

TAX ASSESSMENT AND REVENUE PERFORMANCE: A CASE OF FAILED ANAMBRA STATE PROPERTY AND LAND USE CHARGE

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Abstract

This research investigated the appropriateness of assessment method and payment liability of Anambra State Property and Land Use Charge (APLUC) and how well the property tax system fulfilled the revenue yearnings of the state. Objectives of the study include: to determine the appropriateness of the method of tax assessment used by the government in the assessment of the tax and to establish the success rate of the failed property tax system. Survey research method was employed in the study. Mean, percentages, frequencies and paired Sample T- test were used to analyse the data collected. The study discovered that the basis and method of tax assessment used by the government based on responses are not consistent with known equitable principles of taxation. The analysis of yearly tax revenue shows a four percent (4%) success rate which indicates a low performance of the tax system. There was a significant difference between APLUC tax values and researcher's calculated values using income based assessment methods as shown by the t-values (10.99, 43.09, -3.79 and 4.66) for four out of the five property types assessed and their corresponding P-values (< 0.05). The study recommended that the basis of tax assessment should be income generated from property on annual value as against market value of property. Income based tax assessment methods should be employed instead of the depreciated replacement cost method. Estate Surveyors and Valuers should also be involved both in the drafting of the tax laws and most importantly in tax assessment to curb the challenges of inappropriate tax assessment. The authorities should provide more tax education to property owners to make them understand why real properties are taxed, the process of taxation and also partner with them in property tax administration.

Keywords: Assessment Method, Estate Surveyors and Valuers, Income based Method, Property tax, Tax Revenue,

INTRODUCTION

A good property tax system is an outcome of a good property tax administration which consists of property identification, assessment, collection, enforcement and appeal. Ineffective and inefficient tax administration has been the bane of property taxation in Nigeria and other developing countries (Bird, 2015). This has resulted in poor revenues from this tax for the Nigerian government. Ishaya, Dabo and Makama (2012) are of the view that property tax administration is the most crucial stage of property taxation because any error of omission or commission during formulation and assessment shows in the form of objection and non-payment of tax. Of all the property tax administration processes, the property tax assessment is the most vital and complex and this makes it susceptible to inaccuracies (Ezwan, Azriyati & Rubi 2018). Dillinger (1992) reiterated that a large proportion of properties on the tax roll are

inaccurately valued and this impacts adversely on collection efficiency, revenue yield, tax efficiency and equity. Therefore, the assessment process should be designed to reflect the principles of a good property tax system which are simple, transparent, fair and equitable.

The efficiency of the tax administration in place, and basically tax assessment, would greatly determine the revenue buoyancy of a property tax system. The process, method, and mechanism put in place to generate the required revenue for the government is known as the tax administration (Bird, 2015). Property tax assessment is one of the most important components of this process. A tax system that lacks equitable, fair or transparent assessment process will only lead to non-acceptability of the tax, low compliance and invariably low revenue. The Property Rates Law CAP 108 RLAN 1991 and the Assessment Law CAP 11 RLAN 1991 were the laws governing property rating in Anambra State before the advent of APLUC. This tax system was characterized by corruption, personnel problems, ignorance, lack of adequate materials, apathy, poor street naming and house numbering among others and of course, poor revenue (Ezeudu, 2009). All these informed the decision of the State Government to undertake the tax reform.

Anambra State Property and Land Use Charge (APLUC) came into existence on the 29th day of November, 2011. The tax law merged and consolidated Tenement / Property rate, Ground rent, Infrastructural, Development and Maintenance levies into a single tax in Anambra State. The property/ tenement rate is constitutionally the responsibility of the local government councils, the ground rent is administered by the State Ministry of Lands, Physical Planning and Rural development while the development and maintenance levies is administered by the Anambra State Housing Development Corporation. APLUC was an annual tax levied on property owners. The tax base comprised of both buildings (residential, commercial, industrial, agricultural) and improvements to the land in both rural and urban areas in the state. The tax law empowered the Commissioner of Finance to undertake the assessment of chargeable properties in the State for the purpose of prescribing the formula to be used in determining the annual amount of the charge payable. More so, the local government councils were not involved in the assessment and collection of the property tax Section 3(1).

According to *vanguardngr.com* (2011), the government of Anambra State had a target of 1.5 billion Naira from the tax. However, in the later part of the year 2018, Global Mckens, the agency charged with the responsibility of administering the property tax in Anambra State was shut down and its workers dismissed. Records from the Anambra State Ministry of Finance shows that the following amounts have been realized from the property tax: N28,103,771.61 in 2011; N21,728,421.73 in 2012; N48,945,481.76 in 2013; N93,716,991.99 in 2014; and N82,456,789.32 in 2015 and far less in other years (Odimegwu, 2017). These figures are not close to the annual target of 1.5 Billion Naira proposed by the state government at the inception of the tax. This indicates low tax revenue. There were claims by the tax administrators that the depreciated replacement cost method was the method of valuation employed by the company in the assessment of the tax. A study of APLUC bills which were randomly picked from Awka, Onitsha and Nnewi raised doubts as to the appropriateness of the assessment method adopted by APLUC in assessing the tax burden.

A major cause of the performance of the property tax system could be as a result of the inequities which the method of assessment of the tax created amongst other factors. This study will evaluate the appropriateness of the basis and method of the property tax assessment adopted by the government and also ascertaining the extent to which the property tax has met the revenue yearnings of the state with a view to determining how the method of tax assessment affected the performance of the tax.

LITERATURE REVIEW

Theoretical Framework

Concept of Tax Assessment:

Tax assessment refers to the tax liability owned by the taxpayer. The value or worth of the property is determined for the purpose of taxation. The function of tax assessment in tax administration should be clearly defined, transparent, fair and equitable and implemented effectively and efficiently. The burden of the tax on the taxpayer and the cost on the tax authorities and expected revenue from the tax should be considered in the design and implementation of tax assessment systems to realize high performance levels. The key concerns in tax assessment from the perspective of good governance are transparency of the process, the participation of taxpayers in the assessment, the fairness and equity of tax burden and accountability. According to Woldu and Woldegiorgis (2016), the assessment procedures should involve the taxpayers and also provide them the opportunity to appeal when dissatisfied with the results.

