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Appendix

Test for Stationarity of Data Sets

In examining if assets mean values were stationary and thus consistent over the study period, the study tested for stationarity of the data sets. The results of the Philip-Perron unit root test as shown in Table 6 indicates that both SP and Shares were stationary at level, while Federal bonds, State bonds, Debentures and T-bills were stationary at first difference. This implies that SP and Shares are mean reverting at level; I(0) while other assets are mean reverting at first difference; I(1). This showed that the mean values for the assets are consistent over the period analysed.

Table 6. Philip Perron Unit Root Test

Variable	Unit Root Static Level	1st Difference	Remarks
SP	-8.358630	-67.05184	I(0)
Federal bonds	-2.018905	-11.01338	I(1)
State bonds	-2.399973	-7.324535	I(1)
Debentures	-1.229405	-4.798153	I(1)
Shares	-7.045116	17.69955	I(0)
T-bills	-1.860758	-7.062864	I(1)

IMPACT OF PROPERTY TAX ADJUSTMENT ON RENTAL VALUE IN NIGERIA

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ABSTRACT

Tax adjustment in every economy is significantly affected by monetary policies, by implication real property taxes. This study examines the effect of property tax adjustments with respect to their impacts on rental value in Nigeria. Data were obtained from 150 respondents. The multiple regression models and SPSS package were adopted for data analysis. The study found out that there is statistically significant relationship between landed property taxation and rental value. The implication is that rental income from property is significantly affected by tax adjustments by discouraging real property investments. It was recommended that tax reform and related institutional reform should entail actions that are of local conditions rather than an attempt to realize abstract principles.

Key Words: Impact, Landed Property, Taxation, Rental Value.

1.0 INTRODUCTION

Rental value is a term that has attracted much attention to real property investors. In an effort to realize the objectives of real estate investment, considerations are made of some forms of property tax which are crucial to rental value.

Igwe-Kalu (1998) while describing tax as compulsory levies, defined landed property taxation as those taxes imposed on real or immovable property. One of the cardinal objectives of government is to provide the populace with basic infrastructure. Without money it is impossible to provide the large scale infrastructures needed, especially in time of dwindling revenue by the Federal Government. Besides, there are different sources of revenue for the provision of infrastructure required, but most of the available sources of revenue are not sustainable (Igwe-Kalu, 2014). For instance the dependence of government in Nigeria at all levels on an exhaustible mono-product raw material oil- for revenue is precarious, unpredictable and dangerous (Alm and Boex, 2002). This will lead the Federal Government to source for new means of generating additional revenue internally through property tax.

The truth, however, is that the theory of shifting of property taxes points to wide range of possibilities; under some circumstances the whole of the tax may be reflected in a reduced rental income (and hence, lower property values) for landlords, while in other situations the tax may result primary in increased rents to tenants, with little impact on market value of property.

With this background, the aim of the study was to determine the joint and individual impacts of property tax adjustments on rental income in Nigeria; while propounding possible policy implications and offering appropriate recommendations.

OBJECTIVES OF THE STUDY

The objectives of the research are;

(i) To determine the short-and long term effects of property tax adjustments on rental value.

(ii) To establish the relationship between landed property taxation and rental value.

(c) To present some empirical findings on the problem of tax adjustment on rental value.

REVIEW OF LITERATURE

Rental Value: Rent is a periodic payment for the use of property. In connection with rent, Ratcliffe, (1978) enumerated parts of rent, via.

(a) Payment for the raw land representing nature's original gift.

(b) Payment by way of return on the capital expenditure on building and works.

(c) An allowance for depreciation of the works and buildings.

(d) Any continuing expenses incurred in occupying and owning the land and building.

In the words of Lawal (1997), rent paid for the use of a unit of real estate for a particular period of time and it may also be defined as the annual or periodic payment for the use of land and building.

Value itself is the amount of money which can be obtained from an interest at a particular time from persons able and willing to purchase it. Ekenta, (2010) defined rental value as the monetary return which may reasonably be expected to be obtained from letting a property at a particular point in time on market value basis. By market value here, we mean that all the parties must be aware of the rent the property will command in the market without compulsion.

Taxation: Tax is a compulsory levy imposed on a subject or upon his property by government to provide security, social amenities and create conditions for the economic well-being of the society (Apah, 2004). Tosun and Abizadeh (2005) says taxes are used as proxy for fiscal policy. However, Abdulrazaq (2003) stated that in simple terms, a direct tax is one, which is demanded from the very person who it is intended or desired, should pay it.

