



**STATES FISCAL TRANSPARENCY, ACCOUNTABILITY AND SUSTAINABILITY (SFTAS)
PROGRAM FOR RESULTS**

Roadmap for States to Increase Revenues from Property Tax

August 2023

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Summary

- **Property taxes are an untapped source of revenues for States.** The State Fiscal Transparency, Accountability, and Sustainability (SFTAS) Project assisted States to add a large number of urban properties to the tax roll with information on twenty-five (25) different property attributes, adopted regulations for automating tax collection and data sharing, and upgraded IT systems for tax collection.
- **Most States have not yet fully utilized SFTAS achievements to address their revenue gap.** To successfully leverage the SFTAS achievements, States are advised to re-establish the inter-agency Steering Committee that coordinated SFTAS activities. This committee would be tasked with:
 - Developing an action plan to maximize revenue from property tax, starting with using the SFTAS results by the State Revenue Service (like serving demand notices to all properties on the tax roll; increasing payment compliance);
 - Routinely report on progress to the Governor.
 - Plan for including all urban properties in the property data base; and
 - Ensure use of database by other State Ministries, Departments and Agencies State agencies for improving service delivery and increase collection of property related charges, fees, and levies.
- **Addressing the massive undervaluation of properties by bringing property valuation closer to market values is still required for most States.** The property information collected under the SFTAS project allows for the introduction of valuation systems that reflect market values.

1. Property taxes are an untapped source of revenues for States.

States underutilize the potential of property tax. States need resources to operate, improve services, and invest. Given the tight fiscal space affecting the Federation, Internally Generated Revenues (IGR) are critical to reduce reliance on volatile federal transfers. Property tax is a potential source that has not been well used by most States. Property taxes are also more difficult to evade than other taxes as land is an immovable asset.

A well-designed property tax system can increase State revenues, support efficient land use, and improve service delivery. Property taxation serves as a mechanism for the state to tax the increases in land value, which are often a result of public investments in infrastructure and services, thereby discouraging speculation, and can be designed in such a way that the poor (who own no or low-value property) are charged less. Examples of such land-related charges typically include Land Use Charge (LUC), ground rent for certificates of occupancy,¹ stamp duty and capital gains tax collected at the time of property transfers. Moreover, information on property included in the tax database can also be used by other State agencies to better plan service delivery and increase revenues from other fees like charges for sanitation and waste disposal or the area development levy, which is based on the assessed value of the parcel's land and buildings.

2. Property tax collection in 2022 was low for most States.

Most State issued few demand notices and payments compliance was also low. Most States distributed few or almost no demand notices in 2022. Only 8 States (Bayelsa, Ekiti, Kano, Lagos, Nasarawa, Ogun, Ondo, and Oyo State) distributed at least 10,000 demand notices (Figure 1), although the share of buildings to which a demand notice was served was in only 5 states over 50% of all buildings (Figure 2). As payment compliance was generally low, total revenues collected remained below potential and ranged from N52 million in Ekiti State to N9 billion in Lagos State (Figure 3). For these 8 States, the average amount charged per paid demand notice ranged from N2,797 in Ondo State to N773,707 in Nasarawa State. The higher rates are charged to commercial properties, which are prioritized by some States.²

Figure 1. Number of demand notices served in 2022.

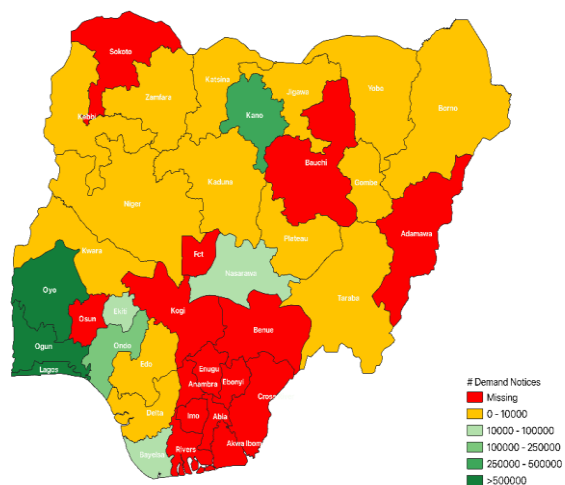
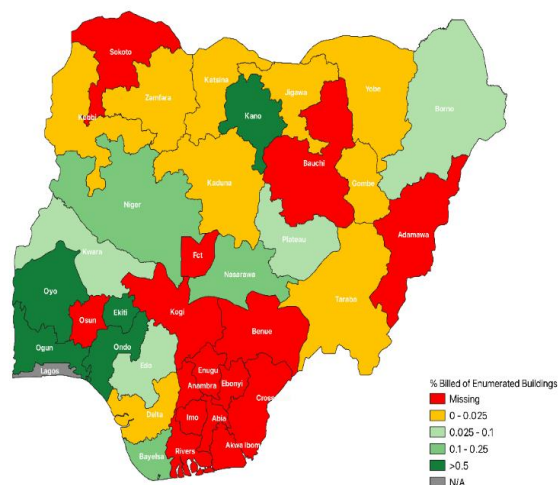


Figure 2: Share of buildings billed for property tax in 2022.