In 1963, John Stacey Adams introduced the idea that fairness and equity are key components of a motivated individual. Equity theory is based on the idea that individuals are motivated by fairness, and if they identify inequities in the input or output ratios of themselves and their referent group, they will seek to adjust their input to reach their perceived equity. Adams suggested that the higher an individual's perception of equity, the more motivated they will be and vice versa: if someone perceives an unfair environment, they will be de-motivated. The principles guiding property assessments according to Umar, Kasim and Martin (2012) state that properties should be appraised objectively, equitably and uniformly. The tax assessment process has a great influence on the perception of fairness. If the wrong assessment system which lacks fairness and equity is employed, it will breed resentment, non-compliance and oppositions among the tax payers. Tax burden should be shared appropriately among all chargeable properties. Tax payers should not be over taxed. Tax assessment and determination should be easy to understand by an average taxpayer. This encourages voluntary compliance to the maximum extent possible

Basis of Tax Assessment

Property valuation/assessment for tax purposes provides the basis for distributing the burden of property tax (Dillinger, 1992). Lin (2009) opined that an equitable valuation is defined as properties being valued at the same, or similar, percentage of their sales price. Violation of this equity standard is seen as valuation inequity. A number of factors cause systematic differences in assessment levels. They include location attributes, building quality, building year, presence of facilities. Property tax should be open and transparent so that property owners can understand how property is assessed and taxed. The assessment procedure should also be consistent and accurate.

Property tax assessment basis could either be value based or based on property attributes. When it is value based, two types of basis come to mind namely capital value (property price) and annual (rental) basis. In using annual value, only a single year's rental value is considered as the basis for the tax. The capital value basis of tax assessment uses the present value of the future rents and other benefits that accrue from property. According to Almy, (2014), the choice of the basis of assessment is mostly influenced by land tenure arrangements (concentrated ownership) and available market evidence (many rents and few sales) that exist in a particular country. A good tax system considers the peculiarities of the country or area in question. A property tax system based on capital market value presumes that there is a

functioning property market that information on the capital value of land is publicly available and that estimates of the value of all taxable land can be obtained from the available information (UNHABITAT, 2011).

An annual land and property tax based on capital value identifies and taxes all of the property value and even the incremental value that the landowner can only realize when the property is sold and this can result to tax resentment. The annual rental value avoids this political challenge. The annual rental value is related to market conditions but it reflects current land use rather than the use which the property would be put if sold on the open market. The annual rental value adheres to the ability-to-pay principle and also reflects the quality of public services enjoyed by the property (Monkam, 2010; Ebi, Okoh & Soetan, 2017).

As stated in Oni (2010), property tax must be certain, fair, equitable and based on income that is net of outgoings which is obtained from a property and not on capital value. Lent (1974), stated that tenancy usually dominates in developing countries as it is the case in Anambra State. So records of rental contracts (which abounds in the state) appear to provide a more reliable basis for assessing property tax. Dillinger (1992) then emphasized that annual rental value should be the basis, if the majority of the property is held leasehold with an active rental market as also the case in Anambra State. Egolum (2016) then reiterated that rental value offers a more rational and equitable basis of assessment in line with social justice of pay as you enjoy. According to Oni (2010), the capital value basis can only be appropriate if the tax is paid once-and-for-all, but APLUC happened to be an annual tax. The use of the depreciated replacement method for assessing properties for tax should only be used in a nearly stagnant economy according to Ogbuefi (2004) while Mbadiwe (1988) states that it should only be applicable in cases where there is no rent passing on the property or there is no evidence of rents.

Before the advent of the Land Use Charge, the property rate laws in Nigeria had in a general way taken the rental value of properties as the basis for imposition of property taxation. In Lagos for instance, it was arrived at by making statutory deduction of 25 percent from the Gross Annual Rent of the property at the time of assessment (Asabor, 2012).

Valuation Methods

Four basic valuation methods are used for property tax assessment: Sales comparison, income capitalization, Profit method and depreciated replacement cost.

Sales comparison method

This approach analyses how differences in the characteristics of recently sold properties (use, size, location, quality of buildings and others) influence the values of the properties. Using statistical techniques, these variables are used to develop valuation models which are used to determine the worth of the property being valued. Data on open-market, arm's length sales are required for this approach. Where sales are not frequent in the neighbourhood or there is no functional property market and property has no comparable example, using this method will not give realistic values. Benjamin, Guttery and Sirmans (2004) explain that market comparison approach based on sale prices has several limitations. It is based on past trends (i.e. historical data of recent sales), rather than current data or forecasts and the past does not necessarily represent the future. Secondly, the adjustments done in the comparison method can be very subjective.

Income capitalization method

(i) Rental Method

This method requires information on rents and expenses on rented properties. It estimates the present value of future income by determining the current market rents and expenses applicable to the property and capitalizing the projected income stream into a present value as at the valuation date. Income is estimated based on actual rents of comparable properties net of outgoings (Insurance, management, rates, repairs, taxes and others) and proper deductions and additions are done to bring the comparable properties in conformity with the property under valuation. The relevant capitalization rate is based on the investment rate of return expected from the property. It is derived from comparisons of similar investments. It is mostly used for residential buildings.

(ii) Profit Method

This valuation method is suitable for properties that are used for operational businesses. These are commercial properties such as hotels, guest houses, private schools, pubs, cinemas. The estate surveyor and valuer looks at the earnings, profits and expenses of that particular business' building. It analyses the profitability of the business that occupy the building rather than the value of the building or land. The gross receipts are adjusted to cover the payments for purchases and stocks to get the gross profit. The operational expenses are deducted from the gross profit to arrive at the net trading profit. The net profit less the remunerative interest on the tenant's capital is the divisible balance. A percentage of the divisible balance is the estimated net annual rental value of the subject property. This estimated net annual income is then capitalized by an appropriate capitalization rate to get the present capital value of the property.

