

LAND USE CHARGES AND THEIR EFFECT ON REVENUE GENERATION IN LAGOS STATE

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DOI: <https://doi.org/10.5281/zenodo.14651717>

Abstract

Growing properties and businesses in Lagos state as a mega city vision of the state government, it is necessary to evaluate the effects of land use charge as a source of revenue generated in the Lagos state, the contribution of land use charge to total revenue generated. Hence the need to investigate the impact of land use charge on revenue generated in Lagos State. The research design used was ex facto, Lagos State Audited Financial Statements for eleven (11) consecutive years starting from 2011 – 2021 which constituted secondary data were analysed using ordinary least square method of regression, highlighting the pooled, fixed and random effects, while postestimation test of multicollinearity with correlation matrix in testing the singular hypothesis. Simple table and graph were used to present the data generated. It was discovered that there is weak and positive relationship between land use charge and revenue generated; between levies, fees and fines with land use charge and between revenue generated and total assets and the study concluded that there is weak and positive relationship between land use charge and revenue generated; between levies, fees and fines with land use charge and between revenue generated and total assets. This study recommended that efforts should be geared towards increasing land use charge so as to increase the revenue base in Lagos state, land use charge should be used as a basis to register all properties in state, Land use charge should be used to propel the vision of the state as a mega city.

Keywords: Lagos state, land use charge, levies, fees and fines, revenue generated.

1.1 Introduction

Daniel, Nkup, and Wuyokwe (2020) established that recent and prevailing economic conditions in Nigeria, particularly the fall in the value of oil in the international market, have resulted in public revenue losses of the three levels of government (federal, state, and local), compelling all three levels of government to seek alternative means of income generation. Governments require revenue in order to deliver and sustain a sufficient level of public investment in their citizens' social services (Asaolu, Dopemu and Monday 2015). Taxation is the primary source of income generation in both emerging and industrialized economies (Asaolu, et al, 2015; Aizenman and Jinjarak, 2008; Saeed and Sheikh, 2011). According to Otubu (2018), real property taxes, whether capital gains,

land registration costs, land rents, land use charges, tenement rates, or stamp duties, are a substantial source of government revenue.

The Land Use Act in Nigeria imposes rents on land owners and occupiers under the administration of the state governor and establishes penalties for refusal to pay the imposed fees. According to Onwuanyi (2019), tenement rates were the first type of property taxes in Nigeria's townships. The procedure was designed to mirror parts of practice in the United Kingdom. Thus, there were charged and exempted properties, assessment techniques, procedures, valuation lists, and opportunities for appeal, among other things. According to Banwo and Ighodalo (2018), on February 5, 2018, a new land charge act (the "new Land Use Charge Law") was passed and became effective in Lagos State. The new Land Use Charge Law went into force following the assent of His Excellency, Mr. Akinwumi Ambode, former executive governor of Lagos State, to the Land Use Charge Bill 2017 (the "Bill").

1.2 Statement of problem

According to Adebayo and Arimoyo (2018), as a result of fast population increase and a decline in available funding, the grade of public infrastructure upkeep has been reduced to the bare minimum. All levels of government in Nigeria have made concerted attempts to expand internally produced revenue bases through various sorts of taxes on land and landed properties. This problem, which is particularly severe in Lagos State, has affected the State government's decision to reduce several levies levied on citizens through the passage of the Land Use Charge Law. The major goal of the Lagos State Government's law is to create additional money needed to improve the citizens' standard of living in terms of physical and social infrastructure (Oserogho, 2002).

The new Land Use Charge Law was enacted to replace the old Land Use Law of 2001, Land Rates Law, and Neighborhood Improvement Charge Law, with the intent that any activity performed under the new land use charge laws would supersede the three old laws that were in effect prior to the implementation of the new Land Use Charge Law. For the growing properties and businesses in Lagos State in relation to the state government's mega city vision, it is necessary to evaluate the impact of the land use charge on the revenue generated in Lagos State, the contribution or impact of that is generated on land use charge to total revenue generated using the ordinary least square method of regression to analyze the data, highlighting the pooled, fixed and random effects, while post-estimation test of multicollinearity with correlation matrix.

