest"

The Act has as part of its stated objectives "efficient use of the country's land resources, equity in distribution, security of tenure and bringing land administration into the hands of government for an orderly development of land in each state". The Act gives specific powers to the Local Governments to grant customary rights of occupancy to people and organisations for agricultural, residential and other purposes. In theory, the Act held the hope of making land available to migrant farmers from land scarce areas of the country in terms of ease of access and security of tenure (Fabiya, 1979). Ground rents are also payable on such lands for which Certificates of Occupancy (C of O) had been granted. According to Umolu (1985) the former Bendel State (now Edo and Delta States) charged the following rates as rent for land on which a Certificate of Occupancy had been granted:

Premium:	Nil
Rent:	First 1 - 100 hectares - N50.00/ha/yr.
	Next 101 - 200 hectares - N40.00/ha/yr.
	Next 201 - 400 hectares - N20.00/ha/yr.
	Next 401 hectares and above - N10.00/ha/yr.

However, Umolu noted that no rent was collected from the farmers. Some of the reasons adduced include lack of appropriate mechanism for rent recovery and the fact that very few farmers came forward to obtain a Certificate of Occupancy on their farmlands.

A major addition to the roles of Local Governments under the suggested system of agricultural land taxation is that rather than make the request for Customary Certificate of

Occupancy an optional issue it will now become a law for all agricultural lands within each Local Government Area to be assessed for tax purposes.

THEORETICAL FRAMEWORK

Nearly all forms of taxes cause efficiency losses. For example, export taxes had been shown to discourage domestic production, reduce foreign exchange earnings while it encourages domestic over consumption of the taxed goods. In addition, income taxes may reduce labour supply, investment and saving. The prognosis of this paper is to show that land tax is more efficient than these alternative taxes.

There appears to be a general agreement among public finance experts that progressivity in individual income tax structure is the best measure of taxable ability because under such structure individuals on high income brackets, pay larger proportion of their incomes as tax. Thus, a progressive tax structure serves as a tool for redistribution of income from the rich to the poor. Moreover, the higher tax rates imposed on high incomes capture windfall gains and quasi-rents that result in imperfections in the economic system (Osakwe, 1999).

According to Bird (1974) income taxes are not generally a viable option for taxing agriculture in developing countries because of unreliable farm records and subsistence consumption of output. An objective measure of farm productivity had been advocated for the use of tax authorities to overcome this. However, since land area and quality are the best indicators of farm productivity, the presumptive income tax becomes a *de facto* land tax.

AGRICULTURAL LAND TAXATION AND LAND USE

Agricultural land is capable of being used at levels of almost an infinite range. The actual level of use is set by economic and other social rather than physical determinant. The *ad valorem* tax on a plot of land with a given value will induce the owner to put his land to a higher level of use such as using some part for cultivation of crops like food and cash crops, use some for pasturing, and so on in order to provide additional income to cover the *ad valorem* tax. The highest possible use of agricultural land will minimise the burden

of the tax to the owner since the tax does not rise with the level of use.

For proper use of land (both extensive and intensive), four incentives are required to bring forth such development. These are: (1) capitalisation; (2) holding cost; (3) fixed cost, and (4) unburdening effects (Becker, 1969). According to Becker the capitalisation effect of taxing land reduces the financial obstacle in the acquisition of land for agricultural purposes. A higher annual cost in the form of taxes is traded for a lower market value and cost of land. Thus any tax on land remains neutral as to the total cost of land acquisition. The advantage of land taxation on the other land would seem to hold special relevance for a developing country like Nigeria where available credit for land acquisition and development is in very short supply. The fixed cost and unburdening effects will operate to increase the value of land while capitalisation and holding cost effects will operate to lower its value. The relative strength of these effects will determine the actual value of a given parcel of agricultural land.