The Replacement Cost or Depreciated Capital Value

This method is very unpopular in the assessment of property tax and should only be used where there is no rental evidence or market value or where it cannot be ascertained or it is inconclusive (Abonta, 2013). It can also be used as a last resort in cases where profit method should be used but no reliable accounting methods are available. The method relies on the principle of substitution which states that no rational person will pay for a building more than what it will cost him to acquire land and construct a similar building of equal desirability and satisfaction. It is also assumed that the rent will be the annual cost to the hypothetical occupier of the alternative building. The assessment is to determine the proportion of cost of building and land that could be charged as rent in line with statutory definitions. It estimates construction cost (preferably a new substitute), makes the necessary deductions/adjustments for age and obsolescence etc. to arrive at the Effective Cost of Building (ECB). Estimates the cost of the land "*rebus sic stantibus*" which added to the effective cost of building to give Effective Capital value (ECV). Then apply a de-capitalization rate based on market survey and analysis or a statutory rate to arrive at the Gross Annual Value (GAV). Lastly, review other considerations in the assessment such as accessibility, services, and others to arrive at the Net Annual Value (NAV) (Abonta, 2013).

One of the criticisms of the capital market approach to value is that the land and property tax based on capital market value tax unrealized gains in property value. The concept of capital market value is not concerned with what the property owner actually paid for a property or how long it has been in his possession. The standard it seeks to find is what the property would sell for in the open market, on the designated tax date. An annual property tax based on capital market value will identify and tax all of the property value, and also incremental value that the property owner can only realize if the property is sold. This can result in taxpayer

resentment. An alternative approach to value that avoids this political challenge is the Annual Rental Value. The definition of value under this approach is the typical rent or lease payment that would be required to obtain the exclusive right to occupy and benefit from a property. It is usually defined as the “rent at which a property might reasonably be expected to let from year to year if the tenant undertakes to bear the cost of internal repairs and the landlord bears all other reasonable expenses necessary to maintain the property in a state to command that rent”.

The tax assessment method used in the administration of APLUC was the depreciated replacement cost though the Property Rates Law CAP 108 RLAN 1991. The Assessment Law CAP 11 RLAN which was in use before the enactment of the APLUC policy, employed the depreciated replacement cost (DRC) method to value only properties without rental evidence, cannot be easily let or rental evidence is inconclusive (for instance Filling stations). The Law of the Federal Republic of Nigeria 1958 (Section 15 and 16) which deals on tenement rating also prescribed the DRC method for the rating of tenements occupied by Public Utility Corporations only.

Cesare and Claudia (1999) and De Cesare and Ruddock (1997), assert that the depreciated replacement cost approach of assessing real property is the major cause of the lack of assessment uniformity because it relies on the availability of data on unit costs and depreciation figures which most times give rise to inconsistencies that create assessment bias. There is a lack of connection between cost tables and the performance of real estate market and low correlation between the depreciation rates adopted and reduction in price caused by age, obsolescence or deterioration of building structures. The lack of systematic control over valuation performance also contributes to the high inaccuracy of assessed values. Onyejiaka (2014) stated that there is no documentary evidence of building information in Anambra State yet. Therefore most valuations based on depreciated replacement cost method in the state are based on assumptions made from previous valuations and phone contacts. The use of the depreciated replacement cost method of valuation for property tax assessment introduces gross inequity into the tax system because it is not linked to income received from a property. High value properties tend to be under-appraised relative to low value properties, thereby introducing vertical inequity.

Oni (2009) asked the question “*why should a landlord be made to pay land use charge as if he is selling his property annually*”? It posits that the formula provided by the Lagos State Land Use Charge Law implies the adoption of the cost method of valuation. Richmond (1975), cited in Oni (2009), was seen as considering it inappropriate. It reiterated that cost method increases the amount on which the tax will be based; taxes according to it are expected to be charged on net Income of income – generating goods or services. It names the investment or income method as appropriate since it considers the net annual rental income on which to determine the appropriate land use charge that is payable annually. Oni and Ajayi (2011) also noted that the Lagos Land Use charge assessment formula is inappropriate and that the high tax and penalties may discourage investment in housing and maintenance of existing stock. A good tax system should be transparent and the assessment method should be clear. It wondered why the assessment and administration of the tax were left in the hands of government officials alone? The property owner and the tenants who pay the tax should be given specific information as to the benefits that are derivable from the payments. These poor assessment practices can reduce the potential benefits of the property tax and would make taxpayers lose confidence in the assessment system which will result to tax non-compliance.

Assessment of Anambra State Property and Land Use Charge

According to the Global Mckens Company, the depreciated replacement cost method was used to assess properties for the payment of the Land Use Charge (Odimegwu, 2017). According to the tax administrators, the tax assessments were based on previously done valuations and adjusted based on the features of the focal properties and that was why they created a new terminology in property tax assessment called “orphan properties”. These are properties that do not have similar features with the focal properties. The location factor is not considered in the determination of the assessed value. The tax assessment process is ambiguous and taxpayers are not involved in the assessment. The agency used the model below to compute the assessed value: Capital value of Land + Buildings; Less 75% State Government Discount; then apply government approved tax rate.

Example: Property-A is a commercial property with the following assessment:

Land Value=₦1,350,000; Building Value=₦25,000,000; Assessed Value=₦1,350,000 + ₦25,000,000 = ₦26,350,000; 75% of ₦26,350,000 =₦6,587,500; Therefore, ₦6,587,500 * 0.35% (Tax Rate)

APLUC = ₦23,056.

The assessment is based on the capital value of the property and the government gives a discount of 75% of the capital value. It means that the tax is on 25% of the capital value. Therefore with a tax rate of 0.35% it shows that 9% (0.0035 of 0.25* 100) of the capital value of properties are paid annually as tax which is very high. It is also not clear what informed this government discount of 75%. This analysis exposes the inconsistencies in the assessment of the tax.