1.3 Objective of the Study

The objective of this study is to investigate the impact of land use charge on revenue generated in Lagos state.

1.4 Research Question

Following the objective of the study, this paper asked the question: how does land use charge impact revenue generated in Lagos state?

1.5 Research Hypothesis

In null form, the hypothesis below was formulated and tested:

H_0 : Land use charge does not significantly impact revenue generated in Lagos state.

2.0 Literature Review 2.1

Conceptual Review

This is the review of relevant concepts to this study

2.1.1 Land Use Charge

According to Lagos State Government (2001), the LUC is a property tax introduced to consolidate the ground rent on State government land leases and development charges originally collected by the State government, and now, the tenement rate levied on property by Local governments cited by the State government (Onwuanyi 2019). According to the Lagos State Government (2022), Land Use Charge is a consolidation of all property and land-based taxes and levies due under Lagos State's Lands Rates, Neighborhood Improvement Charge, and Tenement Rates Laws. The Land Use Charge's validity stems from the (Lagos State Land Use Charge Law 2020). The owner of a property is responsible for paying the Land Use Charge on any taxable property. The term "Owner" in relation to any property refers to the holder of a property directly from the State, whether under lease, license, or other arrangement, as well as any occupier with a lease of at least ten (10) years or any person currently receiving proceeds on the property in connection with which the term is used, whether on their own behalf or as agent or trustee for any other person who would receive the sum if such property were let to a tenant.

2.1.2 History of Land Use Charge

The Lagos State Government approved the Land Use Charge Law, No. 11 of 2001 into law, with an effective date of June 22, 2001 ("LUCL"). This law applies to real estate and landed assets in Lagos State. As the Lagos State Government has frequently stated, the primary goal of this Law is to raise more funds necessary for the development of the state, whose population is expanding at an alarming rate without any commensurate improvement in its physical or social infrastructure. According to the Land Use Charge Law, a single property tax is intended to replace all existing State and Local Governments' assessments on real estate, including assessments for tenement rates, ground rentals, and neighborhood improvement (Oserogho Associates 2016).

2.1.3 Computation of Land Use Charge on a property

$$LUC = [(LA \times LR) + (BA \times BR \times DR)] \times RR \times CR$$

LUC = annual amount of Land Use Charge in Naira

LA = the area of the land parcel in square metres

According to the market value of the property as established by qualified valuers hired by the Commissioner for that purpose, LR is the average market value of a land parcel in the neighborhood expressed as a square meter rate in Naira.

BA stands for either the total floor area of an apartment in a building where each apartment has a distinct ownership title or the total floor area of the building on the land plot.

BR is based on the market value of the property as established by qualified valuers who have been nominated by the Commissioner for that purpose and is expressed as the average construction value of medium-quality structures and neighborhood improvements, expressed in Naira per square meter.

RR = The rate of tax relief (if any) that the Owner Occupier is entitled to under the circumstances will be decided by the Commissioner and published in the State Government Official Gazette as well as one or more newspapers that are widely read in the State. The Commissioner will then review the rate every five (5) years.

CR is the annual charge rate expressed as a percentage of the assessed market value of the property, which may, at the State Government's discretion, differ for the following: (a) owner-occupied and other property; (b) residential property and commercial (revenue generating) property; (c) physically-challenged individuals; and (d) individuals who have lived at the same address for at least twelve (12) years, minors, and retired owners and occupiers on the one hand, and other owners and occupiers on the other.

DR = The depreciation rate for the building and improvement of the land that accounts for the building's value being higher or lower than the neighborhood's average buildings and that also accounts for the building's level of completion during construction.

A person with authority who has been nominated by the commissioner may assess properties. The approved individuals may conduct their assessment from 7:00 a.m. to 5:00 p.m. The Relief Rate was established to lessen the financial strain on property owners who must pay the Land Use Charge. There are two (2) parts to the relief rates: general and specific reliefs. The standard relief is 40% for all properties, and the Commissioner of Finance can grant special reliefs upon request.