The agricultural users of land constitute a group who wish to have their land assessed on the basis of existing use rather than real value (Becker, 1969). For example, a poorly developed and uncultivated land will decrease in price where the holding cost effect is greater than the income producing potential. However, land with a high income potential even though poorly developed or uncultivated will tend to increase in assessed value. The holding cost effect of its taxation will hasten its development or sale by the owner.

According to Friedly (1968) land had been a haven of escape from the rates of taxation on ordinary income. Hence the taxation of land should be placed on parity with the taxing of capital gains generally. The partial non-taxing of land has however been introduced in a number of countries primarily to keep farm areas open and in their present use. Land taxation was not conceived as a narrowly technical doctrine but its purpose was to subordinate certain private rights to the public interest. Consequently, George (1879) declared that treating land as a private property stand in

the way of its proper use. Thus if the best use of land is the acid test, then private property in land is condemned - it is a wasteful and uncertain mode of securing the proper use of land.

THE PROBLEM OF EQUITY

There is need for greater classification and better understanding of a variety of considerations pertaining to the equity of taxing agricultural land. The interest of various parties concerned such as tenants, landowners, investors, tax paying farmers and others must be taken into consideration. Once these interests are identified and evaluated, many uncertainties about the equity of taxing agricultural land would disappear.

The justice and equity of a land tax policy rests in the creation of land values through the community and not by individual efforts. It is the productivity of the community that creates the demand for land and its market value. The same community provides the legal and police protection necessary for the enjoyment of the property (George, 1879). To this extent, the land tax is therefore the taxing of a community of total land value created by it. Consequently, it is the application of common property to common uses.

THE NEED FOR AGRICULTURAL LAND TAXATION IN NIGERIA

Nigeria has a total land area of about 91.08 million hectares out of which 72 million hectares are cultivable. Of these, only about 40 million hectares are presently cultivated. In addition, there are a total of 774 Local Government Areas in Nigeria with 80% of them having taxable agricultural lands.

According to Henley (1969) a system which permits or rewards the holding of large tracts of land out of production or with extremely limited unit return is less desirable socially than a system that, by economic pressure, tends to produce resident, productive ownership of subdivisions of such tracts. The size and character of farm holdings and operations had also been shown to influence the conditions of surrounding cities and towns. For example, in a community surrounded by big farms, the social, cultural and economic attributes of life are developed to a lesser degree than in a community located in the midst of an area made up primarily

of smaller farms independently operated. In the later case, the community welfare is of a higher order and more wholesome in every particular sense (Henley, 1969).

Land taxation system can have important bearing on how land is allocated among its competing uses, be it agricultural or non-agricultural. This impact is felt in various ways and according to circumstances. For example, an annual land tax represents an expense for the farmer and if it is high enough weakens his resistance to make the land idle apart from the normal fallowing of plots for regeneration of its fertility, a period often not exceeding three to five years now.

PROBLEMS POSED BY CUSTOMARY LAND TENURE TO AGRICULTURAL LAND TAXATION

Under the customary land tenure system that operate in Nigeria, large tracts of fertile and cultivable lands are held by absentee landlords who are often reluctant to dispose off their holdings or give them out to those in need. This has hindered the flow of such lands to the customary tenant for productive purposes. However, with the increasing population pressure on the land in most of the regions of the country, the incidence of farmland tenancy has come to be recognised as an issue of great importance (Fabiya and Idowu, 1993).

A properly administered tax policy on the idle lands of absentee owners will force the holders to release such lands for productive purposes to reduce the holding cost or at least pay for the valued tax of the land. This will help to break the emotional attachment of people to land and allow for economic considerations to become more significant in land use decisions. Thus the limitations placed on the control and management of agricultural lands in Nigeria can be ameliorated to some extent.

Equally important is the fact that customary land tenure compels generations not born into a landowning group to a situation of landlessness, while those born into it will face the problem of land shortage due to excessive fragmentation of holdings as a result of the customary inheritance system. Parallel to these situations, there may be some idle agricultural

lands somewhere that are held by a few absentee landowners.

