Journal of Real Estate Literature

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/rjel20

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JOURNAL OF REAL ESTATE LITERATURE
https://doi.org/10.1080/09277544.2022.2093820

A Review of the Provision on Capital Improvement in Ghana's Local Real Estate Tax Manifesto

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ABSTRACT
Although a potential to improve revenue mobilisation of local authorities, it is claimed Ghana's local real estate tax provision on capital improvement is a penalty on land development. This work evaluates the claim in the context of equity and economic efficiency. Findings from the work support the claim. Compared with undeveloped lands particularly in cities, the tax is discriminatory to capital improvements, which situation could incentivise investment in undeveloped lands and be a potential cause for a lot of undeveloped lands, uncompleted and leap-frog developments in cities. It is also not neutral and diminishes the return on capital and the capacity of landlords to keep their buildings in constant repair thereby discouraging capital improvement on land. Coupled with factors like the current poor tax collection, this could affect the revenue mobilisation and socio-economic development efforts of local and central governments. Thus, the tax policy stands a plea for a reform.

KEYWORDS
Economic efficiency; equity; Ghana; real estate; taxation canons

Introduction

State revenues perform an important role in achieving economic growth and socio-economic progress (Mokrý, 2006). Fundamentally, state revenues come in three main forms: incomes earned by the state through its own economic activities and share in the activities of other corporate bodies; levies charged and collected from other entities based on legislation often classified into taxes, fees, and contribution; and credit income such as loans, which are normally resorted to when revenues from the other sources are insufficient (Mokrý, 2006). The use of these revenues particularly those from taxes and state expenditure to influence a country's economy constitute the bedrock of fiscal policies (Institute for Government, 2020; Pistone et al., 2019). Accordingly, taxes and by extension tax systems fulfil a crucial role in the generation and subsequent use of state revenues as well as in the implementation of national economic policy (Mokrý, 2006).

Ghana continues to face fiscal management challenges since political independence more than 60 years ago despite some interventions such as debt relief programmes run by IMF

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and World Bank from the mid-1990s, which resulted in improvements in, for example, education and healthcare due to monetary resources saved and invested, (Jubilee Debt Campaign, 2020). These fiscal challenges are partly due to undiversified economy and heavily dependence on commodity primarily gold, cocoa and now oil export,[1] which is rooted in the colonial past and irresponsible borrowing and lending (Jubilee Debt Campaign, 2020). Aryeetey et al. (2021) computing from the World Bank data noted that Ghana experienced reasonably high GDP growth in the 1950s and early 1960s. However, GDP growth was turbulent since 1964 until 1984 when it began to stabilize and that during the periods 1966, 1972, 1975–1976, 1979, 1980–1983, GDP growth rate was negative. In common with much of the global south, the country also suffered from debt crisis in the 1980s and 1990s borne out of global commodity prices fell and rapidly burgeoning size of foreign debt, which was supposed to be paid by foreign earnings from exports (Jubilee Debt Campaign, 2020). Even with interventions such as the debt relief initiatives, between 2007 and 2015, Ghana's external loans was estimated at US$18 billion with US$9 billion of debt payments culminating in US$9.5 billion of additional borrowing to be spent. Indeed, it is estimated that 30% of government revenue is used to service external debt yearly and this has become possible through borrowing from the IMF (Jubilee Debt Campaign, 2020). Furthermore, the World Bank (2019) acknowledging the fiscal consolidation efforts of the country in 2019 noted that there are still challenges in meeting revenue targets and reported an overall budget deficit of 3.3% of GDP higher than the targeted percentage of 2.9% of GDP in the first half of 2019, a situation attributed to revenue shortfalls of 1.6% of GDP compared with expenditure cuts of 1% of GDP.

Apart from the above situation, the cost relating to the recently held (December 2020) general elections, the precarious energy sector financial condition (World Bank, 2019) and the emergence of the COVID-19 pandemic have put Ghana's fiscal consolidation efforts at risk. According to the World Bank (2019) the country's energy sector is confronted with high costs from excess power capacity and natural gas supply, which are exacerbating the existing revenue gap. Ghana's energy sector debt could rise to US$12.5 billion by 2023 if proper steps are not taken to address it (Bloomberg, 2021). This is compounded by the International Court of Arbitration award of a judgement debt against the country to the tune of US$134 million and an interest of US$30 million as of January 2021 over the cancellation of an Emergency Power Agreement with GCGP Limited (Permanent Court of Arbitration, 2021). As regards the impact of the COVID-19 Pandemic, this is well documented. For example, Deloitte (2020) reports as of April 2020 that due to COVID-19, it was estimated that Ghana's GDP growth rate was expected to fall from 6.8% to 2.6% whilst total fiscal impact from revenue shortfall and cost of preparedness and response plan was GH¢9,505 million.[2] Given the huge fiscal management challenges, it is abundantly clear that Ghana will continue to face a general socio-economic malaise and persistent discontent with disappointing standards of living for most of the population as without the financial means the country is unable to invest in infrastructure, support systems of production, human capital, and strengthen institutions among others (Aboagye & Hillbom, 2020). To partly address the problem is to find innovative ways to improve revenue mobilisation particularly through taxation.

Local real estate tax offers an avenue for states particularly local governments – Ghana not excepted, to improve their revenue drive. Evidence shows that real estate tax continues to constitute an important part of the tax base of most developed economies.

This is because: 1. the supply of real estate particularly land per se is not sensitive to price implying that it could be taxed without creating significant distortion in the behaviour of economic agents; it is economically efficient; 2. real estate or land is fixed in location and easily identifiable and, thus, make them natural tax bases especially for local governments; and 3. the ownership is comparatively generally visible and easily established and makes it pretty straightforward to identify who should bear the burden of the tax (Adam, 2013). Studies such as Norregaard (2013), Boamah and Okrah (2016), Mabe and Kuusaana (2016) and Haas and Collier (2017) have all acknowledged the relevance of local real estate tax in Ghana and Sub-Saharan Africa (SSA) with respect to boosting the fiscal capacities of local authorities to provide infrastructure and services to improve the living conditions and wellbeing of residents. Mabe and Kuusaana (2016), for example, established that the local real estate tax constituted 27.49% of the internally generated fund (IGF) of the Sekondi-Takoradi Metropolitan Assembly (STMA), which was mainly used on waste management, education, social services, street lighting and health facilities. The study further noted that between 2006 and 2013, revenue from the local real estate tax was used to finance not less than 84% of the total expenditure funded from IGF. This is very essential given that across the world, central governments are ceding more and more public services to local governments to focus on more critical issues but also to promote localism – giving local communities a larger autonomy to pursue their own community level development goal (Ercan & Hendriks, 2013).

Nonetheless, the potential of local real estate tax revenue source has not been fully realised in Ghana like in many SSA countries due to several challenges. Whilst consensus within the growing body of literature highlights challenges such as low tax coverage and collection ratios, inadequate capacity and modes and negative public perceptions about the tax, it is emerging that the tax provision on capital improvement is a potential penalty on land development. Based on the extant literature and insights from equity and economic efficiency of the canons of taxation, this work examines the emerging claim. It argues that Ghana's local real estate tax manifesto's provision on capital improvement creates a disincentive for real estate development investment and could potentially worsen the fiscal management challenges of local and central governments. The next section discusses taxation and justification of taxation especially in the context of real estate. This is followed by examination of Africa and Ghana's local real estate tax regimes to illuminate the core research problem of this work and, thereafter, evaluate the claim that the country's local real estate tax provision on capital improvement is a penalty on land development before conclusions are drawn and recommendations provided.