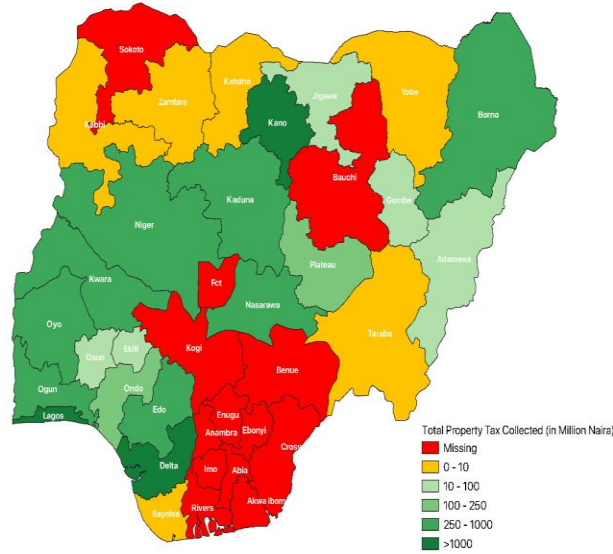


Source: Computed by the World Bank using data provided by States

¹ 1978 Land Use Act 5

² Delta State is an example of a State prioritizing commercial properties, serving demand notices to only 1,575 properties out of 90,090 buildings in the property database, with an average rate of N1.4 million per demand notice. Delta State reported collecting N1.09 billion in tax revenue with a compliance rate of 49%.

Figure 3. Total revenue from property tax in 2022 (in Millions of Naira)



Source: Computed by the World Bank using data provided by States

3. The SFTAS project helped States to seize the potential of property.

States used the State Fiscal Transparency, Accountability, and Sustainability (SFTAS) Project to strengthen the property tax system by meeting the following reform targets:

- Add more properties to the tax database: Collect and update essential property information for at least 20% (base target) or 50% (stretch target) of all properties that have electricity connections in urban areas³. These targets were achieved by 34 States (excluding Anambra and Rivers State), of which 2 States (Lagos and Bauchi State) met the basic target level while the other 32 States the stretch target.
- Include all essential property information: For each property States collected information on location, ownership, and other characteristics.⁴ This range of data enables States to bring valuation systems closer to market values.
- Store all property information in a centralized electronic database (achieved by 34 States).
- Adopt regulations enabling data sharing with the State Revenue Service and other relevant State Ministries, Departments and Agencies (MDAs) through an interoperable Application Programming Interfaces (APIs) (achieved by 34 States).
- Create an Application Programming Interface (API) with two-way electronic data exchange with the state revenue service (achieved by 34 States).
- Automate (i) calculating of tax charges, (ii) printing demand notices for Land Use Charges (LUC) and other property taxes (with a geocode for location), and (iii) monitoring of payment compliance (achieved by 34 States).

³ The SFTAS reform target for the property database had (i) to be achieved by 1st of July 2022 and required (ii) enumerating and/or updating the property database for 25 attributes (see next footnote) for all vacant parcels, buildings and building units in agreed urban areas with electricity connection; States had to achieve either at least 20% (basic = payment of 1.5 Million USD) or 50% (stretch= payment of 2.5 Million USD) of agreed total number of properties. Each State pre-financed the works required to achieve the SFTAS targets. Validation of all SFTAS reform was completed by December 2022, and payment to States was completed in February 2023.

⁴ Parcel ID, Parcel Area, Parcel Use, Availability Title Document, Connection to Water, Sewerage, Electricity and Waste Disposal, Parcel Owner Name, Type of Owner, Parcel Owner Phone Number, Parcel Address, Occupancy Type, Structure Present, Building ID, Building Age, Building Use, Wall Material, Roof Material, No. of Floors, Occupancy Type, No. of Units, Building Area, Picture (with geocode), and Enumeration Date.