THE POTENTIAL CONTRIBUTION OF AGRICULTURAL LAND TAXATION TO THE FINANCES OF LOCAL GOVERNMENT IN NIGERIA

The Local Governments are by arrangement the closest to the people at the grassroots and are capable of stimulating the economic, social and political transformation of the society more than the State and Federal governments. With about six hundred rural based Local Government Areas (about 80% of total) controlling about 70 million hectares of the country's agricultural land, they will jointly received about N7,000 million if a mere token of N100.00 per hectare is levied on the agricultural lands. This will give an average of about N11.67 million per Local Government Council per annum (Table 1). Also it needs to be stressed that these rural Local Government Areas have very limited other sources of income apart from their statutory allocations from the Federation Account (Table 2). Most of the Local Governments were not able to generate up to 10 percent of their total revenue from internal sources during the 1993-2000 fiscal years. The estimated revenue from the proposed land tax compares favourably with all the other revenue sources except the allocation from the Federation Account.

While data from Table 2 shows wide fluctuations for the different categories of revenue sources to Local Government Councils in Nigeria, the proposed land tax is remarkably a steady source of revenue in real as well as in monetary terms. This is a quality that is especially desirable in a local tax. Such a tax is eminently suitable for use as a balancing factor in Local Council budgets (Hicks, 1961).

EXPECTED BENEFITS OF TAXING AGRICULTURAL LANDS

The imposition of agricultural land taxation (of a token amount) is expected to produce many affects. First, it is expected to lead to sale, lease or otherwise disposal of large tracts of land hitherto unused or held for

Table 1: Estimated revenue from the proposed Agricultural Land Taxation in Nigeria.

Rate (N/ha/yr)	Total Agricultural land area (ha)	Total Revenue (N million /yr)	Average Revenue per L.G.A. (N million/LGA/yr)
20.00	70 million	1,400	3.11
50.00	70 million	3,500	5.83
100.00	70 million	7,000	11.67
200.00	70 million	14,000	23.33
300.00	70 million	21,000	35.00
400.00	70 million	28,000	46.67
500.00	70 million	35,000	58.33
1000.00	70 million	70,000	116.67

Source: Estimated from the study, 2002

Notes: 1. US\$1.00 is equal to N135.00

2. Only about 80% of existing 774 Local Government Councils are rural or semi-urban with taxable agricultural lands.

Table 2: Summary of Local Government Finances in Nigeria, 1993 – 2001. (₦m)

Year (1)	Statutory Allocation		Value Added Tax	Internally Generated Revenue	Stabilization Fund &	Grants & Others	TOTAL	(5) as % of (8)
	Federal (2)	State (3)						
1993	18,316.4	253.1	0.0	1,035.6	0.0	269.4	19,874.5	5.2
1994	17,321.3	466.4	0.0	1,205.9	0.0	229.4	19,223.1	6.3
1995	17,875.5	625.4	3,558.1	2,110.8	0.0	242.9	24,412.7	8.6
1996	16,569.7	691.1	4,581.7	2,027.1	0.0	72.5	23,942.1	8.5
1997	22,300.5	703.5	6,826.1	2,734.0	0.0	231.7	32,795.8	8.3
1998	30,199.3	1,097.8	9,187.3	4,448.6	0.0	19.7	44,952.7	9.9
1999	43,870.3	419.8	9,559.8	4,683.8	1,056.3	1,210.6	60,800.6	7.7
2000	115,053.9	1,919.7	13,553.6	7,519.9	5,286.2	4,833.2	148,166.5	5.9
2001	118,095.7	1,280.5	19,320.1	9,814.3	12,055.2	5,498.3	166,064.1	5.9
AVERAGE (1993-2001)	44,400.3	828.6	7,398.5	3,953.3	2,044.2	1,400.9	60,025.8	6.6

Sources: /1 Central Bank of Nigeria (CBN) Annual Survey of Local Government Councils and Federation Account 1993 – 2001.

