



Taxation, Property Rights and the Social Contract in Lagos

Summary of Working Paper 73 by Tom Goodfellow and Olly Owen

Overview

Major taxation reforms over the past decade have been interpreted as facilitating the transformation of Lagos from of a city seen as being in permanent crisis to a beacon of megacity development. Most attention has focused on Personal Income Taxation (PIT). Less attention has been devoted to another innovation – the property tax or Land Use Charge (LUC). Yet the story of property taxation in Lagos since the early 2000s is important – not only in terms of enormous increases in collection, but because of the ways in which it has helped to solidify the fiscal contract between state and society.

In this paper, we argue that the LUC has been successfully used by the State government to draw people into the tax net for other, more lucrative, taxes. Specifically, it has helped to support increases in PIT. Yet, at the same time, it has also been instrumentalised from below as a form of incipient property right in the absence of official title. The LUC thus needs to be understood, not only in terms of its role in the vaunted Lagos tax success story, but in relation to its function as one of the means by which people seek to incrementally deepen, entrench and solidify their rights to land in a context of intense tenure insecurity.

Making a success of the Land Use Charge

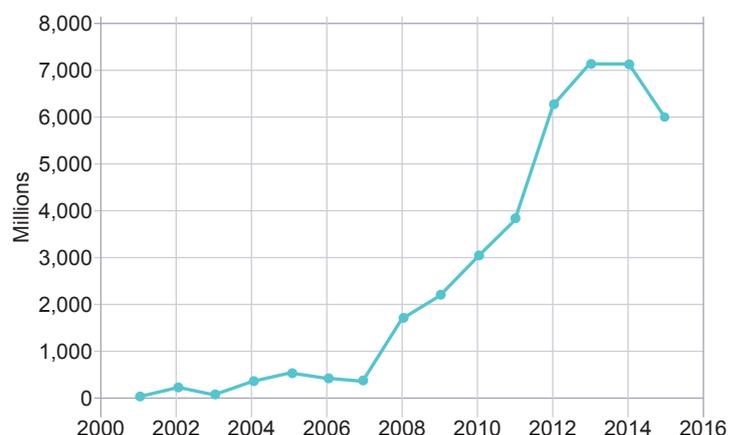
Prior to the introduction of the LUC, property taxation in Lagos was fragmented into three separate payments. These were streamlined into one payment through the Land Use Charge Law of 2001. A private contractor

was brought in to run the LUC, and was given control of the entire revenue generation process – from enumerating properties, to billing and collection. Lagos placed increased priority on the LUC from 2007, under the governorship of Babatunde Fashola, and gave the company a grant to make a property inventory that led to an increase in enumerated properties from 45,000 in 2007 to 750,000 in 2010.

Overall, around almost 40 bn Naira was generated through the LUC in an 8-year period 2007–2014. However, the state uses this tax to leverage more substantial revenue: through its link to property, the LUC is used as a tool to identify high net worth individuals, in order to bring them into the tax net for PIT.

Figure 1 depicts LUC collection over the period 2001–2015.

Figure 1 LUC revenue generation



Source: Ministry of Finance, Lagos State

Although considered a success overall, the establishment of the LUC did not come easily. The state government responded flexibly to difficulties, for example by radically reducing tax rates for commercial properties following private sector pressure, and capturing far more properties in the tax net as a consequence. However, at the same time, there have been more ‘bottom-up’ ways in which the tax net has expanded: in low-income waterfront communities, for example, we found a clear link between paying the LUC and efforts by communities to shield themselves from eviction. For those less fortunate, payment of the LUC was perceived as a way of exerting some moral pressure on the state to deliver on its promises of a more secure and better-served future.

The link between property taxation and property rights in Lagos

Taxation is predicated on an assumption of a clear, unambiguous owner of the property in question. In the course of conducting our research into the Lagos property tax success story, we found a rather different reality: because legal frameworks concerning land rights and tenure are inadequate and ambiguous, property tax itself can come to form one of the elements in the building of a property right.

However, to fully understand how taxation and associated processes affect people’s conception of property and their rights to it, we need to see the LUC as part of a broader web of formal and informal payments on property. Among these are levies paid to groups who claim the longstanding traditional authority with ancestral rights to the land (locally termed *omo onile*). These groups commonly demand payment from a prospective housebuilder at each stage of the construction process. These practices are so informally institutionalised that in many parts of the city they are more significant than taxes in terms of their effect on property development behaviour

and viability. They also increase tenure insecurity across the city – something that some residents hope their payment of the LUC will help to address.

The Land Use Charge and tenure insecurity

Even though paying the LUC has no formal link to tenure, we found that members of vulnerable groups cling to the documentation they receive as a consequence of paying the LUC – including letters that Lagos State issues to ‘good citizens’ who pay on time – as tokens of tenure security.

*‘There is nothing like a feeling of tenure security when it comes to Lagos. At any f**king time you can be denied. But if you are in a community, we are like one big family. This gives you social security but not tenure security – this has to come from government’.*

– Waterfront resident, 14 February 2017

The vast majority of the population lack the means to acquire the formal Certificate of Occupancy (the gold standard of tenure security provided by government). However, to focus on poorer and more marginalised citizens alone would miss a deeper point about tenure insecurity in Lagos. As we argue in the paper, it is something that virtually everyone in the city has in common, albeit to varying degrees.

Our analysis of Lagos contributes to the literature on the formalisation of property rights by suggesting that taxation plays an often under-recognised role in the process of building and maintaining such rights in situations of mutable legal frameworks and competing normative systems. Property rights in Lagos do not represent a ‘digital’ system of zeros and ones, haves and have-nots, but an ‘analogue’ system of degree and gradation open to innovative action, including through the use of tax payments.

Further reading

Goodfellow, Tom and Owen, Olly (2018), *Taxation, Property Rights and the Social Contract in Lagos*, ICTD Working Paper 73. Brighton: January.

Credits

This paper was written by **Tom Goodfellow** and **Olly Owen**. **Tom Goodfellow** is a Senior Lecturer in the Department of Urban Studies and Planning at the University of Sheffield. His research concerns the political economy of urban development in Africa, with a particular interest in the politics of urban informality, land governance and taxation, urban conflict and violence. He is a member of the Steering Group of ICTD’s African Property Tax Initiative, and co-author of *Cities and Development* (Routledge, 2016). **Olly Owen** is a Research Fellow at Oxford Department of International Development. He is an anthropologist and political economist, and is funded by the Economic and Social Research Council on a three-year study of tax reform and the social contract in Nigeria.

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