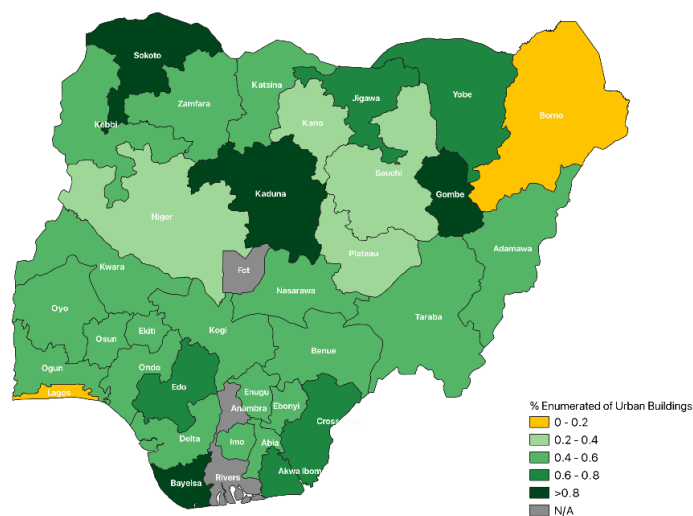
The establishment and empowerment of a State steering committee, led by the Commissioner of Finance, played a pivotal role in achieving these impressive results. States established an inter-agency steering committee to plan the work required for achieving the reform targets, prepare budget requests, supervise implementation, and ensure regular reporting back on progress to the Governor. SFTAS assisted States with conceptualizing the property database, acquire satellite imagery and software for property data collection using tablets.

States now possess a larger and updated property tax database. Figure 4 below shows the share of buildings⁵ in the centralized database for which demand notices can be served. However, the variation between States in terms of coverage is large, with 4 states (Bayelsa, Gombe, Kaduna and Sokoto State) having almost all buildings included in the database, while 2 States only (Bauchi and Lagos State) have 20% of all urban properties included. The Application Programming Interfaces (API) with the electronic database now gives the State Revenue Service an overview in real-time of taxable properties, enables automated printing of demand notices and identifying properties that have not yet paid in time.

System for maintaining and updating the property data base are to be established. The State Revenue Service agents would check and update the information in the property database when serving the demand notices. Functional two-way Application Programming Interfaces (APIs) with other MDAs will also help to check and update the property information. Clearly, the value of a complete and updated central property database to a State goes beyond property tax and can be used by other MDAs, for example, for improving land records, planning waste management and utilities, urban planning, building construction compliance.

E-payment of taxes is now possible across all States and the centralized database will facilitate property tax collections. Enabling the option of E-payment for settling property tax charges will improve taxpayer compliance as payment no longer requires multiple visits to banks and the revenue office.

Figure 4: Share of total urban properties enumerated and included in the database.



Source: Computed by the World Bank using data provided by States

4. Scenarios for increasing property tax revenues

Projections for property tax revenues. Table 1 projects⁶ the potential revenue from ground rents only as most States could not provide an average rate for land use charges (LUC), although these tend to be higher and thus generate much more IGR. Three scenarios were used: (1) demand notices are served to 50% of all buildings in the database and improving payment compliance to 50%; (2) demand notices are served to 95% of all buildings in the database and improving payment compliance

⁵ The target also included vacant plots and building units, which are also taxable but not covered in this policy note.

⁶ This simplified model can be used also to project the revenue potential using land use charges or of completing enumeration in States without all their urban properties included on the tax roll.

to 80%; and (3) valuation rate for ground rent doubled; demand notices served to 95% of all buildings payment compliance of 80%. Off course, States which enumerated 20% of all properties (Bauchi and Lagos) and States enumerating less than 50% of all buildings can increase revenues by adding more properties to the tax roll.

Table 1: Projected revenue for ground rent only in Million Naira (Mn N) (30* 50 m2 plot)