METHODOLOGY

This study employed a quantitative approach. The study population included Forty –two (42) registered Estate Surveyors and Valuers in Anambra State (because theirs is the profession which has the sole responsibility of carrying out the valuation of real properties in Nigeria) and eighteen (18) no staff members of Global Mckens Limited (the Agency that administered the tax in the State), because they are involved in the assessment, collection and enforcement of the tax. These figures are based on the records of the State Secretariat of the Nigerian Institution of Estate Surveyors and Valuers and the Global Mckens Limited. The entire population of Estate Surveyors and Valuers and staff of Global Mckens were used for the study because the population is well defined and small. Two data forms were used for this research, the primary and secondary data. The primary data were sourced by the researcher through questionnaires. Different types of questionnaire were designed and distributed to the Registered Estate Surveyors and Valuers and also staff of Global Mckens. Questions based on five point Likert scale were used for the analysis. The secondary data used were APLUC bills and data generated through researcher’s valuation of selected properties. Five APLUC bills each were randomly picked from Awka, Onitsha and Nnewi. They were the last APLUC bills (2015) on the following property types- Residential building, office block or shopping mall, school, hotel, and hospital. The valuation data were gathered from tenants in residential buildings, offices and stores and also staff of hotels, schools and hospitals. The properties were valued using the income based methods for taxation purposes. The residential properties, office blocks or shopping malls were valued using annual rental method while the schools, hotels and hospitals were assessed using the profit method of valuation. Percentages, frequencies and mean were used to analyse the primary data. The tax values generated by the

researcher and the APLUC tax values were tested statistically using the paired sample T-test to determine whether the differences between the two tax values were significant. The null hypothesis will be rejected if the p-value is less than or equal to 0.05 significance level. The Paired Sample t- test determines the significant differences between two sample means. It compares the mean difference of two sets of scores for a given sampled unit (Singh, 2007). The response options in the instrument were weighted as follows: Strongly Agree (SA) - 5 points; Agree (A) - 4 points; Undecided (UN) - 3 points; Disagree (D) -2 points; Strongly Disagree (SD) - 1 point

RESULTS AND DISCUSSIONS

Analysis was based on 53 sets of returned instruments. The results of the analysis are presented and discussed below according to the objective and hypothesis of the study:

Descriptive Analysis

The Appropriateness of the Property Tax Assessment Basis and Method adopted by the government

An appropriate property tax assessment method should be employed to distribute the tax burden fairly and equitably. The responses of Estate Surveyors and Valuers are presented and analysed to determine the appropriateness of the tax assessment basis used by the Government in the assessment of APLUC. Table 1 shows that 2 respondents representing 5.7% of the respondents say that the capital value basis for assessment is appropriate for APLUC whereas 94.3% insist on the annual value for the assessment of APLUC. According to the professionals, the annual value basis is the appropriate basis for the assessment for APLUC. APLUC is an annual tax which should be based on annual income made from a property.

Table 1: Percentage Responses of Estate Surveyors and Valuers on the appropriate Tax Assessment Basis for APLUC

	Frequency	Percentage	Valid Percent	Cumulative Percent
Capital value	2	5.7	5.7	5.7
Annual value	33	94.3	94.3	100.0
Total	35			

Source: Fieldwork 2017

The Estate Surveyors and Valuers also gave responses on the appropriate methods for the assessment of property tax for different property types. The analysis is shown on table 2.

Table 2: Estate Surveyors and Valuers' Percentage Responses on Appropriate Methods for the Tax Assessment of Different Types of Property

S/N	Property Type	IM		DRCM		MCM		PM		Total	
		N	%	N	%	N	%	N	%	N	%
1.	Residential	33	94.3	-	-	2	5.7	-	-	35	100
2	Commercial	17	48.6	8	22.9	6	17.1	4	11.4	35	100
3.	Agricultural	5	14.3	5	14.3	5	14.3	20	57.1	35	100
4	Recreational	3	8.6	13	37.1	1	2.9	18	51.4	35	100
5.	Industrial	5	14.3	5	14.3	5	14.3	20	57.1	35	100

IM = Income Method; DRCM = Depreciated Replacement Cost Method; MCM = Market Comparison Method; PM = Profit Method

Source: Fieldwork 2017

Table 2 shows the percentage responses on appropriate methods for the assessment of different property types. A greater proportion of the respondents are of the view that residential should be assessed using Income Method (94.3%). A greater proportion of the respondents (48.6%, 57.1% and 51.4%) are of the view that the assessment of Commercial, industrial, agricultural and recreational properties should be based on Profit Method, followed by Income Method.

The responses of Estate Surveyors and Valuers on Table 3 were also analysed to show the inappropriateness of using the capital value basis and the depreciated replacement cost method in the assessment of APLUC.

The first question in Table 3 was if the capital value basis of assessment which taxes the total worth of the property and the unrealized gains is appropriate for an annual tax in Anambra State. With a mean response of 2.06, 43% of the respondents strongly disagree, 31% disagree, 14% is undecided. Nobody agrees while only 11% strongly agree. 74% of the respondents disagree that the capital value basis is appropriate for an annual tax in Anambra State.

Secondly, on the question of whether the depreciated replacement cost method which is the tax assessment used by Anambra State Government is appropriate for all property types, 54% strongly disagreed, 20% disagreed, 17% were undecided, and 9% strongly agreed with a mean response of 1.89. 74% of the respondents disagreed with the assertion.

The third question was whether the depreciated replacement cost method which under-appraises high values properties and over-appraises low value properties is appropriate for use in an annual tax like APLUC. Analysis of the responses got a mean response of 2.23. 34% of the respondents strongly disagreed, 31% disagreed, 23% were undecided, and 11% strongly agreed. Therefore, 65% of the respondents disagreed that the depreciated replacement method is inappropriate for APLUC.

Anambra State Government's use of depreciated replacement cost method in property assessment allocates equal tax burdens to similar properties without considering the location of the properties which is inappropriate. The analysis of the responses to this question had 37% strongly disagree, 34% disagree, 20% undecided, and 9% strongly agree with a mean response of 2.09. This shows that 71% disagree that the depreciated replacement cost method which does not consider location in tax assessment is appropriate for APLUC.

Government's adoption of focal properties assessed using the depreciated replacement cost method in determining the tax values of properties gives tax values which are objective and

equitable (Question 5). 49% of the respondents strongly disagree, 29% disagree, 14% were undecided and 9 % strongly agree with a mean response of 1.91.