2.1.4 Objectives for land Use Charge

According to Onwuanyi (2019), the Land Use Charge has a different goal than other taxes because it aims to collect money from both local and state government property (ground rents and development charges). Finance both local and state governance would be the logical goals. This tax is meant "to provide for the consolidation of property and land-based taxes and create arrangements for the levying and collecting of land use charge in Lagos state and for linked purposes," according to the Land Use charge Law (2018) (which repealed the previous 2001 law). The phrase "all Property and Land-based Rates and charges due under the Land Rates Law, the Neighborhood Improvement Fee Law, and Tenement Rates as may now be estimated on the basis of the Schedule to this Law" was used to specifically define the land use charge. The ground rent, tenement rate, and neighborhood improvement levy were the then-current land-based fees.

2.1.5 Revenue Generation

Revenue according to Alao and Alao (2013), is one of the major sources of income generation. Tolls, taxes, rates, fees, penalties, rents, forfeitures, dues, and other government receipts from whatever source arising over which legislature has power of appropriation, including proceeds of loans raised, are all considered to be revenue, according to Alao and Alao (2013), who cited Hassan (2001). Revenue is defined as any income or returns accruing to or derived by the government from any property belonging to the government, any return in the form of interest on loans and dividends in respect of shares or interests held by the government, in any company or statutory body incidental sources resulting from a particular environment, permissive sources from routine business operations, and statutorily mandated sources.

2.2 Theoretical framework

The LUC's foundation was questioned because it lacks comparative theoretical rigor. The state government (a second-tier authority) unilaterally changing a long-established system and taking over the local government's (second-tier) responsibility for the assessment of rateable properties and the levying and collection of tenement rates gave rise to objections in addition to those regarding the basis (Onwuanyi 2020).

2.3 Empirical Review

According to Daniel, Nkup, and Wuyokwe (2020), the Nigerian government has seen a decline in earnings during the past ten years as a result of changing oil prices. The need to find alternative sources of income has resulted from this. Their study sought to understand this and pursued two goals by utilizing a wide range of secondary data in both quantitative and qualitative formats. In the first goal, it was determined that various entities were involved in the administration of property taxes, which led to double taxation in land titling, the application process for building licenses, and probate. The creation of a cadastre was also hampered by occasional land and property registration, which allowed the government to impose taxes inexplicably and arbitrarily while tax payers attempted to avoid paying them through shady house construction and property deals. The second goal examined the effects of property taxes and discovered that while they contributed significantly to the high cost of new homes and residential rentals, they also held the potential to increase housing production and consumption. There were suggestions that may encourage the construction and consumption of homes while also assisting the government in raising money through property taxes.

A land value capture property tax rates schedule was created by Famuyiwa (2020) research for implementation in Lagos state, Nigeria, in order to support long-term funding of municipal projects. The LVC property tax is promoted as a sustainable method of infrastructure reform through equitable rates given the poor status of Lagos' infrastructure. A hedonic regression model is used to calculate the financial contributions of municipal infrastructure in property values in order to demonstrate their various influences using a sample from Alimosho, the largest local government area in Lagos. The schedule, which is mostly predicated on a quid pro quo basis, is

then derived from the regression analysis. This results from the reasonable belief that property taxes should be used to recoup the financial impacts of municipal infrastructure for the benefit of the general public. The schedule, which has never been done before in the area, establishes the rates for property taxes due and takes into account the financial benefits that municipal infrastructure grants to property values. The suggested rate schedule also considers the effects of various infrastructural distances on property values. Geographic Positioning System (GPS) use in the study is an improvement over earlier infrastructure and property value assessments conducted in Nigeria, which either took into account fewer types of infrastructure or employed less accurate measurement indices. According to the study's findings, this LVC property tax strategy will create a sustainable, egalitarian, and effective source of local financing for infrastructure delivery and operations. This is because it builds a veritable rates base and it enables ratepayers to face the actual costs of benefits received from infrastructure services.