Justification of Local Real Estate Taxation

Given the subject of this work, perhaps the most authoritative way to discuss the justification of local real estate tax is to start with an examination of the whole idea of taxation. Taxation or tax is very elusive to define (Pistone et al., 2019) although it has been defined severally in the literature. Bastable (1903) refers to a tax as a compulsory contribution from a person or body of persons wealth for the service of a public power. Building on the aforesaid definition, Cooley (2003) explains that a tax is an enforced proportional contribution from persons and properties, which is imposed by a state by virtue of its sovereignty for the support of government and all public needs. McLure et al. (2020) also define a tax as a compulsory levy imposed by public authorities for which nothing is received directly in return and, thus, it is unrequited. Although many tax definitions exist, there are several core characteristics that make it clear for identification. These, as Pistone et al. (2019) note, include the fact that it emanates from a public authority, it is compulsory implying involuntary commitment based on law, the need for it to have a purpose and justification and be guided by certain canons as well as not tied to a specific service per se to an individual.

Taxation particularly real estate taxation has a long historical antecedent dating back to at least three millennia (FAO, 2002). Evidence points to real estate tax being as old as civilisation given that it was levied and collected in Egypt, Babylonia, China, and other parts of the ancient world to finance construction of palaces and temples and to maintain imperial armies (Dye & England, 2009). It is an ad valorem tax, which is a charge payable periodically in proportion to the estimated value of either the land per se or the land plus the improvements thereon and it is now prevalent in almost every country in the world (Buchanan & Flowers, 1975; Winfrey, 1973). Indeed Bastable (1903) submits that the existence of some form of public charge on land is almost universal. The tax base could be land per se such as the one that operates in Kenya, which is a tax on location rent or land and the improvements thereon like those in most Organisation for Economic Co-operation and Development (OECD) countries or the improvements on the land as in Tanzania (Bird & Slack, 2004). However, according to Bird and Slack (2004) in most countries the tax base is land and improvements thereon, which is a local tax and that three main methods namely the area-based method, the value-based method, which comes in two strands; the market value approach and rental value or annual rental approach, and the self-assessment method are often employed to help in the assessment of the tax payable.

The literature is replete with several justifications for taxation including real estate tax. Most of these justifications are, however, steeped in theories such as the social contract, benefit, sacrifice, and emergency levy theories. Although it provides a somewhat defence for taxation, the social contract theory goes beyond taxation and espouses that, at least in certain countries, there is a contractual relationship often implied between the government and its citizens. This contract requires the government to perform certain functions such as protection of citizens from criminals, defence of the state against external aggression and provision of basic needs among others and in return the citizens pay taxes and comply with the laws of the state (Huemer, 2013). Thus, from the social contract theory standpoint the institution of tax and its payment as well as obedience of laws hinge on the role of the state in societies and according to Huemer (2013), this has been the prominent account of the state of America's theory of authority for the last 400 years. However, the proposition of the social contract theory has attracted concerns calling for a revision of some of its grounding assumptions. A typical example is Christians (2008) who notes that taxation based on the social contract work on the presumption that tax decisions should be made exclusively within nations, independent of outside concern and interference, thus, emphasising sovereignty. Concurrently, it is known that tax decisions produce and demonstrate the link between market, citizens, and the state, but in a changing world where forces such as globalisation have facilitated the economic interdependence of nation states, a nation's tax policies could greatly undermine another nation's implementation of an already bargain under its social contract.

The benefit theory of taxation otherwise presented in several literature as benefit principle of taxation justifies imposition of taxes based on benefits derived from the uses of tax by government particularly local governments. As a principle, however, it espouses that individual taxpayer pays tax in proportion to the benefit they receive from the services they receive from government. Indeed, writing on the subject, Neil (2000) notes that the principle posits that taxpayers pay taxes in accordance with the benefit they receive from the mix of goods and services supplied by the state. Concurring the exposition of the principle, Scherf and Weinzier (2019) enhance understanding that the principle is about basing tax liabilities on how much an individual benefits from the activities of the state. Since tax contributions are made based on what it is received, the benefit tax principle is seen to reflect the market situation where economic agents pay prices for commodities in accordance with their valuation of the commodities or the benefits, they expect to get from them. To this extent, therefore, some proponents of the benefit principle suggest that it promotes fairness (Scherf & Weinzier, 2019). Nonetheless, other authors (Lindahl,1919; Brennan, 1976; Moulin, 1987; Hines, 2000; and Neil, 2000) have questioned the ethical appeal of the benefit principle describing it as obscure and a principle, which could rather be easily justified on efficiency grounds. This is so because governments provide several varieties of services to its citizens, which is often difficult if not impossible for them to gage the exact quantum of benefits based on which tax contributions could be made. In part, this explains why the benefit principle has been applied and been successful in areas such road tolls and bus fare collections. Furthermore, the operation of the benefit principle works against the vertical equity canon of taxation and seems to uphold the view that the capabilities of all human beings are the same.

Closely aligned to the benefit theory is the sacrifice or equal sacrifice theory of taxation. This theory of taxation is often traced to J.S Mill (1848) and it is seen as one of the foundations of progressive taxation (Young, 1988). Whilst payment of tax is a compulsory obligation, the sacrifice theory holds that economic agents should be made to pay tax based on their abilities (Carver, 1904). Literature further shows the determinants or factors based on which the ability to pay principle is exercised may include the taxpayer's income, consumption and net worth, and that propositions of this theory are assumed to promote distributive justice (Young, 1988). However, the question remains as to when a taxpayer's ability to pay be measured. Consensus in the literature points to measuring one's ability to pay over a lifetime, a situation which may be impracticable from tax administrability standpoint. Another theory for justification of taxation, which is less mentioned in the literature is the emergency theory. This theory operates on the basis that the state through legislation has the power to levy taxes or revise taxes in the face of specific emergencies such as the emergence of the COVID-19 Pandemic (Daly, 2020; Pistone et al., 2019).

Although all the above theories emerged in consideration of certain circumstances and the interaction of individuals with the state either one-on-one or as a group, they have further evolved with the advent of legal corporations and other modern imperatives (Pistone et al., 2019). Consequently, these theories are sometimes cited either one of them or in combinations to justify the imposition of taxes. However, a rather common justification for the imposition of taxes by the state hinges on the uses or purposes of taxes. Pistone et al. (2019) identifies the first category of the purposes as provision of government functions such as infrastructure and defence, which are often called "state building" and other public goods and services. Indeed, the economic and socio-cultural development of a country or local community is contingent on the steady provision and expansion of critical public goods and institutions to facilitate commerce and promote quality life. Public goods are defined to include infrastructure such as streetlights, traffic lights, national defence, and clean air that humankind consume collectively such that the consumption by one person does not necessarily diminish the quantity available for others – non-rivalrous. Further, because of the collective consumption, when produced, it is impossible to exclude any person from consuming or using them – non-excludable. These two attributes constitute one of the causes of market failure and hence provide the economic justification for government intervention in their production. The non-excludability of public goods gives rise to what economists term the free rider problem, a situation where people can consume public goods or services without paying for them as they cannot be excluded from so doing. There is also a variant kind of public good often referred to as merit goods. These goods are technically quite different in character relative to traditional public goods. They are goods and services that are so vital for the wellbeing of individuals and society such that it will be undesirable, from welfare viewpoint, to tie their consumption to the consumers' ability or even willingness to pay. Since their consumption is supposed to be widespread and compulsory, merit goods must be necessarily offered for free or at a considerable discount, even below their marginal costs of production. Merit goods are classed into social and economic infrastructure and services. Examples of merit social infrastructure, which is, the internal facilities and framework for promoting quality of life include medical facilities, schools and tertiary education facilities, state and social housing, community and sports facilities, environmental sanitation management system, transport terminals, public transport system, prisons and courts, emergency services, and policing. It also includes economic infrastructure, that is, the internal facilities that are requisite for effective business operations such as telecommunication, energy, water supply and sanitation systems, airports, seaports, transport (roads and highways) and distribution network, financial institutions, and markets.