State	# Buildings Enumerated	Average ground rent/parcel*	Projected Revenue (Mn N) 50% Served/50% paid	Projected Revenue (Mn N) 95% Served/80% paid	Valuation review: Doubling average ground rent
Abia	295027	7397*	546	1659	3317
Adamawa	117772	1000	29	90	179
Akwa Ibom	115460	7397*	214	649	1298
Anambra	No Data	No Data	No Data	No Data	No Data
Bauchi	62344	2,500	39	118**	237
Bayelsa	60113	1800	27	82	164
Benue	96655	4500	109	331	661
Borno	34328	450	4	12	23
Cross River	41432	4,500	47	142	283
Delta	92090	3,325	77	233	465
Ebonyi	5342	7397*	10	30	60
Edo	175739	10,200	448	1362	2725
Ekiti	42472	10,000	106	323	646
Enugu	107544	7397*	199	605	1209
Gombe	78397	3,000	59	179	357
Imo	120882	7397*	224	680	1359
Jigawa	26820	7397*	50	151	302
Kaduna	544309	15,300	2082	6329	12658
Kano	265863	15,000	997	3031	6062
Katsina	88057	5,000	110	335	669
Kebbi	69412	7397*	128	390	780
Kogi	45159	4500	51	154	309
Kwara	152078	3,000	114	347	693
Lagos	192603	5,000	241	732**	1464
Nasarawa	145490	6,000	218	663	1327
Niger	70181	7,500	132	400	800
Ogun	631677	5,000	790	2400	4801
Ondo	120140	1000	30	91	183
Osun	208182	20,000	1041	3164	6329
Oyo	593367	19,900	2952	8974	17948
Plateau	81906	4,500	92	280	560
Rivers	No Data	No Data	No Data	No Data	No Data
Sokoto	179243	7397*	331	1008	2015
Taraba	47760	3428.5	41	124	249
Yobe	127797	7397*	236	718	1437
Zamfara	35338	20,000	177	537	1074

Source: World Bank estimations based on data from states

*= Proxy calculation using average ground rent for all States **: only 20% properties enumerated.

5. Address property undervaluation and align valuation procedures with market values.

Reversing the massive undervaluation of properties is still required for most States. In addition to increasing issuance of demand notices and increasing compliance, the third pillar for increasing revenues from property tax is bringing valuation closer to market values. Most States still use flat rates per property. These rates are generally low and are eroded with inflation, hence reducing the revenue potential from property taxes. Table 1. above shows for example the wide variation between States for ground rent (from 450 to 20,000) and how this affects total revenue from ground rent. The property database collected under SFTAS has 25 mandatory fields that provide parcel and property characteristics, which all can be used to enhance valuation systems. In addition, reliable approaches now exist for estimating market values even when market data is scarce or undervalued.⁷

By revising the valuation system, the rate used for property tax revenue can better align with market realities, thereby working towards a fair and equitable system across all property types. The comprehensive information stored in the central property database, regarding property characteristics and features, can be leveraged to assess the current tariff structure, explore viable options for revision, implement mass valuation approaches, and serve detailed demand notices that are easy to check by property owners. These efforts will not only contribute to reducing disputes over property tax charges but also promote efficiency and increase revenues.

6. Use of property data by other MDAs for improving service delivery and revenue collection

Sharing the central property database with other MDAs and local governments will improve service delivery and revenue collection. The database is useful also for other MDAs as it includes information on access to utilities, land records, location and boundaries, construction attributes and other property features. All participating States adopted regulations for electronic data sharing using Application Programming Interfaces (APIs) and data interoperability for all MDAs, not just the state revenue service. However, most States only established the API for two-way data sharing with the State Revenue Service but not yet with other MDAs⁸ (Figure 5). In discussions with States the following opportunities for using the property database by other MDAs were identified:

Ministry of Land:

- Merging data in land records with those in the central property database will help identify discrepancies, such as boundaries and titles, which are utilized for dispute resolution.
- Conduct a comprehensive review of land use and occupancy to identify any discrepancies.
- Assess the certification status of parcel plans to determine land titling programs and services related to subsequent transactions.
- Create an inventory of State land that is releasable.
- Assess the distribution of mortgages.

Town planning and development Board:

- Overlay with land survey and building applications for review.
- Monitor land use and property characteristics to ensure compliance with building plans and permits.
- Ensure compliance with building plan requirements, including payments. Kogi State estimated that, for one city, the additional revenue that can be generated would be N300 million for residential bungalows and over N378 million for commercial & Industrial land use and buildings.

Ministry of Commerce, Industry and Cooperatives

- Payment of business permits: Ondo State identified around 1,000 additional commercial properties requiring a business permit, potentially increasing annual revenues from N77 million to N114 million annually.

Waste management Authority

- Management waste disposal PSP contracts: Ondo State used the database to better project the generated volume of waste to plan for the number of PSP contracts required, doubling the revenue for the State.

⁷ Property values in transfer deeds are often not accurate to reduce stamp duty liability.

⁸ Investment costs for an API are around 10-20K USD, depending on capacity available within the government.

- Improve service delivery: The number and type of properties per coverage area were shared with the PSPs, facilitating their work and improving service delivery for citizens.

Waste disposal billing

- Payment refuse disposal fees: Cross Rivers estimated that the expanded property database (from 856 to 44033 properties) will increase revenues from refuse disposal fees from N9 million to N434 million.