Izevbigie and Eboho (2019) conducted a comparison study of internally generated income (IGR) between the years 2011 and 2016 in Lagos and Edo State. This was done in an effort to increase the IGR in Edo State. Examined was the progress made by the Edo state government between 2005 and 2017 in order to increase the State IGR. A clear descriptive analysis was conducted in order to achieve this. Although the analysis revealed that the total tax compliance indicators for Lagos State are higher than those for Edo State, the quantity of IGR produced in Edo State was much less than that produced by the government of Lagos State. Additionally, it was noted that Edo State's IGR volume had increased as a result of the state government's resolute actions during the investigation period. Recommendations were made, including hiring a tax expert and implementing procedures that will increase Edo State's IGR.

According to Adebayo and Arimoro (2018), the Lagos state land use charge law was enacted in 2001 in order to increase the state's internally generated revenue as a result of dwindling federal government allocations and the need to meet increasing demand for infrastructure provision. The passage of the law has sparked numerous controversies since its inception. As a result, the purpose of this study is to evaluate the administration of land use charge law in Lagos State. The study collected data through structured questionnaires administered to 188 randomly selected Estate Surveying and valuation firms operating in Lagos, and the results were presented using factor analysis and descriptive statistics of mean score and ranking. The findings revealed that the inherent problems associated with the administration of the land use charge include assessment method, payment of charges by Estate Surveyors & Valuers, and penalty. This is demonstrated by a mean score of 4.6200, 4.4667, and 4.3467, which places them first, second, and third, respectively. It has been determined that the law should be amended to make the annual return the basis of assessment.

According to Akinsanya (2016), Lagos State's land usage charge law combines the three existing land taxes—the land rate, neighborhood improvement charge, and tenement rate—with the provision of infrastructure services

and also forbids the imposition of multiple property taxes. The legislation makes it clear that property owners are responsible, but economic theory contends that the tax burden mostly depends on the elasticity of the incidence of the Land Use Charge (LUC). Landlords, Estate Surveyors, and Valuers all received questionnaires at random. Utilizing descriptive statistics, data were analyzed. The results show that while though property owners are legally responsible, the respondents thought that LUC should be paid by both the owners and tenants, and in most cases, they were right. The report comes to the conclusion that property taxes may be entirely or partially inevitable in any populated metropolis like Lagos, where the demand for real estate items is constantly on the rise.

In their 2016 study, Egwuatu and Egwuatu looked at the necessity of valuation as a precondition for the accurate assessment and administration of property-based taxation in Nigeria. The government produces a lot of money from the Land Use Charge; however the taxation exercise is ineffective due to the ongoing debates over overvaluing certain properties, which led to high charges, and the inconsistent nature of the assessment procedure, which compromises the process' integrity. Estate surveyors and valuers should be included in the assessment and given permission to use acceptable methods for the valuation of assessed property since determining appropriate values for property taxation requires expert opinion.

Asaolu, Dopemu, and Monday (2015) used time series quarterly data between the years of 1999 and 2012, obtained from the records of Tax Payer Statistics and the Revenue Status Report of Lagos State Internal Revenue Service, to evaluate the impact of tax reforms on revenue generation in Lagos State of Nigeria (LIRS). Utilizing conventional least square regression techniques, data were analyzed (OLS). According to the report, Lagos State successfully ensnared more people into the tax system due to a constant rise in taxpayers' cumulative growth (more than 20% annually); and found that internally generated revenue (IGR), of which tax revenue made up roughly 80%, was the main source of revenue generating in Lagos State. The results also revealed that, on average, there was no discernible growth in tax revenue between 1999 and 2005; nevertheless, starting in 2006, there was a visible, dramatic, and continuous increase in tax revenue. According to the state's pattern of tax administration, it began focusing more on tax reforms in 2006 and relied less on other internal revenue-generating sources. The outcome also showed a long-term association between Lagos State's revenue production and tax reforms; as a result, the tax reforms had a favorable and considerable impact on the State's revenue structure. According to the study's findings, Lagos State was able to fulfill its obligations to its citizens while relying less on the federal government thanks to tax measures that greatly increased revenue generation.