Demand for public and merit goods are typically fuelled by population growth, growth in business activities and technological advancements. Various studies have confirmed the correlation between the adequate supply of good quality infrastructure and economic prosperity of a country or community (Baffour Awuah et al., 2014; Diamond, 1990; Kessides, 1993). However, by their very nature, both public and merit goods are hardly profitable and hence unattractive to the private investor owing to their unique characteristics. For instance, the private sector exists for profit. They are therefore attracted to an activity by its potential profitability. Profit is a reward from commerce; that is, the exchange of a good or services at a price above its marginal cost of production and distribution. Commerce is based on exclusivity of ownership. The absence of exclusivity of ownership in public goods coupled with the undesirability of trading in merit goods and services above their marginal cost make these unprofitable and hence unattractive. Left in their hands, it is likely that the private sector will undersupply these goods and services, that is, they will be unwilling or unable to supply them at all or at socially desirable levels. Consequently, the supply of public and merit goods and services has come to be regarded as the preserved domain of government. It is worth pointing out that as economies grow and technologies improve, some goods and services lose their public or merit good attributes and to that extent falls outside the domain of government duties. To provide public and merit goods and services government must have the funding means hence the need for taxation. Thus, real estate tax is one of the sources of government revenue to provide public and merit goods and services.

It needs to be pointed out that, government may delegate the supply of all or any of these goods and services to local governments. The origins of local governments' provision of certain public and merit goods and services are medieval. There is now a growing global clamour to shift more and more powers from central to local government under the idea of localism (DETR, 1998). In mature economies such as the UK, for instance, local governments carry a much heavier burden of public and merit services provision. These include – education, transport, planning, fire and public safety, social care, libraries, waste management, trading standards, rubbish collection, recycling, housing, planning applications, bus shelters, community centres, play areas and play equipment, grants to help local organisations. They also have responsibility for the economic, social, and environmental development of their area. Under such circumstance, real estate tax plays a crucial role in raising revenues to fund these goods and services, and government empowers local authorities to levy real estate taxes hence the name local real estate tax (Bird & Slack, 2004).

Taxes including real estate tax could be justified on the grounds as a tool for creating greater equality through its redistributive functions and guiding behaviour in society (Pistone et al., 2019; Popkin, 2013). As applied to local real estate tax, a progressive tax regime could be implemented in such a way as to ensure that prime and high valued properties often owned or occupied by the elite and the rich pay more to redistribute income. More importantly, as observed by Bird and Slack (2002, 2004) it is not only urban planning tools that can be used to influence the nature of land development, but they can be used in combination with fiscal instruments such as local real estate tax to do so and influence urban land use patterns and urban form, location of development and density of communities. For example, the authors note that where a local real estate tax base is the value of property – land together with improvements, any investments that increase the value of the properties including increases in densities will lead to increase in the assessed values, which will be liable to higher taxes. These higher taxes, all things being equal, will serve as disincentive for land investments in the area culminating in reduction in density. However, the effectiveness of local real estate tax or its extent to influence the nature, location and density of land developments will be partly dependent on the elasticity of land development investment to changes in local real estate tax.

Local Real Estate Taxation in Africa

For detailed discussion on property tax in Africa refer to (Bird & Slack, 2002, 2004; Franzsen & McCluskey, 2017). According to Franzsen and McCluskey (2017) apart from

Burkina Faso and Seychelles, property tax is instituted and levied in all African countries, and comprise taxes on land per se, land together with improvements, improvements and even transaction taxes such as stamp duties. However, its operation across constituent countries is not even and there are several nuances. The institutional framework within which the tax operates differs across countries. Constituent countries operate both unitary and federal systems of government with different tiers of government. For example, whilst most Francophone, and North and Northeast African countries are noted to have two and three-tier government structures respectively, Anglophone and Lusophone countries have a combination of two and three levels of government. Whilst these institutional arrangements may be traced to culture, colonial heritage, topography, natural resource endowment, and even historical accidents, it is noted that more decentralised countries are expected to be more aggressive about reliance on the property tax and that the Anglophone countries are more decentralised compared to their other counterparts (Franzsen & McCluskey, 2017).

Excepting countries such as Nigeria and Kenya where the states set the relevant legislation and there is ongoing discussion to allow local authorities to set the legislation respectively, property tax laws are mostly set and imposed particularly in Anglophone countries by national governments. However, the tax administration in terms of identification of properties, database updating, valuation, and collection is the preserve of local authorities (Franzsen & McCluskey, 2017). That said, Franzsen and McCluskey (2017) note exceptions relating to Liberia where the tax is levied and collected by central government and Namibia, where land tax on commercial farms is levied nationally and administered almost entirely within the Ministry of Land Reform. Similar such practices are observed in Francophone countries where the tax is levied and administered under the national tax code as it is in Burundi, the Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Madagascar, and Niger (Franzsen & McCluskey, 2017). On the contrary, whilst the situation in the Lusophone countries of Angola, Guinea-Bissau, and São Tomé and Príncipe is also like what pertains in most Francophone countries, the tax is more of a local tax in Cabo Verde and Mozambique. Furthermore, there are nuances with the arrangement in the North and the Northeast Africa. For example, in Egypt and Libya, the imposition and administration of the tax are centralised with the Real Estate Authority. Conversely, the tax imposition or its administration is decentralised to the local level (Franzsen & McCluskey, 2017). Although the imposition and the administration of the tax are centralised in most Francophone and Lusophone countries, revenue from the tax is either distributed to local authorities or shared between the central government and the local authorities. For example, proceeds from the tax are distributed among local governments in Guinea-Bissau, which contrasts with the situation in Niger where central government retains 80% and the remaining 20% is shared among the communes.