Indirect taxes are those, which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of the other.

Ola (1985) sees the objectives of taxation as;

i. To raise revenue and ensure that citizens contribute their due to the development of the society.

ii. The need to spread the burden of payment progressively and equitably by soaking the rich to help the poor.

iii. The need to use tax as a tool of economic policy in transferring resources from the private sector of the economy to national use.

In the words of Ogbuefi (2004), these objectives are not comprehensive enough as they do not adequately take care of all the objectives of government fiscal policy.

Several scholars and tax analysts have proffered different objectives that governments intend to achieve through taxation. For instance, Umeh (1972) listed eight.

These are;

i. Revenue raising
ii. Social justice;
iii. Income redistribution;
iv. Resource allocation;
v. Capital formation;
vi. Planning;
vii. Development;
viii. Economic Stabilization;

Landed Property Taxation: Conceptually, land as a factor of production and a source of wealth should be subjected to taxation. According to Ogbuefi, (2004), landed property taxation involves these taxes imposed by law and payable by individuals, corporations and other bodies in respect of interests or estates in real or immovable property.

In its broadest sense, they include – petroleum tax, mining tax, mineral royalties, forest tax, etc (Igwe-Kalu, 1998). In Nigeria, like in most nations under the common wealth of Nation, there exist in the statute books legislations covering the following types of land taxation;

i. Capital Gains Tax
ii. Capital Transfer Tax
iii. Withholding Tax
iv. Value Added Tax
v. Stamp Duty
vi. Tenement Rate
vii. Probate Tax;

In determining the appropriate method of tax assessment, Harvey (2000) Opined that it is usual for local property taxes to be levied ad valorem with Net Annual Value (NAV).

When Net Annual Value is the basis of assessment, it is likely to be determined as follows; gross Annual Value which is the yearly rent that a property mighty reasonably be expected to let on a determined rate and with deductions made for maintenance and insurance and other outgoings to give the net annual value.

Property Tax Adjustment: Property Tax Adjustments (PTA) are fiscal measures designed to impose on landed properties some or all of the tax charged on landed properties and income from landed property. Property Tax Adjustment can;

- Generate Revenue
- Be legally feasible
- Be efficiently executed

Effect of Tax Adjustment on Property Value: The effects of taxation on landed property can be viewed from rental and capital value perspectives.

Basically, owners of assets including landed property would aim at shifting the burden of taxation to the purchase or occupier of the property.

It is a fact that basically all types of landed property taxation in Nigeria have an effect on landed property. If one considers first, the effect of property income tax on rental value, it may be necessary to look at it from the perspective of varying rate nairage in different areas.

The effect of income tax on rental value of landed property may not be easily apparent, as income from landed property like income from any other source is subject to taxation. It is not taxed in isolation. It is part of the amalgam of income of a taxpayer from the various sources that would be subjected to income tax.

Ordinarily, income tax payable for the ownership of landed property constitute a negligible fraction of the totality of income tax payable by the taxpayer and hence, it does not play a critical role in the determination of rents especially in developing countries where the preponderance of property development is individually based (Ogbuefi, 1988). In addition, income tax on landed property is not subject to assessment on the current year, rather, it is based on the preceding year. The implication is that in developing countries where private property owners are in dominance, it may not have as much impact on rental value as in a society where companies are the major actors in the landed property investment especially housing development.

Lean and Goodall (1977) stated that the basic economic effect of tax is that the open market price will increase in the long run if there is higher demand for a good or service. Similarly, the higher the outgoings in form of tax liability, the higher will be the rent that landlord will demand for a given property on the long run. In this regard, where initial capital costs cannot be set off against tax liability whereas maintenance expenditure can be, this will increase additional expenditure on maintenance rather than initial construction. In respect of supply of properties, Harvey (2000) opined that in the short-run the stock of rented houses is fixed while new rates will be borne by owners and the net rent will fall. In the long run, supply of houses will be more elastic since, assuming no planning consent is required, owners will adapt them to other uses or simply not replace them as they wear out, switching to lower taxed and profitable forms of investment. The tax burden is then passed on to the tenants; however, its extent depends upon the relative elasticity of supply and demand.

While according to Harris (2009) every increase in property – tax rate on structures (not land) reduces the desirability of putting capital funds into new buildings, creates an incentive against upgrading quality by new construction, and discourages maintenance. It also leads to the construction of rooms, apartments and buildings somewhat smaller than would be the case in the absence of tax.