3.0 Research Methodology

Due to its effectiveness in examining historical data acquired and collected from measures and occurrences that have occurred in the study, the ex post facto design was chosen as the research method for this study (Osuagwu, 2006; Kothari & Garg, 2016), Lagos State Audited Financial Statements for eleven (11) consecutive years starting from 2011 – 2021 which constituted secondary data. The need to ensure the comparability of data gathered and

collected informed decision of the years undertaken, seven (7) of the audited financial statements of the state were prepared using International Public Sector Accounting Standards framework from 2015 – 2021) and the remaining 4 years (2011 -2014) were prepared using Generally Accepted Accounting Principles (GAAP). Although, there were thirty-six (36) states with Federal Capital Territory (FCT) in Nigeria, Lagos State is seen as commercial capital of Nigeria who was first to promulgate a law on Land Use Charge in 2001 before other states of the federation follow suits.

The study investigated the impact of land use charge on revenue generated of Lagos State. While the dependent variable is revenue generated, the independent variable, however, land use charge tax. Revenue generated is measured by total revenue, while land use charge in the statement of comprehensive income was employed to measure land use charge. Levies, Fees, and Fines and Total Assets were employed as control variables, consistent with related studies.

These variables are operationally defined below:

Variables Measurements

RGN	Revenue Generated
LFF	Levies, Fees and Fines
LUC	Land Use Charge

TAS Natural Logarithm of Total Assets The model below was estimated:

$$RGN_{it} = \alpha_1 + \alpha_2 LUC_{it} + \alpha_3 TOS_{it} + \alpha_4 LFF_{it} + \mu_{it} \dots \dots \dots (1)$$

Based on the results of unit root test, ordinary least square method of regression was employed to analysed the data, highlighting the pooled, fixed and random effects, while post-estimation test of multicollinearity was carried using correlation matrix.

4.0 Data Analysis and Interpretation 4.1 Descriptive Statistics

Results in table 4.1 showed the descriptive statistics which provided stylised fact about certain statistical properties of the data. From the results, it can be deduced that revenue generated over the eleven-year period averaged N569.9 billion and Lagos State with the highest revenue of N770.8 billion and the lowest revenue of N409.40 billion. Average Land Use Charge was N6,79 billion, the highest was N29.657billion and lowest was N1.628 while the mean of total asset and levies fees and fines were about N1.414 trillion and NN25.226 billion respectively. The highest total assets and levies, fees and fines were N29.534 trillion and N59,633 billion respectively and the lowest assets with levies, fees and fines were N47.611 billion and N6.590 billion concurrently. The skewness, kurtosis and Jarque-Bera statistics showed the non-symmetric distribution of the data. **Table 4.1:** Descriptive Statistics on Variables

Statistic	RGN	LFF	TOS	LUC
Mean	569936489.5	25225738.82	1413899084	6790419.545
Median	564276511	26597553	2209712636	5133524
Maximum	770829706	59633437	2953383550	29656910
Minimum	409406740	6589764	47610753	1627621
Std. Dev.	105244617.2	19114444.26	1251470947	7728778.804
Skewness	0.34420953	0.856632641	-0.13432512	3.091239131
Kurtosis	-0.15306030	-0.34602374	-2.30924176	9.94097025
Jarque-Bera	54.7643	765.9745	1565.7638	1453.76
Probability	0	0	0	0
Sum	6269301385	277483127	15552889929	74694615
Sum Sq. Dev.	3.68387E+18	1.06533E+16	3.7652E+19	1.10455E+15
Observations	11	11	11	11

(Source: Authors' Computation aided by EViews, version 10.0)

(RGN represents Revenue Generated; LFF stands for Levies, Fees and Fines; LUC represents Land Use Charge, while TOA stands for Total Assets)