A combination of different tax bases is used as part of the operation of the tax on the Africa continent. These include capital value and annual rental value of land and improvements, land value only, building (improvement) value and size of property. This is traced to hanging onto colonial laws and practices and reliance on inappropriate post-colonial laws (Bird & Slack, 2002, 2004; Franzsen & McCluskey, 2017). Furthermore, both the value-based with its variant of annual rental value approach and area-based approach are used to assist in the determination of tax burden. In the Anglophone

Africa, for example, the tax base in Kenya is land whilst those of The Gambia and Tanzania, and Zambia and Botswana are improvement and land together with improvements respectively. Namibia, South Africa, Swaziland, Botswana, and Zimbabwe also tax undeveloped land within urban areas. For the Francophone countries, it is mainly a combination of land and land together with improvements. However, whilst capital values are used in the determination of the tax burden for undeveloped land as in the case of Congo, Côte d'Ivoire, and Togo, in other areas such as the Central African Republic and Chad, it is based on annual values. Also, the tax on developed lands in urban areas for countries such as the Central African Republic, Chad, the Comoros, Congo, Côte d'Ivoire, Guinea, Madagascar, Mali, and Togo is premised on their annual values whilst the tax on rural land in the Central African Republic, Chad, is based on fixed amounts per hectare. The tax is based on capital value in Lusophone countries like Cabo Verde, Mozambique, and São Tomé and Príncipe whereas in others such as Angola and Guinea Bissau, it is based on annual rental value. In the North and Northeast, annual value is mostly used, but countries such as Algeria and Djibouti treat developed and undeveloped land differently, whereas Mauritania taxes only the rental value of buildings.

As noted previously, property tax could be a very good source of revenue for local governments in Africa to undertake development projects. However, the operation of the tax on the African continent has been fraught with several challenges. According to Franzsen and McCluskey (2017) these challenges are both structural and administrative and include unclear definition of mandate and disbursement of revenue from the tax between the central and local governments, low land and property registration rate, multiple land tenure arrangements, poor land information system and valuation problems. Whilst low land and property registration rate has not necessarily prevented the levying of property taxes on the continent as examples of Rwanda, Cameroun and Zambia may show, the issue of multiple tenure affect revenue mobilisation from the tax greatly. Firstly, tenure is a key determinant of land use and in turn the nature of the tax and its rate. However, lands across Africa are mostly classified public or government and private or traditional. For the traditional ones, there are several interest and rights and the issue of who owns what thereby posing a problem of which right or interest should be subjected to the tax and who should be liable to the tax burden. Although there has been greater interest in setting land information system to improve land administration following recent land tenure reforms across the continent with Uganda and Ghana being examples, land information system in Africa is not adequately developed. Therefore, multi-purpose cadastres, which could have been developed from the land information system to provide evidence such as, land use and land and property transactions and their values to underpin the property taxation regimes are mostly non-existent. Furthermore, most lands in Africa are rural and there are often no articulate markets for them with comparable evidence based on which valuations for taxation purpose could rely. This is compounded by the lack of suitable valuation models and well-trained valuation staff even for urban areas just like other staff and logistics for the administration of property tax.

Ghana's Local Real Estate Taxation

The local real estate tax in Ghana is referred to as property rate (Ayitteh et al., 2013; Boamah & Okrah, 2016; Jibao et al., 2017; Mabe & Kuusaana, 2016) and as part of local taxation, constitutes one of the sources of revenue for local authorities. Indeed, Articles 245 and 252 of Ghana's Fourth Republican Constitution and the country's new Local Governance Act, 2016 (Act 936) identify District Assemblies Common Fund (DACF), ceded revenue and own-source revenue including ones generated from local taxation such as property rate as the main sources of revenue to local authorities. Although the current property rating regime is steeped in Act (936), it has a long historical antecedent dating back to the era of the British colonial rule at the turn of the nineteenth century (Ayitteh et al., 2013). According to Ayitteh et al. (2013), property rating started in the then British Gold Coast as "Ntokura tow" meaning a tax, which is based on the number of windows in one's home or building and the more the number of windows in one's building, the higher the imposed rate. However, following the challenges with the rating mechanics and the passage of the Municipal Council Ordinance (1951), a new property rating arrangement emerged based on the annual value approach. Although subsequent variation in the law permitted relevant local councils to impose rates, only four municipalities comprising Accra, Kumasi, Cape Coast and Sekondi-Takoradi were empowered to impose rates on buildings (Ayitteh et al., 2013; Jibao et al., 2017). The rating approach later in 1954 changed after the passage of the Local Government [Immovable Property Rate] Regulations (1954) with the introduction of 10% of market value of properties as rateable values (Ayitteh et al., 2013).

Furthermore, following review of the property rating regime after independence in 1957, the replacement cost method of valuation was adopted to determine rateable values of rateable premises (Ayitteh et al., 2013). The Local Administration Act, 1971 (Act 359) also extended valuation for rating purpose throughout the whole country making all local authority areas in the country valuation areas (Jibao et al., 2017). This was followed by the Local Government Act, 1992 (Act 462) and now the new Local Governance Act, 2016 (Act 936) although the provision of the new Act on property rating is the same as its immediate predecessor except for changes in relevant sections of the Act. Thus, presently by virtue of Section 144 of Act (936) only local authorities – District, municipal and metropolitan Assemblies are empowered to levy or impose property rates, and the rates are supposed to be at a specified rate per Ghana Cedi[3] on the rateable value of the property with variations between specified areas of districts; except within a mixed development area where the per Ghana Cedi amount on rateable value shall vary with respect to property used for different purposes (Section 146(6) of Act 936). The tax base is capital improvements such as buildings, structures including plant and machinery, which are attached to and form an integral part of the buildings and structures, and other development including foundations, excavations, drainage systems, pathways, aprons, and other prepared surfaces. This means that land or land per se is not part of the tax base. The replacement cost method of valuation or the depreciated replacement cost basis is the method or basis respectively for the determination of rateable value unless decided otherwise by the relevant minister of the country (Section 146(9) of Act 936).

Although the DACF, which is 7.5% of national revenues transferred annually to local authorities represents the main and constitutionally guaranteed source of revenue to local authorities (Jibao et al., 2017) property rate [local real estate tax] is emerging as a potential substantial resource for the authorities to meet their expenditure commitments

Table 1. Overview of Revenue Generated from Property Rate in STMA [2006 – 2013].

	Property Rate Revenue [A]		Other Sources of Revenue [B]		Total Internally Generated Revenue [C] = A + B	
Year	Gh¢	US$	Gh¢	US$	Gh¢	US$
2006	375,154	188,280	591,043	296,654	966,197	484,934
2007	631,456	316,928	1,040,909	522,432	1,672,365	839,360
2008	845,872	424,543	1,644,131	825,189	2,490,003	1,249,732
2009	554,728	278,418	1,356,337	680,746	1,911,065	959,164
2010	789,706	396,353	2,297,300	1,153,015	3,087,006	1,549,368
2011	860,098	43,683	2,687,666	1,348,940	3,547,764	1,780,623
2012	993,175	498,475	2,701,799	1,356,032	3,694,974	1,854,507
2013[a]	710,000	356,349	2,876,800	1,443,866	3,586,800	1,800,215
Total	5,760,189	2,891,039	15,195,986	7,626,865	20,956,175	10,517,904
%	27.49		72.51		100	

Source: Adapted from Mabe and Kuusaana (2016).
[a]Estimated not actual revenue.