RESEARCH METHODOLOGY

The sample size used in this study was 140 respondents that were randomly selected among practicing Estate surveyors in Port Harcourt. The multiple regression analysis was employed to analyze the variables with the aid of SPSS package of descriptive frequencies.

In the view of Owen (2000), Multiple Linear Regression allows the incorporation of more than one independent variables into an equation for the predictions of the dependent variables into an equation for the prediction of the dependent variables. The general mathematical model of multiple regression is expressed thus;

$$\mathbf{Y = a + b_1 x_1 + b_2 x_2 + \ldots\ldots b_n x_n.}$$

Where;

Y = Dependent variable to be predicted

a = A constant, the y intercept

$\mathbf{b_1}$ = The change in y for each 1 increment change in x_1

$\mathbf{b_2}$ = The change in y for each 1 increment change in x_2

x = Independent variables for which you are trying to predict

For this study y variables is the dependent variable (Rental Value), while ($x_1 – x_6$) are the independent variables represented thus;

x_1 = Withholding Tax

x_2 = Capital Gains Tax

x_3 = Tenement Rate

x_4 = Stamp Duty

x_5 = Capital Transfer Tax

x_6 = Value Added Tax

By manipulating the independent variables, the researcher intends to discover which of them have greater influence on landed property taxation in Nigeria and to what magnitude.

ANALYSIS AND DISCUSSION

In analyzing the data, the independent variables were set to determine the relationships between the dependent and guide towards achieving the objectives of the study.

Table 1: Summary of statistics of Mean and Standard Deviation of responses for landed Property Taxation that affects Rental Value in Nigeria.

Table 1.1

	Item 1	Item 2	Item 3	Item 4	Item 5	Item 6
N	140	140	140	140	140	140
Mean	4.51	3.86	4.06	3.92	3.75	3.80
S.D	0.911	0.899	0.877	1.079	1.215	1.214

Source: Researchers field work.

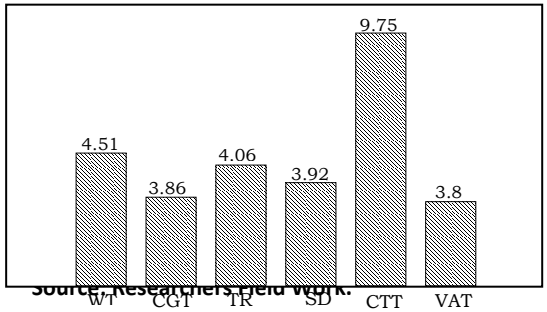
Table 1.1 shows the mean and standard deviation of the possible forms of landed property taxation that affects rental value in Nigeria which indicates that the respondents were in agreement with all the items. However item 1: "Withholding Tax" (M = 4.51, SD = 0.911)" was rated the highest, this was followed by item 3: "Tenement Rate" (M = 4.06, SD = 0.877) and the least was item 5 "Capital Transfer Tax" (M = 3.75, SD = 1.215).

Keys:

TR = Tenement Rate
SD = Stamp Duty
WT = With-holding Tax
CGT = Capital Gain Tax
CTT = Capital Transfer Tax
VAT = Value Added Tax

Property Taxations that Affect Rental Value in Nigeria

Figure 1.1: Graph showing the mean effect of possible forms of landed property taxation that affects rental value due to tax adjustment.



Source: Researchers field work.

The graph shows that CTT has the highest mean value of 9.75, which clearly indicates that it is the most form of landed property taxation that affects rental value due to tax adjustment.

Conclusion

It has been observed that taxation is a major means of generating revenue especially during a dwindling economy. The Federal Government of Nigeria should adopt a pragmatic approach to tax implementation by avoiding revolutionary and upward tax adjustments that have failed to succeed. This research believes that the long term solution to property tax problems in Nigeria should not impose huge burden on property occupiers.

Recommendations

Having considered the impact of property tax adjustment on rental values in Nigeria, the following recommendations are proffered.

i. A new tax reform should be given priority if it is the objective of government to generate revenue and to encourage efficient tax administration.

ii. Government should not see landed property taxation as a way of funding infrastructural development

iii. Because of differences in the historic development and current patterns of tax administration among countries, the nature of related institutions tends to vary significantly across countries and even across regions within individual countries. It is the research's view that tax reform and related institutional reform should entail actions that are of local conditions rather than an attempt to realize abstract principles.

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