

A STUDY OF THE PROCESS AND BARRIERS OF PROPERTY TAX
REVENUE GENERATION IN LOCAL GOVERNMENT
(A CASE STUDY OF PASIR GUDANG MUNICIPAL COUNCIL)

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ABSTRACT

Property tax collection issues in local governments are an important area of concern in recent years. Similarly, Pasir Gudang Municipal Council is facing serious challenges due to the accrual of arrears on property tax. These issues are directly linked to the conducts and compliance behavior of the taxpayers which determine the revenue generation of the local government. Therefore, as a result of high non-compliance behavior of the taxpayers, the revenue generation capacity of Pasir Gudang Municipal Council has been declining. This study therefore, makes an effort to investigate the problems of low property tax revenue generation at Pasir Gudang Municipal Council, Malaysia. Random sampling technique was used for the data collection required for the study. Nevertheless, the study adopted a mixed method approach. 300 respondents are targeted which form the sample size to answer one of the research questions. While the qualitative method answers the other 3 research questions. However, 264 questionnaires were returned. The quantitative data analysis employed was simple distribution tables, bar chart and percentage distribution. On the other hand, thematic network analysis and narration, photographs and observations were used for qualitative analysis. The study has discovered that inadequate provisions of infrastructural facilities and services are the reason for the decline in property tax revenue collection generation in the study area. Because the findings of study discovered that the taxpayer's expectations were to have adequate infrastructural facilities and services in the study area but due to the absence of these requirements most of them evade paying the property tax. Through the findings of the study a relationship between public authorities and the taxpayers is established. The research contribution to knowledge based on the findings of this study is very significant. The study has established that provision of public amenities (public goods and services) is a determinant to taxpayers compliance. This can be used as an extension on Fischer's model of compliance behavior. However, effective public engagement in the public service delivery and enforcement could yield positive results.

ABSTRAK

Isu kutipan cukai harta dalam kerajaan tempatan adalah satu bidang penting yang perlu dititikberatkan belakangan ini. Begitu juga, Majlis Perbandaran Pasir Gudang sedang menghadapi cabaran yang serius kerana akruan tunggakan cukai harta. Isu-isu ini secara langsung dikaitkan dengan tingkah laku pematuhan pembayar cukai yang menentukan penjanaan pendapatan kerajaan tempatan. Disebabkan ketidakpatuhan pembayar cukai, kapasiti penjanaan pendapatan Majlis Perbandaran Pasir Gudang telah menurun. Oleh sebab itu, kajian ini dibuat adalah untuk menyiasat masalah kutipan cukai hartanah yang menyebabkan penjanaan pendapatan menjadi rendah di Majlis Perbandaran Pasir Gudang, Malaysia. Teknik persampelan rawak mudah telah digunakan untuk kaedah pengumpulan data dalam kajian ini. Walaubagaimanapun, kajian ini menggunakan pendekatan kaedah campuran. 300 responden disasarkan untuk menjawab salah satu persoalan kajian. Kaedah kualitatif digunakan untuk menjawab tiga persoalan kajian lagi. Walaubagaimanapun, hanya 264 borang soal selidik telah dikembalikan. Analisis data kuantitatif yang digunakan adalah jadual pengagihan mudah, carta bar dan taburan peratus. Manakala untuk analisis kualitatif, analisis rangkaian tematik dan naratif, gambar-gambar serta kaedah pemerhatian telah digunakan. Kajian telah mendapati bahawa peruntukan tidak mencukupi untuk kemudahan perkhidmatan dan infrastruktur menyebabkan penurunan dalam kutipan cukai hartanah di kawasan kajian. Pembayar cukai inginkan kemudahan infrastruktur yang mencukupi dan perkhidmatan yang baik di kawasan kajian tetapi disebabkan ketiadaan keperluan ini menyebabkan mereka mengelak daripada membayar cukai harta. Dapatan kajian ini mendapati hubungan antara pihak berkuasa awam dan pembayar cukai terjalin. Sumbangan penyelidikan kepada pengetahuan berdasarkan dapatan kajian ini adalah signifikan. Kajian telah menetapkan bahawa penyediaan kemudahan awam (barangan dan perkhidmatan awam) adalah penentu kepada pematuhan pembayar cukai. Ini boleh digunakan sebagai lanjutan kepada model gelagat kepatuhan iaitu model Fischer. Walaubagaimanapun, penglibatan berkesan perkhidmatan awam dan penguatkuasaan boleh menghasilkan hasil yang positif.

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CHAPTER 1

INTRODUCTION

1.1 Background of the Research

Property taxation is a major source of revenue in local governments. Governments around the world rely to some extent on property taxation (Dzulkanian, 2008). Similarly, it is one of the main sources of income for Malaysian local governments (Dzulkanian, 2008). According to Kuppusamy (2008) local government is a public agency that provides urban services to its communities. State and local government have always been enjoined to look inward in generating revenue, this is in responses to the state of nations increasing cost. Bryon (2007) defined local government as an administrative set up which has an area smaller than a state, which comprises of county fire protection district, school districts, towns, cities and villages.