(Boamah & Okrah, 2016; Jibao et al., 2017; Mabe & Kuusaana, 2016). Jibao et al. (2017) points out that ceded revenue, which is revenue from several lesser taxes that central government has transferred to local authorities is not substantial enough and that revenue mobilisation from property rates as one of the six main own-sources namely land rentals, fees, licenses, trading services and miscellaneous income is looking very promising. Ayitteh et al. (2013) in their analyses established that although revenues from property rate as a percentage of total revenue of the Wa Municipal Assembly (WMA) in the Upper West Region of Ghana fell from 18% in 2006 to 13% and 10% in 2007 and 2008 respectively, increases in revenues thereafter showed it raised up to 30% of the total revenue of the Assembly. Furthermore, as can be seen from Table 1, Mabe and Kuusaana (2016) found that, on average, property rate accounted for almost 27.5% of the total internally generated revenue of STMA between 2006 and 2013. As shown by the figures from the Table also, the study noted that revenues from property rate fluctuated during the period under reference with a record of increases in revenue between 2006 and 2008 but fell in 2009 and begun to increase again thereafter at a decreasing rate. Even so, the study cautioned that the results from the periods that the revenue decreased and begun to increase at a reducing rate should be interpreted carefully as the percentages or rates generated from the analyses were based on and linked to other sources of internally generated revenue of the STMA, which were not stable. What is noteworthy is that revenues generated from property rate were used predominantly on expenditures relating to waste management, education, social services, street lighting and health facilities, and this accounted for not less than 84% of the total expenditure funded from IGF (Mabe & Kuusaana, 2016).

Apart from the above specific examples, nationwide figures show that between 1994 and 2004 revenues from property rate accounted for 23% of the total internally generated revenue in Ghana (Mogues & Benin, 2012). That said, as can be observed from Tables 2 and 3, Jibao et al. (2017) based on Local Government Finance Data demonstrate that revenues from property rate as a percentage of total internally generated revenues in Ghana fluctuated between 17% and 28.3% for the period 2006 – 2011 (Table 2). Such fluctuations were also noted across the regions of the country during the period under reference (Table 3). Nevertheless, the study notes that property rate is increasingly becoming an important source of internal revenue particularly for major local authorities, such as the Accra, Kumasi and Tema Metropolitan Assemblies, and the Bibiani-Anwiaso

Table 2. Ghana's Property Taxes and Internally Generated Revenues 2006–2011.

Year	Total Property Tax [GhC]	Total Internally Generated Revenue [GhC]	Property Tax as a Percentage of Total Internally Generated Revenues
2006	6,860,763.69	31,984,444.94	21.5
2007	7,960,236.04	42,440,616.96	18.8
2008	11,073,348	39,167,729	28.3
2009	15,616,551	62,520,118	25.0
2010	15,972,989	83,525,949	19.1
2011	19,493,994	114,972,832	17.0

Source: Adapted from Jibao et al. (2017).

Table 3. Property Tax as Percentage of Total Internally Generated Revenues by Region, 2006–2011.

	Year					
Region/Locality Authority	2006	2007	2008	2009	2010	2011
Ashanti	25.4	22.4	22.4	16.0	21.2	20.2
Bono Ahafo	15.9	14.7	14.7	16.7	16.2	18.3
Central	19.6	23.5	32.3	24.5	51.0	17.3
Eastern	18.0	22.8	18.8	19.8	19.4	16.7
Greater Accra	23.9	18.0	19.4	41.3	14.9	15.9
Northern	13.7	13.2	24.2	10.9	27.7	18.7
Upper East	5.0	3.8	13.1	11.0	22.7	15.8
Upper West	10.4	8.4	8.4	9.4	30.7	5.7
Volta	12.3	17.3	17.8	16.9	13.5	8.9
Western	23.6	18.2	21.6	19.2	19.7	17.0

Source: Adapted from Jibao et al. (2017).

Bekwai and Sekyere East District Assemblies in the Western and Ashanti Regions respectively. Indeed, land and property tax has been acknowledged as the largest source of untapped revenue for financing cities in developing countries (African Centre for Cities, 2015; Baffour Awuah et al., 2014; Franzsen & McCluskey, 2017; Haas & Collier, 2017).

Whilst several efforts are being made to improve property rate revenue drive (Jibao et al., 2017), especially given its potential, consensus within the literature suggests there are several challenges with the tax policy and its implementation (Ayitteh et al., 2013; Boamah & Okrah, 2016; Jibao et al., 2017; Mabe & Kuusaana, 2016). The cited literatures demonstrate that an effective and efficient property rating system hinges on adequate fiscal cadastre and property registry system, which provides the requisite information on land use, ownership, value, and other relevant property details. This system will provide the basis on which properties can be properly identified and valued to determine rates payable as well as ensure smooth administration of rate demand notices, collection, and enforcement. However, like the situation in most African countries such fiscal cadastres and property registration system in Ghana are largely inadequate and characterised by non-existent, poor, and outdated records including lack of periodic publication of valuation lists. This is compounded by inadequate professional valuers, non-reliance on appropriate valuation methodologies and logistical constraints. Closely aligned with the aforesaid challenge is poor property rate collection and enforcement, which is attributed to several reasons including local authorities weak staff strength and inadequate property address system. Adem and Kwateng (2007), for example, established that the decline of the Accra Metropolitan Assembly (AMA) property rate revenue as a percentage of total revenue from 12% in 2003 to 11% in 2004 and 8% in 2005 was mainly due to poor rate collection, which was accentuated by the Assembly's inability to undertake regular revaluation of rateable properties exercise to cover newly built areas. The remainder is apathy towards payment of property rates due to public perception of non-use of the resultant revenues for the provision of requisite services by local authorities and the inability of the authorities to enforce sanctions against defaulters as well as the lack of clarity on the institutional arrangement for the administration of rates (Ayitteh et al., 2013). However, a fundamental issue of Ghana's property rate regime that appears to escape the scrutiny of the literature is the provision of the tax manifesto, which makes capital improvements the tax base and exempt land per se. Indeed, the tax is supposed to be paid by real estate owners and Section 146 (9) of Act (936) states that:

> "Subject to subsection (11) of this section, the rateable value of premises shall be the replacement cost of the buildings, structures and other development comprised in the premises after deducting the amount which it would cost at the time of valuation to restore the premises to a condition in which they would be as serviceable as they were when new; except that the rateable value shall not be more than fifty percent of the replacement cost for the premises of an owner occupier and shall not be less than seventy-five percent of the replacement cost in all other cases"

The foregoing has resulted in concerns that the subject tax provision is a penalty on and a disincentive to land development as well as economically inefficient. It is therefore to the end of evaluating the aforesaid tax provision that this work is fashioned.

Evaluation of the Provision on Capital Improvements

Ghana's local real estate tax base is a specified percentage(s) of capital improvements on land. It is unclear the rationale behind the non-inclusion of land as the tax base or part of the tax base. The possible reasons for that could be the lack of widespread land commodification and not well-developed land market at the time of the introduction of the relevant legislation. Another reason could have been the adverse effect of a land tax on poverty given that most of the country remain rural and the rural population, which predominantly earned their livelihood from subsistence agriculture and depended so much on land comparatively was the highest then and so was incidence especially of income poverty among them. Strangely, the recent revision of the Local Government Act appears not to have considered the local real estate tax question. Nonetheless, better designed and administered local real estate taxation will increase the scope of its contribution to local government revenue and hence the capacity for local authorities to adequately supply the public and merit goods and services required for the economic performance of local communities (Jowsey, 2011; Pistone et al., 2019; Popkin, 2013). Thus, inappropriate tax laws and administration can result in a suboptimal utilisation of the tax potential of the country or local authority area and produce adverse economic repercussion if the burden of the tax falls wrongly. Underutilisation of tax potential particularly may lead to under supply of certain vital public and merit goods and could cause persistent budgetary deficits (Nicholas, 1962). The case of better tax design and administration for real estate is even more compelling given its complex nature and combination of many attributes, which may require different tax prescriptions. A real estate such as a residential home, for instance, comprises land per se, which has a value and may be subject to tax because it is fixed in location and return to its economic rent.