Result displayed in Table 3 shows that the grand mean response on the appropriateness of using the capital value basis and the depreciated replacement cost assessment method by APLUC is 2.04. On the basis of scale value of 1 to 5, the mean value (2.04) indicates that the assessment basis and method used for APLUC are inappropriate.

Table 3: Appropriateness of the Basis of Assessment and the Method adopted by the government

	SD		D		UN		A		SA		Mean
	N	%	N	%	N	%	N	%	N	%	
1.The capital value basis of assessment which taxes the total worth of the property and the unrealized gains and therefore appropriate for an annual tax in Anambra State	15	43%	11	31%	5	14%	0	0%	4	11%	2.06
2.The Depreciated Replacement Cost method which is the tax assessment used by Anambra State government is appropriate for all property types	19	54%	7	20%	6	17%	0	0%	3	9%	1.89
3.The use of Depreciated Replacement Cost Method which under-appraises high values properties and over-appraises low value properties is appropriate for use in annual tax like APLUC	12	34%	11	31%	8	23%	0	0%	4	11%	2.23
4.Anambra State Government's use of Depreciated Replacement Cost Method in property assessment allocates equal tax burdens to similar properties without considering the location of the properties which is appropriate	13	37%	12	34%	7	20%	0	0%	3	9%	2.09
5. Government's adoption of focal properties assessed using the Depreciated Replacement Cost method in determining the tax values of properties gives tax values which are objective and equitable.	17	49%	10	29%	5	14%	0	0%	3	9%	1.91
Grand Mean											2.04

Source: Fieldwork, 2017

The responses of the tax administrators on Table 4 were also analysed to show the inappropriateness of using the capital value basis and the depreciated replacement cost method in the assessment of APLUC.

Table 4: Percentage Ratings of staff of Global Mckens on the Assessment of APLUC

Tax Assessment	SD		D		UN		A		SA	
	N	%	N	%	N	%	N	%	N	%
1. Properties are not inspected individually for tax assessment	0	0%	0	0%	4	22%	5	28%	9	50%
2. Depreciated replacement cost method is used for tax assessment of all properties in Anambra State	0	0%	0	0%	4	22%	12	67%	2	11%
3. Focal properties are used to determine the value of chargeable properties	0	0%	0	0%	4	22%	8	44%	6	33%
4. Orphaned properties are properties with no similar features with the focal properties used in determining the values of properties	0	0%	0	0%	5	28%	7	39%	6	33%

Source: Fieldwork, 2017

According to Table 4, 28% agree and 50% strongly agree, making it 78% of the respondents who indicated that properties are not inspected individually for tax assessment. This shows that inspection and assessment are not carried out on all the chargeable properties. 67% and 11% of the respondents agree and strongly agree that the depreciated replacement cost method of valuation is used for the assessment of all the chargeable properties in the State. 77% of the respondents agree that focal properties are used to determine the assessed value of chargeable properties in the State. 72% of the respondents also agree that there are properties named “orphans” which are properties that have no similar features with the focal properties. This analysis shows that there are some irregularities in the tax assessment process of the Global Mckens Company. Property owners should be involved in the assessment of the tax; the inspection and the method of assessment should be transparent.

Revenue is usually the objective of levying property tax in most developing countries like Nigeria. Revenue production depends a lot on the billing or assessment of the tax. The assessment determines the buoyancy of revenue yields. Below is the analysis of the revenue realized by APLUC.

The extent of Success recorded by APLUC based on its Yearly Revenue

The tax revenue records from 2011 to 2015, obtained from the Anambra State Ministry of Finance, were evaluated to ascertain the performance of APLUC. This is shown in Table 5.

Table 5: APLUC Tax Revenue from 2011 to 2015

Year	Amount realized per annum ₦	Expected revenue per annum(Target) ₦	Shortfall per annum ₦	% Realized
2011	28,103,771.61	1,500,000,000.00	1,471,896,228	1.9
2012	21,728,421.73	1,500,000,000.00	1,478,271,578	1.4
2013	48,945,481.76	1,500,000,000.00	1,451,054,518	3.2
2014	93,716,991.99	1,500,000,000.00	1,406,283,008	6.3
2015	82,456,789.32	1,500,000,000.00	1,417,543,211	5.5
Mean	54,990,291.2815	1,500,000,000.00	1,445,009,709	3.7

Source: Fieldwork 2017

Table 5 shows that the success rate of APLUC is 3.7 approximately 4%. The expected mean revenue in twenty years' time will be six billion naira. N6, 000,000,000.00 (N1, 500,000,000.00 x 4). Therefore, if the Government should continue with APLUC, in 20 years' time (2035), its mean realized revenue will be two hundred and nineteen million, nine hundred and sixty one thousand, one hundred and sixty five naira, and one hundred and twenty five kobo. N219, 961,165.125 (N54,990,291.2815 × 4). This analysis clearly shows that in twenty years' time, the tax system will only be able to make 3.7% of the expected 20-year mean target. Therefore, the success recorded by APLUC is to a large extent very low.

The use of the capital value basis and the depreciated replacement method are not appropriate for property taxation in Anambra State. The application of values got from focal properties and the adoption of the state government discount rate of 75% make the tax assessment outrageous and inconsistent with known valuation standards. The tax process lacks transparency and also not in line with the principles of equity and fairness. Any tax system that does not adhere to the principles of taxation (equity, certainty, convenience, efficiency, set in simple language, transparent and politically acceptable) and also poorly administered is bound to fail and this is evident in the tax revenue recorded over the years. The tax system would have recorded increased revenue if the tax was based on annual income got from properties. The issue of location would have been incorporated to satisfy the principle of horizontal equity and benefit principle. Involving the tax payers in the assessment process will make the tax transparent and more politically acceptable. The principle of certainty will be satisfied too if the tax payers are sure of what they will pay as tax and these will improve compliance.

Hypothesis Testing

Ho - There is no significant difference between the tax values obtained by the Government and the tax values obtained by using income-based assessment methods.

A comparison was done using the APLUC 2015 tax bills and researcher's calculated values. APLUC tax bills were got from fifteen (15) properties in Awka, Onitsha and Nnewi and assessments (2011 -2015) were also carried out on the same properties using income -based assessment methods as shown on Table 6.