Figure 5. States with APIs for electronic data sharing with MDAs

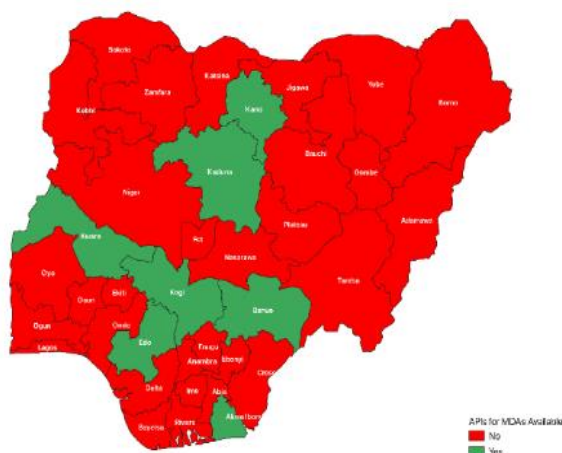
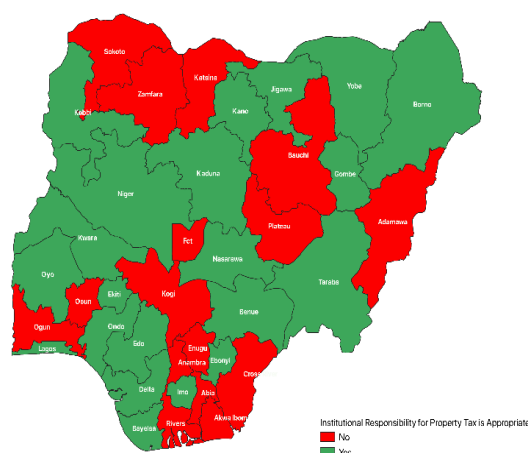


Figure 6. States with synchronized workflow for property tax collection



Source: Computed by the World Bank using data provided by States

7. Possible next steps for using property tax to increase internally generated revenues.

Most States have not yet fully utilized the property data collected under SFTAS to increase IGR. To boost property tax collection already in 2023, the following actions are priority:

- (Re)constitute the property tax steering committee to lead this process.** The inter-agency Steering Committee played a critical role in achieving the SFTAS results and can play a similar role in maximizing property tax revenues and data sharing between all MDAs. It is advisable that the governor directs the Honorable Commissioner of Finance to re-establish the Steering Committee (SC) which should include the Chairperson of the State Internal Revenue Service, Ministry of Lands, GIS agency, amongst other relevant MDAs. Possible tasks for the SC are to prepare an action plan for increasing property related IGR and set targets, estimate budget requirements, and following Governor's approval supervise implementation, monitor progress and report back to the governor. Possible indicators are the number of demand notices served to property owners, rate of demand notices issued, rate of payment compliance, total revenue collected.
- Add all properties to the tax database and use database for improved service delivery.** The action plan would be based on a review of the steps and procedures in place for collecting property tax including the serving of demand notice to every property on the tax database and maximizing payment compliance. Figure 6. presents States with a high potential for better streamlining institutional coordination. To include all taxable urban properties in the database, the SC could plan for completing property enumeration and routine tax records update.⁹ Promoting the use of the property tax database and establishing two-way APIs with other MDAs could improve service delivery as well as generating IGR from other property related charges, fees and levies.

⁹ Issuance of demand notices by IRS staff is an opportunity to check and update the property information.

- c) **Communication campaign to highlight the necessity of property tax revenues for service delivery in the State.** High-quality information and communication campaigns are an integral part of the action plan. Such a campaign will explain the significance of property tax for citizens welfare, how tax revenues will be used and accounted for, criteria used by the State for issuing demand notices and how payment compliance will be monitored. It would also be helpful for the Governor to issue an official statement in support of improving property tax collection.
- d) **Addressing the massive undervaluation of properties is still required for most States.** In addition to increasing issuance of demand notices and payment compliance, the third pillar for increasing property tax revenues is bringing valuation closer to market values. Most States still use flat rates per property, which are generally low and eroded with inflation, hence reducing the revenue potential from property taxes.

For Further Support:

Interested States should indicate in writing to mkajubi@worldbank.org and oajogbasile@ngf.org.ng CC: smatta@worldbank.org **before September 15th, 2023:**

- Which areas they would want support about (see earlier slide),
- What their target is (in terms of numbers).
- Identify a point person (equivalent to a SFTAS-SPM) who will be authorized to discuss details with the World Bank team and NGF.

For further details, please reach Olanrewaju Ajogbasile on +2349083411461 or oajogbasile@ngf.org.ng