The home provides services consumed by occupiers capable of attracting tax. It is also an asset, which has a value capable of fluctuating and, thus, seen as savings. Furthermore, the home may be occupied by its owner or rented. Therefore, without a clearer appreciation of the economic nature of real estate, it will be difficult to fashion a fitting local real estate tax system or evaluate the efficiency of any existing local tax system.

Fortunately, several canons have been devised for the development of a good tax system or policy. Smith (1776) is credited with devising the initial canons, which have since been popularised and expanded by studies such as (Jowsey, 2011; McLure et al., 2020; Pistone et al., 2019; Popkin, 2013). These canons as detailed by Pistone et al. (2019) are inter-nation equity, which relates to the division of taxing rights among states, regions or local authority areas, legitimacy connoting the legal backing and justification for the imposition of taxes by a taxing authority and administrability, which focuses on the administration of tax policies. The cannon of administrability encapsulates issues on certainty and clarity of tax laws regarding how, when and processes used to pay tax, which should be simple and convenient, tax collection and enforcement of tax laws, transparency, and accountability among others. The remainder of the canons is equity and economic efficiency. Although the canons are interrelated Ghana's local real estate tax administration and the tax policy's legitimacy have been discussed in the preceding section. The tax policy also provides or seem to provide equal taxing rights to all local authorities. Consequently, the evaluation undertaken in this work focuses on the canons of equity and economic efficiency.

The equity canon of taxation holds that taxes should be fair or promote fairness. Although this canon highlights a fluid concept because it may be contingent on non-tax factors such as political influence, culture, and redistribution issues, two main factors namely the benefit and ability to pay factors are used to operationalise it (Pistone et al., 2019). As explained elsewhere in section two, the benefit factor suggests that everybody in society should pay tax and should do so in proportion to the benefits received from the goods and services provided by government. Thus, from the benefit factor standpoint, the equity canon holds that for a given tax, all possessors of the taxable unit are required to make contributions from it according to the value of what they own or benefit from goods and services provided. As applied to local real estate tax, all real estate both land per se and land together with improvement owners or users must make contributions accordingly. Even though it is difficult to assess the extent of benefits received based on which taxes can be paid, it is obvious that fundamental goods and services enjoyed by capital improvements affixed to lands and often used to justify the imposition of local real estate tax are far more enjoyed by land per se within relevant neigbourhoods in urban areas. These include urban externalities such as benefit gains from additional access to urban locations and natural amenities, and social and development infrastructure.

Indeed, the gains achieved by a real estate are reflected in its value. The value of a real estate comprises values for the capital improvement and land per se. Capital improvement is merely capital transformed into 'brick and mortar' so to speak. Its value is, thus, seen as the value of the capital used in improving the land plus a return on it. This is often determined by the general economic conditions and performance of capital rather than

Table 4. Per Acre Land Value for Some Neigbourhoods in GAMA[a] for the period 2011 & 2016.

USA (Dollar ($) Market)		
	Year	
Neigbourhood /Community	2011	2016
Airport Residential Area	2600000	3500000
North Legon Residential Area	430000	600000
East Legon Residential Area	680000	800000
East Cantonments Residential Area	2600000	3500000
Ridge Residential Area	2600000	4000000
Achimota Forest Residential Area	1100000	2000000
East Airport Residential	680000	800000
Achimota	430000	600000
Dworwulu	1500000	2500000
Abelenkpe	800000	1500000
West Legon	430000	600000
Adjirigano	430000	600000
Ghana Cedi (GH¢) Market		
Baatsona	230000	350000
Pokuase	80000	160000
Pantang	130000	200000
Frafraha	80000	150000
Ashiyie	65000	120000
Agbogba	130000	200000
Ablaadjei	30000	60000
Abokobi	130000	200000
Mallam	130000	200000
Amasaman	60000	100000
Kwabenya	180000	260000
Ashongman	180000	260000
Madina	380000	600000
Adentan	400000	600000
Ashale Botwe	280000	400000

Source: Adapted from Baffour Awuah (2016).
[a]Greater Accra Metropolitan Area.

something that a local authority did. The value of capital improvement is, thus, not uniquely attributable to the activities of a specific local authority. It is, thus, not a suitable candidate for taxation if the tax system is to comply with this cannon. Conversely, the value of land is defined by the advantages of the location that it occupies including the public services that it enjoys. From land value capture perspective, it is argued that the premiums people or urban residents are prepared to pay for the aforesaid facilities and services are capitalised and reflected in land values (Mathur & Smith, 2013) and increased accessibility of lands or properties to them will increase their value (Baffour Awuah, 2016; Medda, 2012). It is, therefore, unclear why only real estate owners or investors that have undertaken capital improvements on land in Ghana are required to bear the local real estate tax burden and owners of undeveloped lands particularly in urban areas are exempted from the tax, a clear defiance of the cannon of equity. This disregard for the equity canon is further exacerbated within the context of the idea that land value appreciation is partly occasioned by urban and population growth with little or no input from land and property owners although it tends to make them wealthier and, thus, make them unearned (Smolka & Amborski, 2000, Baffour Awuah, 2016).

Strangely, as can be gleaned from Table 4 and Figures 1 and 2 such land value appreciation continues to occur in urban areas of Ghana due to a combination of the above factors. Yet undeveloped lands are not subject to local real estate tax. Table 4 and

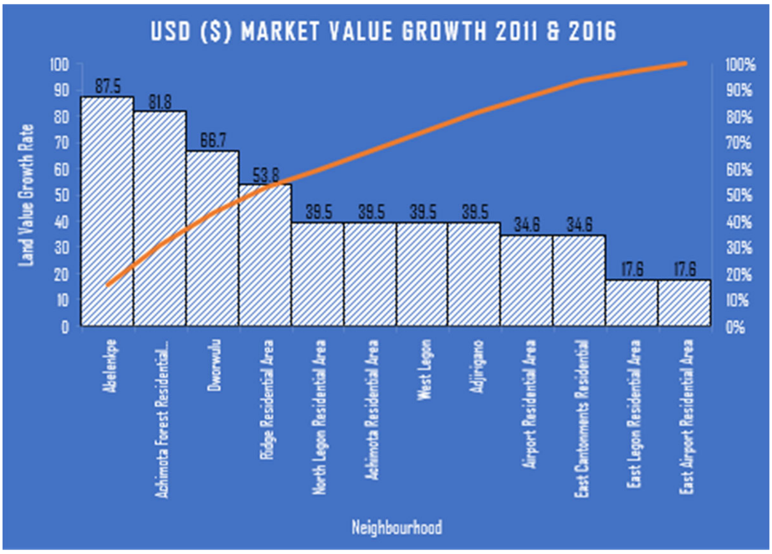

Figure 1. Per Acre Land Value Growth Rate in Some USD ($) Market Areas in GAMA, 2011 & 2016 – Source: Adapted from Baffour Awuah (2016).

Figures 1 and 2 provide per acre land values of 27 neigbourhoods/communities within the GAMA, the largest urban region in Ghana for the periods 2011 & 2016 from the records of the country's Lands Commission and the corresponding land value growth rates respectively. The Table particularly shows land transactions in 12 of the neigbourhoods are often conducted in USD ($) and the rest in Ghana Cedi (GH¢). That said, Figures 1 and 2 highlight growth in land values across all the neighbourhoods occurring between 17.6% and 87.5%, and 42.9% and 100% for those in the USD ($) and Ghana Cedi (GH¢) markets respectively. It is, therefore, unclear why undeveloped lands in these areas are not being taxed especially when beneficiaries of the value appreciation contributed virtually nothing to the appreciation.