Estate Surveyors and Valuers as shown on Table 2 prescribed the income method and profit method of valuation as the appropriate methods of tax assessment for the different property types. These two valuation methods are income based. Table 6 shows the APLUC tax values from 2011 -2015 and also researcher's assessment values of the same properties from 2011-2015 using the income based methods. These properties were picked from Awka, Onitsha and Nnewi. Firstly, the APLUC tax values were got from adjusted values of focal properties assessed using the depreciated replacement method. A government discount of 75% is further applied to the capital value before the tax rate is applied. This method is inappropriate. The income based methods make use of income realized from the properties. The APLUC bills for the hotel in Onitsha were N 10,192.00 from 2011 -2014 and N 10,772 in 2015 while the values based on income based methods were higher: N18,106, N19,011, N19,962, N20,960 and N22,008 from 2011 to 2015. The hotel in Nnewi recorded N112,480.54 from 2011 -2014 but a lesser value of N10,4633.60 in 2015 but the researcher got much lesser values using the income based methods. The residential properties had APLUC values of N38,395, N 23,255.36 and N 19,049.52 in Onitsha, Awka and Nnewi respectively but had researcher's values of N 2,083, N 1,260 and N 2,744 . The properties were all over-appraised except the school in Awka and the hospital in Onitsha.

Table 6: APLUC Tax Values and Researcher's Actual Tax Values (2011- 2015)

	Property Type	Town	APLUC 2011 ₦	APLUC 2012 ₦	APLUC 2013 ₦	APLUC 2014 ₦	APLUC 2015 ₦	RES. CALC. 2011 ₦	RES. CALC. 2012 ₦	RES. CALC. 2013 ₦	RES. CALC. 2014 ₦	RES. CALC. 2015 ₦
1	Hotel	Onitsha	10,192	10,192	10,192	10,192	10,772	18,106	19,011	19,962	20,960	22,008
2	Residential	Onitsha	38,395	38,395	38,395	38,395	35,906	2,083	2,083	2,083	2,083	2,450
3	Office Complex	Onitsha	17,182.	17,182	17,182	17,182	16,267	2,940	3,528	3,528	3,528	3,528
4	Hospital	Onitsha	53,108	53,108	53,108	53,108	61,411	86,201	88,787	91,451	94,194	97,020
5	School	Onitsha	18,329.14	18,329.14	18,329.14	18,329.14	22,919.01	24,251	24,736	25,230.70	25,735.30	26,250.00
6	Hotel	Nnewi	112,480.54	112,48.54	112,48.54	112,480.54	104,633.60	8,397.10	8,649.00	8,908.00	9,175.00	9,450.00
7	Residential	Nnewi	23,255.36	23,255.36	23,255.36	23,255.36	22,414.81	1,260.00	1,260.00	1,680.00	1,680.00	1,680.00
8	Office Complex	Nnewi	20,970.43	20,970.43	20,970.43	20,970.43	19,853.66	7,056.00	7,056.00	8,232.00	8,232.00	8,232.00
9	Hospital	Nnewi	18,198.95	18,198.95	18,198.95	18,198.95	17,229.80	8,397.10	86,490.00	8,908.00	9,175.00	9,450.00
10	School	Nnewi	10,579.61	10,579.6	10,579.61	10,579.61	10,579.61	7,276.00	7,421.00	7,569.00	7,721.00	7,875.00
11	Hotel	Awka	23,2775.38	23,2775.38	23,2775.38	23,2775.38	17,1035.14	85,692.40	89,977.00	9,4476.00	9,9200.00	10,4160.00
12	Residential	Awka	19,049.52	19,049.52	19,049.52	19,049.52	17,720.48	2,744.00	2,744.00	2,744.00	2,744.00	2,940.00
13	Office Complex	Awka	19,551.46	19,551.46	19,551.46	19,551.46	18,510.26	5,160.00	5,160.00	7,762.00	7,7620.00	7,762.00
14	Hospital	Awka	25,828.43	25,828.43	25,828.43	25,828.43	29,118.60	66,237.00	68,224.0	70,271.00	72,379.00	74,550.00
15	School	Awka	27,844.25	27,844.25	27,844.25	27,844.25	36,986.75	30,315.00	30,921.00	32,159.00	32,170.00	32,813.00

Source: Fieldwork 2017

The Paired Sample t- test was employed in testing this hypothesis. This statistical method is used to determine the significant differences between two sample means. It compares the mean difference of two sets of scores for a given sampled unit and it is presented in the table below:

Table 7: Paired Sample t-test Comparison of APLUC Tax Values and Researcher's Obtained Tax Values Using Income-based Assessment Method

Property Type	APLUC Value (2011-2015)		Researcher Calculated Value (2011-2015)		Mean Difference	df	t-value	P-value
	Mean	SD	Mean	SD				
Residential (n = 15)*	26,589.32	8,503.01	2,160.07	616.25	24,429.25	14	10.99	.000
Office Complex (n=15)*	19,029.77	1,655.98	5,925.20	2,152.68	13,104.57	14	43.09	.000
Schools (n= 15)*	19,833.16	8,441.68	21,454.87	10,527.57	1,621.71	14	-1.46	.168
Hospitals (n=15)*	33,086.73	16,410.30	56,926.21	36,378.92	23,839.48	14	-3.79	.002
Hotels (n=15)*	111215.49	86,322.66	40,010.77	40,582.21	71,204.73	14	4.66	.000

*Awka = 5, Nnewi =5, Onitsha = 5

Source: Fieldwork 2017

Using paired sample t-test, there was a significant difference between APLUC tax values and researcher's calculated values using income based assessment methods as shown by the t-values (10.99, 43.09, -3.79 and 4.66) for four out of the five property types assessed and their corresponding P-values (< 0.05). We reject the null hypothesis. Therefore, there is a significant difference between the tax values obtained by the Government and the tax values

obtained by using income-based assessment methods. The basis of assessment of APLUC is the capital value and the valuation model the agency claim to employ is the Depreciated Replacement Cost Method of valuation in the assessment of the tax. The use of the depreciated replacement method of tax assessment by the agency tend to under-value high value properties relative to low value properties because it is not linked to income received from the property. The adoption of focal properties in the assessment is done without regards to factors like location, physical condition of properties, facilities and so on which define the true worth of a property. This approach is not appropriate and not consistent with known equitable principles of taxation.