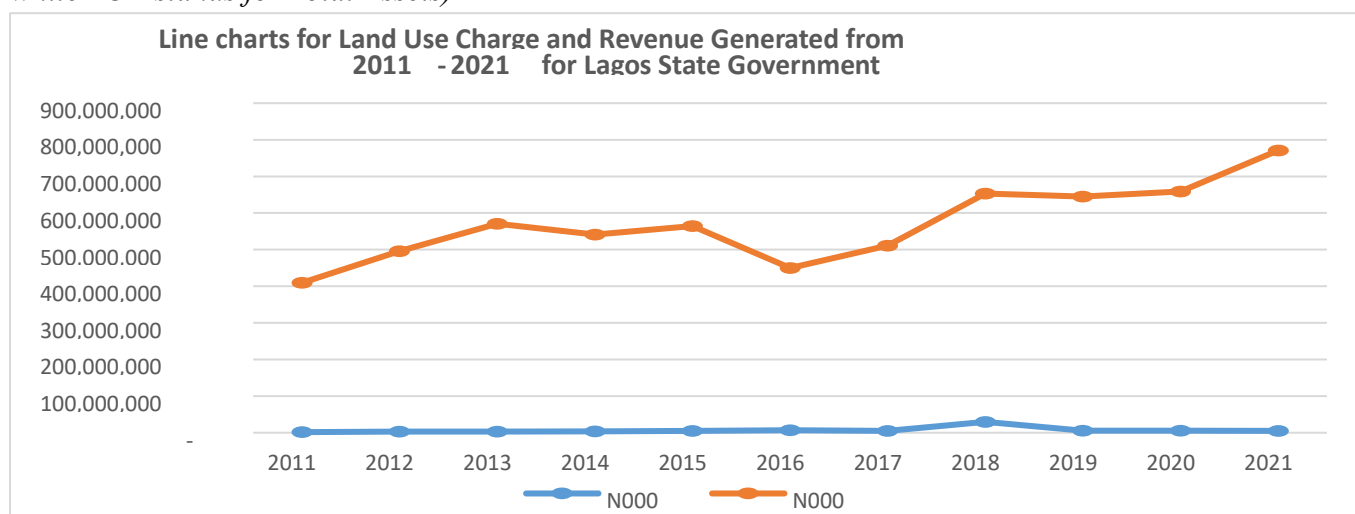


Figure 1: Line charts for Land Use Charge and Revenue Generated from 2011-2021 for Lagos State Government

Stationarity Properties

Results in table 4.2 revealed the results from the unit root test, from which it can be deduced that all the variables were stationary at levels. This clearly demonstrates the constancy over time, of their means, variances and autocorrelations, implying that long run analyses can be carried out on the data. As a result, using ordinary least square to estimate the model was econometrically fit for purpose.

Table 4.2: Results of Unit Root Test using Levin, Lin & Chu t^* Model

Variables	Levin, Lin & Chu t^*		Order of Stationarity
	Statistic	p-value	
Revenue Generated (RGN)	-4.38751	0.0001	I(0)
Levies, Fees and Fines (LFF)	-0.96768	0.0243	I(0)
Land Use Charge (LUC)	-3.17862	0.0000	I(0)
Total Assets (TOA)	-2.88754	0.0067	I(0)

(Source: Authors' Computation aided by EViews, version 10.0)

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$

4.2 Inferential Statistics

Test of Hypothesis

In line with the research objective and research question, the hypothesis below was formulated and tested and the results shown in table 4.3.

Hypothesis One

H_0 : Land use charge does not significantly impact revenue generated in Lagos State.