The ability to pay factor holds that tax burden should reflect the ability of the taxpayer to bear relative to other taxpayers. Although other determinants such as net worth and consumption of proposed taxpayers may be used to address it, the main determinant is income (Pistone et al., 2019). Thus, per this factor, the basis of taxation is the earnings of the taxpayer. As discussed in the preceding section, Ghana's local real estate tax relies on the cost of capital improvements on land as a proxy for the earnings and hence the ability to pay. However, the cost of a building that one owns does not necessarily reflect his or her current financial wherewithal or earning under the protection of the local authority in question. The owner may well have earned the revenue under the protection of one local authority and yet decided to construct the building elsewhere. A person may own a huge house even though he or she is indigent today. This may be, as in most cases, because at the time of construction the owner was sufficiently wealthy, but now not so or the property might have been bequeathed to him/her and so forth. Rent from land and land together with improvement either actual or that which ought to have been received, thus, appears a somewhat better fit in terms of compliance with the ability to pay factor because rent is basically income from real estate. Even so, in the

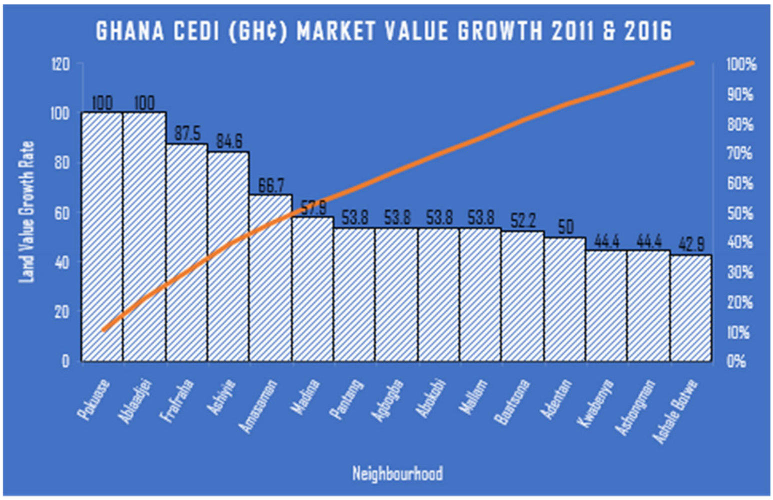

Figure 2. Per Acre Land Value Growth Rate in Some Ghana Cedi (GH¢) Market Areas in GAMA, 2011 & 2016 – Source: Adapted from Baffour Awuah (2016).

case of land together with improvement, it is not the entire rental income that must be charged. Rent for such real estate comprises a building rent; the interest on the capital expended for the construction of the improvement and an add on to keep the building in constant repair, and ground or site rent, which is the return on the location of the land regardless of the improvement (Bird & Slack, 2004; Jowsey, 2011; Smith, 1776). Furthermore, where land is fixed in supply, taxes on land become the sole responsibility of landowners to bear and cannot be passed on to third parties meaning increased land taxes are capitalised into lower real estate values. Since the tax is borne proportionately more by owners of land and land ownership is unequally distributed, such a tax should be more progressive than a tax on improvements or land together with improvements (Bird & Slack, 2004). Therefore, as argued by Smith (1776) taxing the building rent diminishes the return on capital and the capacity of the landlord to keep the building in constant repair. This implies that Ghana's local real estate tax, which is a levy on only improvement is not equitable.

The second canon used in this evaluation is economic efficiency. This relates to five key issues of neutrality of tax policy, which deals with non-creation of an advantage or disadvantage for any transaction or investment and its stability regarding prevention of frequent changes in tax policy. The rest are simplicity, productivity by way of the cost of the tax in the form of dead weight loss, and sufficiency in terms of ability of the taxes collected to fund the state's activities. Fundamentally, however, economic efficiency examines the cost of taxation to society in terms of its impact and possible distortion of economic behaviours and the attempt to minimise the impacts while achieving societal goals (Pistone et al., 2019). A tax can have important impacts on incentives and opportunities to work, to save, to invest in capital developments, to take risks and innovate, to use resources efficiently and to allocate them to uses which best serve the needs of society (Lawton & Reed, 2013; Meade, 1978). It can also produce adverse economic repercussion if the burden of the tax falls wrongly. Even if the tax laws and administration are efficient, misallocation of tax revenue could also lead to undersupply of certain critical goods and services. Furthermore, Feldstein (2008) suggests that the impact of taxes on economic behaviour is important for three reasons. First, the behavioural response of taxpayers affects the revenue consequences of changes in tax rates and tax rules. Second, the effects on economic efficiency or deadweight loss depend on taxpayers compensated behavioural responses, that is, on the behavioural effects excluding pure income effects. Third, behaviour is important for understanding the short–run macroeconomic consequences of tax changes on aggregate demand and employment.

The ideal aim of economics is optimality, that is, to gravitate the economic system persistently to the point where there is no superior alternative any more to be attained that will not result in an economic damage to at least one person in the economy. This is the point at which the market is said to be in equilibrium. At this point marginal costs of a decision equal its marginal benefits. The aim of public policy, according to Coase (1960) is to remove or lower the cost of transactions to encourage large volumes of trading to spur the sustainable attainment of market equilibrium. Any tax regime that goes against this grain is bound to produce undesirable economic impacts. Following Vilfredo Pareto's analytical framework often called the Pareto-improvement framework, a tax is inefficient if it makes at least one bearer worse off (Schäfer & Ott, 2004). Inefficient taxes distort decisions of economic actors. Economic actors compare the marginal cost and benefits associated with a venture before deciding on whether to embark on them; they move away from transactions with marginal costs above their corresponding marginal benefits in favour of those with relatively higher marginal benefits. A distortion occurs when a tax or indeed any government intervention alter the pre-existing balance between marginal cost and benefit away from, rather than towards, the point of efficiency (Rashkolnoikov, 2013). If the distortion makes tax bearers worse off, that is if it raises their marginal costs without a corresponding rise in their marginal benefits, they will reconsider whether to engage in the transaction on which the tax is imposed or continue to invest in the asset on which it is imposed.

As stated previously economic efficiency partly subscribes to neutrality. A tax or government intervention is said to be neutral if it leaves the pre-tax balance between marginal cost and benefit essentially unaltered meaning that tax position will not affect their economic behaviours that much. This implies that economic theory suggests Ghana's local real estate tax should be neutral and not distortionary (Leijon, 2015) as well as not alter the economic behaviour of the tax bearers (Diamond & Mirrlees, 1971; Murray, 2009). Thus, the goal of Ghana's local real estate tax policy should not distort the decisions of landlords or tenants towards investing less in real estate than they otherwise would or from renting properties within a local area (Hansson & Norman, 1996). However, from the previous analysis on the equity factor it became clear that rent for real estate is made up of building rent and ground or site rent, which is location rent. As explained by Bird and Slack (2004) whilst a tax on land but not the improvements or both creates an incentive for the owner to develop the land to its most profitable use the reverse is the case. This is partly because the tax is a cost and to meet the cost and make profit the use or the development the land must be put into within the framework of the law should be lucrative enough. Furthermore, the less cost on capital expended on the land development by non-imposition of tax on the building rent ensures that profit is earned. Conversely, where there is an imposition of tax on the building or both developers are likely to consider the impact of the tax on their return or profit and where the tax results in considerable reduction in return on the capital expended on the development below what the capital could have earned if expended in another sector, they will invest in the other sectors or communities or local authority areas. This ultimately may create advantages for certain local authority areas on the one hand and disadvantages for others on the other hand in terms of attracting investment. It is, thus, clear from the above discussions that Ghana's local real estate tax as a tax on only improvements amounts to a tax on building rent. It is, therefore, distortionary and does not satisfy the economic efficiency canon as it may discourage people away from capital improvement on land.