The analysis of the secondary data shows that the property tax assessment in the State should be based on income from the property. The hypothesis tested with Paired Sample T- test shows a significant difference between the APLUC tax values and Researcher calculated tax values using income based assessment methods. Therefore, the null hypothesis was rejected. It is concluded that the use of income based assessment methods is more appropriate.

Analysis of the tax bills

A look at some of the tax bills further confirmed the anomalies in the tax assessment process. The 2015 APLUC bill of a property in, Inland Town, Onitsha was delivered in May, 2016. The property is an office block of four flats. It has the following details as shown in Figure 1: Land Value - N 4,234,332.33; Building Value - N14,356,443.44; 2015 Tax Value - N16,266.93; 2011 – 2014 - N17,181.945 annually. (There was no revaluation over the years).

APLUC
ANAMBRA STATE PROPERTY & LAND USE CHARGE

Anambra adibago mma,
...nyee aka k'odi mma

NOTICE DATE: DO 2015 Property & Land Use Charge IDUA

TO CHARGEABLE PROPERTY	PROPERTY IDENTIFIER
------------------------	---------------------

IN-LAND, ANAMBRA STATE

ASSESSMENT VALUE	CLASSIFICATION
The current assessment value of your Land and Building(s) is shown below;	COMMERCIAL (OFFICE)
Land: ₦4,234,332.33 Building(s): ₦14,356,443.44	Number of Buildings: 1 Total Number of Floors: 2

PAYMENT DETAILS	PAYMENT COVERS	Important Notice
2015 Year. Your applicable rate is 0.35% of the discounted assessment value. Your property usage is COMMERCIAL (OFFICE). ASSESSMENT VALUE: 18,590,775.77 DISCOUNTED ASSESSMENT VALUE: 13,943,081.83 STATE GOVERNMENT DISCOUNT OF 75%: 4,647,693.94 PROPERTY CHARGE FOR THE YEAR 2015 (0.35%): 16,266.93 MARSHALS FOR 2012, 2013 and 2014: 68,727.78 Amount Due	GROUND RENT TENEMENT RATE PROPERTY RATE INFRASTRUCTURE DEV. & MAINTENANCE LEVY	Payment must be made in favour of Property and Land Use Charge, within 30 days of the date of this notice. Pay to: Bank: ANY COMMERCIAL BANK Account Holder: Anambra State Government Revenue Code: 2910003/400301 Depositor:

PAY ON OR BEFORE: JUN 5, 2016 **84,994.71** Penalties

There is a 2.5% penalties for delayed payments. They become applicable after June 5, 2016 as follows:	
JUN 6, 2016 - JUL 6, 2016	₦87,119.58
JUL 7, 2016 - AUG 6, 2016	₦89,244.44
AUG 7, 2016 - SEP 6, 2016	₦91,369.31

APLUC Office
Opp. Ministry of Lands (ALIMS Building)
Agu-Awka, Awka South LGA
Anambra State

Phones:
0807-742-3344
0703-975-0129

Honourable Commissioner for Finance

2015 Property & Land Use Charge

DEPOSITOR: A25288/THE PROPERTY OWNER/OCCUPIER

PROPERTY IDENTIFIER	2910003/400301
IF PAID	PLEASE PAY (₦)
MAY 6, 2016 - JUN 5, 2016	84,994.71
JUN 6, 2016 - JUL 6, 2016	87,119.58
JUL 7, 2016 - AUG 6, 2016	89,244.44
PLEASE PAY ON OR BEFORE: SEP 6, 2016	91,369.31

Bank: ANY COMMERCIAL BANK
Account Holder: ANAMBRA STATE GOVERNMENT
Revenue Code: 2910003/400301
Name of Depositor:

Figure 1: APLUC Bill of Property in Inland Town, Onitsha
Source: Fieldwork 2017

Firstly, the land value (4,234,332.33) was low for the location. Secondly, the building value (14,356,443.44) was also unrealistic for a commercial storey building of four flats in Inland town, Onitsha. The tax value for 2011 to 2014 ($68,727.78 / 4 = 17,181.945$) is higher than the tax value for 2015 (16,266.93). Real property values appreciated. The tax particulars are shown on Figure 3.

A look at the bill in Figure 2 shows that both the Land Value (N1, 875,637.41) and the Building Value (N18, 376,344.00) are both unrealistic for the said property in that location. The tax value was constant from 2011 -2014 (N 19,049.515 2015) but decreased in 2015 (N 17,720.48). This is inconsistent with known principles of tax assessment

APLUC
 ANAMBRA STATE PROPERTY & LAND USE CHARGE

NOTICE DATE: **May 6, 2016**

DO NOT PAY CASH TO ANY INDIVIDUAL
 2015 Property & Land Use Charge

TO CHARGEABLE PROPERTY: **May 6, 2016**

PROPERTY IDENTIFIER: [REDACTED]

ARABA UMUZOCHA, ANAMBRA STATE

ASSESSMENT VALUE: The current assessment value of your land and building(s) is shown below;

CLASSIFICATION: **RESIDENTIAL (RENTAL)**

Land: **N1,875,637.41** Building(s): **N18,376,344.00**

PAYMENT DETAILS	N	PAYMENT COVERS	Important Notice
ASSESSMENT VALUE		* GROUND RENT	Payment must be made in favour of Property and Land Use Charge, within 30 days of the date of this notice. Pay to: Bank: ANY COMMERCIAL BANK Account Holder: Anambra State Government Revenue Code: 2910003/400301 Depositor: [REDACTED]
DISCOUNTED ASSESSMENT VALUE	20,251,901.41	* TENEMENT RATE	
STATE GOVERNMENT DISCOUNT OF 25%	15,188,926.06	* PROPERTY RATE	
	5,062,975.35	* INFRASTRUCTURE DEV. & MAINTENANCE LEVY	
PROPERTY CHARGE FOR THE YEAR 2015 (0.35%) APPEARS 2011, 2012, 2013 and 2014	17,720.48		
	76,198.06		
PAY ON OR BEFORE: JUN 5, 2016	93,918.54		

Penalties: There is a 2.5% penalties for delayed payments. They become applicable after June 5, 2016 as follows:

Period	Penalty
JUN 6, 2016 - JUL 6, 2016	N96,266.51
JUL 7, 2016 - AUG 6, 2016	N98,614.47
AUG 7, 2016 - SEP 6, 2016	N100,962.43

Contact Us: APLUC Office, Opp. Ministry of Lands (ALIMS Building), Agu-Awka, Awka South LGA, Anambra State. Phones: 0807-742-3344, 0703-975-0129.