From the results in table 4.3, fixed effect model seems to be the fittest, based on the magnitude of its R^2 of 2.05%. For the fixed effect model, the partial coefficients of land use charge, levies, fees and fines and total assets with respect to rev are 0.08, 0.17 and 0.15 respectively. This suggests positive relationship between land use charge and revenue generated; between levies, fees and fines with land use charge and between revenue generated and total assets. Only the coefficient of levies, fees and fines with respect to revenue generated is statistically significant at 0.01, 0.05 and 0.10. However, all the regressors have a joint significant influence on revenue generated, when combined, as shown with an F-statistic of 36.77. In support of these results, the R^2 suggests that about 2.05% of the variations in revenue generated are attributable to land use charge, levies, fees and fines with total assets, while the balance of 97.85% are accounted for by other variables, not captured in the model. With

these results, the null hypothesis that land use charge does not significantly influence revenue generated cannot be rejected. **Table 4.3:** Results of Test of Hypothesis

Variables	Pooled	Fixed	Random
Constant	0.180452 (456752.2)	0.215567 (688756)	0.167651 (518765.8)
LUC	-0.869748 (0.252421)	0.837446 (0.123464)	0.249114 (0.28531)
LFF	6.578653*** (0.081627)	4.346525*** (0.064366)	4.76537*** (0.057141)
TOA	-1.214871 (5.43E-03)	0.21868 (9.26E-03)	0.132853 (5.88E-03)
R2	15.42%	2.05%	5.69%
F-Statistic	132.8703***	36.77301***	74.1865***

(Source: Authors' Computation aided by EViews, version 10.0)

Standard Errors in parenthesis

***p<0.01; **p<0.05; *p<0.10

(RGN represents Revenue Generated; LFF stands for Levies, Fees and Fines; LUC represents Land Use Charge, while TOA stands for Total Assets)

4.3 Test of Multi-collinearity

Table 4.4 contain results on correlation matrix. From the table, the relationship between revenue generated, land use charge, Levies fees and fines and total assets are moderate, suggesting no serious problem of multi-collinearity, that would have created problem of spurious regression and wrong signs of regression coefficients.

Table 4.4: Results of Correlation Matrix

	RGN	LFF	TOA	LUC
RGN	1			
LFF	0.77568	1		
TOA	0.28301	0.37780	1	
LUC	0.73081	0.42416	0.45173	1

(Source: Authors' Computation aided by EViews, version 10.0)

(RGN represents Revenue Generated; LFF stands for Levies, Fees and Fines; LUC represents Land Use Charge, while TOA stands for Total Assets)

4.4 Discussion of Findings

The analyses of data revealed that revenue generated over the eleven-year period averaged revenue generated over the eleven-year period averaged N569.9 billion and Lagos State with the highest revenue of N770.8 billion and the lowest revenue of N409.40 billion. Average Land Use Charge was N6,79 billion, the highest was N29.657 billion and lowest was N1.628 while the mean of total assets and levies fees and fines were about N1.414 trillion and N25.226 billion respectively. The highest total assets and levies, fees and fines were N29.534 trillion and N59.633 billion respectively and the lowest assets with levies, fees and fines were N47.611 billion and N6.590 billion concurrently. Further, finding from the hypothesis tested provided demonstrable evidence that land use charge does not significantly impact revenue generated of Lagos State government. This suggests positive relationship between land use charge and revenue generated; between levies, fees and fines with land use charge and between revenue generated and total assets.

5.0 Conclusion and recommendations 5.1

Conclusion

Sequel to the findings in the study, it can be concluded that there is weak and positive relationship between land use charge and revenue generated based on Lagos state financial statement; between levies, fees and fines with land use charge and between revenue generated and total assets, which implies that the Land use charge contributed to the revenue generated in Lagos state but the portion or share of land use charge is very low. Also, levies, fees and fines contributed to the revenue generated in the state but was also concluded to be low while same for total assets too.

5.2 Recommendations

The study recommended as follows to Lagos State that: efforts should be geared towards educating the citizens on the importance for the growth and development on increasing land use charge so as to increase the revenue base in the state, land use charge should be used as a basis for properties registration in the state, land use charge should be used to propel the vision of the state as a mega city. Land use charge law back land use charge collection should be reviewed from time to time, penalties on land use charge defaulters should be melted, other states including Federal Capital Territory (FCT) which have adopted Land Use Charge should increase the rate of charges and finally, other states which are yet to promulgate Land use charge act should do so.

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