The forgoing evaluation resonates with current debate on the need to give land a larger scope in Ghana's development efforts (see Obeng-Odoom, 2014, 2021). Based on Georgist Political Economy (GPE) perspective, Obeng Odoom rightly noted that there is increasing commodification of land in Ghanaian cities just like many parts of Africa. However, previous prescriptions such as building a strong land market base has neither resulted in prosperity via ease of land transactions and access to bank loans nor security of tenure. On the contrary, it has resulted in sub-optimal outcomes such as insecurity of land tenure, competition over land and conflicts, the chieftaincy institution becoming transactional, and ultimately the pushing of the wealthy into gated communities. Obeng Odoom in a suggestion to address the problem, which he described as "spatial fix" with adverse development implications based on GPE proposed a distribution of land rent and not physical land, non-commodification of frontier lands and shifting of taxes from labour and productive capital to land value. He also advocated for land rents to be socialised and put into social and public programmes and by this strategy, it is expected that speculative land uses would be discouraged as well as the effects of rising rents such as the emergence of slums and displacement would be ameliorated. Furthermore, hoarded lands would be brought into productive use and generally increased land value borne out of collective activities such as urbanisation would be returned into public coffers by way of tax revenue. It is, thus, now clear from the above evaluation that Ghana's local real estate tax policy disregards equity and economic efficiency in relation to the canons of a good tax policy, which situation creates a disincentive for land development as from the local tax standpoint it is better to invest in undeveloped lands. This is because it is discriminatory for the fact that undeveloped lands do not attract tax even in the face of rising incomes from such lands in cities whilst improvements on land continuous to be levied taxes. This partly may account for the presence of a lot of undeveloped lands, uncompleted and leap-frog developments in Ghanaian cities with dire consequences (Baffour Awuah & Abdulai, 2021; Yeboah, 1999, Baffour Awuah et al., 2014). Perhaps some of the factors, which seem to work against holding onto undeveloped lands despite the above reason for being a better investment particularly in cities are the quest for residential accommodation, the need to protect one's land from possible encroachment and loss of same and the virtual lack of sanction for non-payment of the local tax. Furthermore, it is not neutral as not only does the tax diminish the return on capital and the capacity of landlords to keep their buildings in constant repair, and thus may discourage people away from capital improvement on land, but it may also create advantages for certain areas or communities to attract land development investment at the expense of others. This may partly account for the urban primacy in the country in terms of land development investment in cities such as Accra and Kumasi (Government of Ghana (GOG), 2012) as cities and urban areas with infrastructure, services etc. that create opportunities for land development to be undertaken at a profit tend to attract more investments than the other areas.

Conclusions

Local real estate tax is widely acknowledged as a potential revenue source for socio-economic development in Africa. Yet its full potential has not been realised due to structural and administrative weaknesses such as unclear definition of mandate and revenue disbursement of tax revenues between central and local governments, poor tax coverage and collection, land tenure and valuation problems, and human and logistical constraints. Ghana, a constituent country has faced fiscal management challenges since political independence, which have heightened in recent times. This has led to a general socio-economic malaise and persistent discontent with disappointing living standards of most of the population particularly relating to lack of basic infrastructure and social services at the local level. Finding innovative ways to improve revenue mobilisation drive is suggested as one of the solutions to the problem. Local real estate tax is seen as a mechanism to help redress the country's fiscal challenges especially given its recent revenue mobilisation potential in terms of boosting the fiscal capacities of local authorities to provide infrastructure and services. However, it is argued that the provision of the tax on capital improvement is a potential penalty on land development. This work, therefore, evaluated the tax policy based on economic theory particularly the equity and economic efficiency of the canons of a good tax policy. The work argued that Ghana's local real estate tax manifesto's provision on capital improvement creates a disincentive for real estate development investment and could potentially worsen the fiscal management challenges of local and central governments. Excepting generating insights for policy formulation and practice through raising it as an uppermost issue for government attention, this work extends the debate in the literature as the subject is understudied since no in-depth relevant work seems to exist in the literature even more so from economic theory perspective.

The work established that Ghana's local real estate tax policy faces similar challenges as outlined above in terms of revenue mobilisation from the tax like other African countries. However, unlike some other constituent countries such as Kenya, and Namibia, South Africa, Swaziland, Botswana, and Zimbabwe, which tax land and undeveloped lands in urban areas respectively, the tax base in Ghana excludes land. Furthermore, Ghana's local real estate tax was found to be discriminatory and unfair to capital improvements compared to undeveloped lands, which do not attract tax even at a time undeveloped land incomes and values in cities keep rising creating incentives for more investment in land per se. The work also found the local tax policy to be inefficient as it is not neutral and diminishes the return on capital and the capacity of landlords to keep their buildings in constant repair thereby discouraging people away from capital improvement on land. These findings run contrary to current debate that land should be given larger scope in socio-economic development through distribution of land rent and not physical land and non-commodification of frontier land as well as taxes shifted from labour and productive capital to land value to avoid adverse development implications. That said, the findings, apart from being partly a probable cause for the presence of a lot of undeveloped lands, uncompleted and leap-frog developments in Ghanaian cities as also identified by current debate, denies local authorities in the country to effectively use the tax policy in conjunction with urban planning policies for managing land use and spatial development, and may work against the country's Lands Commission land speculation policy. More so, apart from the current poor tax collection situation and the additional revenues that may have been realised if undeveloped land is part of the tax base, the creation of disincentives for land development investment could adversely affect the revenue mobilisation efforts of local and central government efforts. Ultimately, this could potentially hamper the socio-economic development efforts of the country and worsen the living standards of the populace particularly those at the local level especially given the impact of the COVID-19 Pandemic on the world's economy, which is expected to last for a long time. That aside, it is further noted the tax policy could create advantages for certain areas or communities to attract land development investment at the expense of others and that may be partly responsible for the urban primacy in the country where most and significant land development investments are in cities such as Accra and Kumasi since these cities with their advantages create opportunities for land development to be undertaken at a profit and thus, do not put capital invested at heavy risk. The foregoing therefore constitutes a standing plea for a reform of Ghana's local real estate tax policy. However, given that this work is fundamentally based on the extant literature and the likely impacts analysed herein are not based on real world data, it is recommended that further empirical studies both qualitative and quantitative be conducted to generate additional insights and data to inform any effort at reform. It is further recommended that any effort at reform should also consider the country's entire tax system and land administration among others and their impact on socio-economic development.

Notes

1. Gold, cocoa, and oil account for over 80% of Ghana's exports.
2. US$1,640,252.19
3. Ghana's currency

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