/2 Central Bank of Nigeria (CBN) Annual Reports and Statement of Accounts 1993 – 2001.

Table 3: Rights of Occupancy Fees on Lands in Rural Areas excluding those collectable by the Federal and State Governments for 2001 (N/annum).

No.	Title Components	East	Middle Belt	North	West
1.	Residential	5,000	200-3,000	500-2,000	500-1,000
2.	Commercial	5,000	500-6,500	500-2,000	500-1,000
3.	Certificate – Residential	5,000	n.a.	500-2,000	500-1,000
4.	Customary – Commercial	5,000	n.a.	500-2,000	500-1,000
5.	Customary Right of Occupancy	5,000	500	500-2,000	500-1,000
6.	Ground Rent	100	100	100	100

Source: Joint Tax Board (2001): Harmonisation of Local Government Taxes and Levies.

speculative purposes, to those in need of land for agricultural purposes. The new owners will then cultivate the lands intensively. Secondly, there will be a reversal of the population drift back to the rural areas and this will lead to the development of some positive degrees of economic prosperity. Finally, the farmers will be encouraged to improve their farmlands, as industry and thrift are not punished by an increase in taxes. This is because the taxes will be levied on the unimproved value of the land (i.e. the same unit per hectare) rather than on improvements.

Taxing of agricultural lands by Local Governments provides that costs are laid upon all lands to which the services of the council may be brought (or which will indirectly benefit) regardless of the use the owner may choose to make of the available services. The practices of such a system is capable of waking up large tracts of unutilised land from its normal slumber as an area of absentee landlords to one of prosperous independent farms and rural towns offering social as well as economic rewards to the state. Hence, apart from generating revenue to the Councils, it will also stimulate the development of the rural areas through the active participation of private entrepreneurs.

POLICY CONSIDERATIONS

From evidence (above) it seems reasonable to believe that the financing of Local Governments by agricultural land taxation will be a causal factor in producing operational small farms (most suited to small-holder agriculture) and capable of producing beneficial social effects. According to Osakwe (1999) administrative efficiency as it relates to tax payments means the minimization of the cost of real resources needed to administer such tax. This implies that a maximum level of tax receipts should be achieved with the least cost. Such resources include among other things, the cost of service rendered by government officials and tax consultants, the expenditure of employers in administering their part of the tax, time and convenience caused to the entire taxpayers and tax advisers. For technical measurement of efficiency, tax administration will be regarded as efficient if revenue-cost ratio is above unity.

Tax administration will also be regarded as efficient if it works towards reducing tax avoidance (i.e. legal method of minimising tax liabilities) and tax evasion (i.e. reducing tax liabilities by withholding information or submitting false information). However, a major problem foreseen for the administration of the land tax policy is the need for continued reassessments of farmlands especially as a result of land division resulting from the customary inheritance system. One way out of the problem is to get the land registered as a whole unit under a single name with the beneficiaries sharing the tax payments among themselves.

As opposed to the graduated rent charged by some states and the Right of Occupancy fees under the Harmonised Local Government Taxes and Levies throughout the country (Table 3) we propose a token flat rate of N100.00 (US \$0.75) per hectare (for a start) on all agricultural lands in the country. We consider this amount as a reasonable and acceptable burden on the least productive land. The amount to be realised from this source alone (about N7,000 million) compares favourably with the current internally generated revenues of the Local Governments (Table 2).

Other reasons for this type of *in rem* tax (i.e based on land area rather than quality) includes:-

- (i) a flat rate will prevent a few greedy farmers from acquiring land beyond their needs;
- (ii) due to the technical requirements of implementing an efficient land tax policy, an *in rem* tax based solely on land area is the easiest to administer and the cadastral requirements are minimal while tax authorities need not establish detailed ownership records;
- (iii) the token nature of the tax will enable the poor smallholder farmers to pay without much financial hardship; and
- (iv) the calculation of tax demand notices will be simple enough for farmers to understand, given the current high level of illiteracy in the country.

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