Signature: Honourable Commissioner for Finance

DEPOSITOR: A193391/THE PROPERTY OWNER/OCCUPIER

IF	PLEASE PAY (N)
MAY 6, 2016 - JUN 5, 2016	93,918.54
JUN 6, 2016 - JUL 6, 2016	96,266.51
JUL 7, 2016 - AUG 6, 2016	98,614.47
AUG 7, 2016 - SEP 6, 2016	100,962.43

REVENUE CODE: **2910003/400301**

Bank: ANY COMMERCIAL BANK
 Account Holder: ANAMBRA STATE GOVERNMENT
 Revenue Code: **2910003/400301**
 Name of Depositor: [REDACTED]

Figure 2: APLUC Bill of Property at Awka
 Source: Fieldwork 2017

Yet another property, a school building at Nnewi; the property is a bungalow on a single floor providing 10 No classrooms and an Office: Land Value - N 8,256,419.67; Building Value - N 3,834,561.09; 2015 tax - N 10,579.61; 2011 -2014 - N 10,579.61

APLUC
 ANAMBRA STATE PROPERTY & LAND USE CHARGE

NOTICE DATE: **May 6, 2016**

DO NOT PAY THIS TO ANY INDIVIDUAL

TO CHARGEABLE PROPERTY: **May 6, 2016**

PROPERTY IDENTIFIER: [Blank]

NNEWI, ANAMBRA STATE

ASSESSMENT VALUE
 The current assessment value of your Land and Building(s) is shown below;

Land: **N8,256,419.67** Building(s): **N3,834,561.09**

CLASSIFICATION
 INSTITUTIONAL (SCHOOL-PRIVATE)
 Number of Buildings: 1 Total Number of Floors: 1

PAYMENT DETAILS		PAYMENT COVERS		Important Notice Payment must be made in favour of Property and Land Use Charge, within 30 days of the date of this notice. Pay to: Bank: ANY COMMERCIAL BANK Account Holder: Anambra State Government Revenue Code: 2910003/400301 Depositor: [Blank]
ASSESSMENT VALUE	12,090,980.76	* GROUND RENT		
DISCOUNTED ASSESSMENT VALUE		* TENEMENT RATE		
STATE GOVERNMENT DISCOUNT OF 75%	9,068,235.57	* PROPERTY RATE		
	3,022,745.19	* INFRASTRUCTURE DEV. & MAINTENANCE LEVY		
PROPERTY CHARGE FOR THE YEAR 2015 (0.35%)	10,579.61			
Amount Due	42,318.44			
PAY ON OR BEFORE: JUN 5, 2016		52,898.05		

There is a 2.5% penalties for delayed payments. They become applicable after June 5, 2016 as follows;

Period	Penalty
JUN 6, 2016 - JUL 6, 2016	N54,220.50
JUL 7, 2016 - AUG 6, 2016	N55,542.95
AUG 7, 2016 - SEP 6, 2016	N56,865.40

Contact Us

APLUC Office
 Opp. Ministry of Lands
 (ALIMS Building)
 Agu-Awka, Awka South LGA
 Anambra State

Phones:
 0807-742-3344
 0703-975-0129

2015 Property & Land Use Charge

DEPOSITOR: A216048/THE PROPERTY OWNER (NEHERLAND INTERNATIONAL SCHOOL...)

APLUC

PROPERTY IDENTIFIER: [Blank] PAYMENT REVENUE CODE: **2910003/400301**

PERIOD	PLEASE PAY (N)
MAY 6, 2016 - JUN 5, 2016	52,898.05
JUN 6, 2016 - JUL 6, 2016	54,220.50
JUL 7, 2016 - AUG 6, 2016	55,542.95
PLEASE PAY ONLY ONE AMOUNT	56,865.40

Bank: ANY COMMERCIAL BANK
 Account Holder: ANAMBRA STATE GOVERNMENT
 Revenue Code: 2910003/400301
 Name of Depositor: [Blank]

Figure 3: APLUC Bill of Property in Nnewi
 Source: Fieldwork 2017

In this case, the land value was within the price range but the value of the building was very low. The tax value in this case was same from 2011 to 2015.

CONCLUSION

From the results of the analyses done, it is evident that the government in the administration of APLUC employed a tax assessment basis and method which was inappropriate and inconsistent with known equitable principles of taxation. As Kelly suggested in Odimegwu (2018), each country must give its own answer to the question: *Is the tax basis and method of valuation appropriate?* The capital value basis and the depreciated replacement cost method of tax assessment are not appropriate for the Anambra environment. The use of annual value and income based property tax assessment methods would have gone a long way in harnessing the full potentials of the tax in the state because it considers location and accommodates the ability to pay and benefit principles. Secondly, the property tax system failed to satisfy the revenue yearnings of the state. It only recorded a success rate of 4.0% approximately. A tax assessment based on income based methods will improve compliance to a large extent because the tax system will be transparent, equitable and fair.

Based on the findings, the study recommends that the basis of property tax assessment in the state should be based on income generated from a property on annual basis as against the market value of property. Income based valuation methods should be used for tax assessment. Estate Surveyors and Valuers should be involved both in the drafting of the tax laws and most importantly in the tax assessment to curb the challenges of poor tax assessment. The authorities should also provide more tax education to property owners to make them understand why real properties are taxed and involve them in the whole process of taxation. This will improve their perception of the fairness of the tax system and invariably improve compliance.

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