More so, property tax is a form of tax levied on property in lieu of services provided by the local authority (Nor Azriyat et al., 2007). Similarly, property taxes dominate local tax revenues according to (Fox, 2010). The income generated from property tax is used in the provision of basic infrastructure such as water supply, street lightening, and disposal of refuse, communication halls, market stalls and

roads among others is to be performed by the local governments being the third tier of government. Therefore, local governments are expected to harness resources towards rapid development to supplement government statutory allocation (Kuye, 2002). The overview of the researchers clearly proved that property tax is a good and effective alternative for complementing grants. Equally, the local governments in Malaysia derives its revenue mainly from assessment taxes, therefore it is financial accounts are always of interest to the public that is why it is very important for the local governments to justify the revenues generated. In addition, the financial resources derived largely from property taxes accounted to about 70-80% of the total revenue obtained not including licenses, rentals, parking compounds, development charges, and the provisions of the state and federal government grants and other sources (Pawi et al, 2011). Therefore, it can be established that property taxation forms the bedrock of local government internally generated funds.

The major existing problem in property tax collection is non-compliance behavior exhibited by the taxpayers, which resulted in low property tax revenue generation. This prompted the researcher to investigate the reasons for such actions, so as to determine the nature and extend of the persistent problem with a view to proffering a sustainable solution to the problem. Nevertheless, some of these issues may be associated with the tax system/structure. The property tax collection performance is still under unsatisfactory level (Pawi et al, 2011). Similarly, according to the performance collection assessment report (PGMC, 2012) revealed that tax arrears from 2008-2012 accumulated to about RM 19. 2 million.

It is observed that there is an increasing pattern in arrears accruing. Therefore, there is a need for a sustainable local government reform in order to address this issue otherwise the local government would lose a potential source of revenue generation, to support this assertion of the need for local government reform. Kelly (2011) stated that, reform measures must be undertaken to create an enabling environment to empower local governments to effectively enhance local governance and improve local public service delivery. Through implementation of local government property tax reform, the developmental objectives set-forth by local governments would be achieved which involves transportation, provision of social services and amenities, infrastructural development and education (Olowu, 2002; Bird & Slack, 2002). More so, to assist any reform measure comprehensive processes

have been established in Act 171 of 1976, which is supported by penalties and enforcements enshrine within the context of the local government Act, which also guide the local government property taxation.

In the context of this study property tax and property rating are synonymous in meaning, but for the purpose of this study property tax is used. Also, local government and local authority have the same meaning but in order to be consistent in the use of words local government is used in this study. Similarly, local council and municipal council have the same meaning. More so, revenue generation and tax collection are used concurrently in this study to represent the same practice, while the acronym PGMC used in this study is referring to Pasir Gudang Municipal Council.

1.2 Statement of the Research Problem

Tax collection in local governments in Malaysia had been experiencing a decline in revenue generation owing to the increasing trend of non-compliance behavior exhibited by the taxpayers. A pilot study carried out re-affirmed that there are issues regarding property tax. The study is triggered by a research work on issues on property tax in local authorities at Johor, which revealed that the amount of revenue generated is decreasing due to the unpaid tax by the homeowners (Pawi et al., 2012). However, property tax revenue generation is executed under inadequate level (Pawi et al, 2011). This means that, the process of property tax collection is facing various issues. Some of these issues involved the process of property tax bill distribution, organizational policies on property tax and lack of evaluation of performance. Therefore, the study investigates the cause of these in-adequacies which leads to the issue of non-compliance behavior exhibited by the taxpayers at PGMC. These problems constitute the barriers to property tax revenue generation as discovered by Zodrow (2001) and Dzulkanian (2008). Furthermore, a review of related literatures on property tax revealed the contributions of Ladd (1998), Kuye (2002), James and

Nobes (2008) had established the negative effects of poor property tax administration to the economy of a nation. However, effective policies and measures can transform the entire property tax system, because it will make the system operational and the taxpayers responsive especially on the issue of enforcement. Similarly, societies behavior is guided by the common perception of the public authority, upon this expectations are based and choices of behaviors is made (Sour, 2004).

The trend in tax payment is decreasing annually for the last five years. The PGMC property tax bill and collection report, 2012 revealed the trend of arrears in 2009 was 37.3%, while in 2010 it increases to 37.57%. But, in 2011 the arrears increased tremendously to 41.91%. More so, in this current year 2012, the rate of non-compliance has intensified. This attitude is directly proportional to the arrears, which shows further increase to 46.59%. Therefore, this requires a serious formidable approach. The low income affects the revenue generation capacity of PGMC, it also affects the provision of facilities and services. These circumstances affect not only PGMC but also the general livelihood of the local populace.

Therefore, the major concern of the study is the declining rate of property tax revenue collection. This study investigates the source of the problem through empirical findings. The study would rationalize the internal and external factors which affects the local governments especially in the area of property tax collection. The outcome of the study would provide an alternative in formulating a sustainable reform capable of revitalizing the local government.

1.3 Research Questions

- i) How would the property tax collection be generated by the PGMC?
- ii) Who are the stakeholders involved and their roles in the process of property tax collection at PGMC?
- iii) Why is the property tax collection not successfully generated at PGMC?
- iv) What are the taxpayer's expectations from the property tax generated by PGMC.

1.4 Research Aim and Objectives

The aim of this research is to investigate the problems associated with low property tax revenue generation in Malaysia.

While the research objectives are:

- i) To study the existing process involved in property tax revenue generation at PGMC.
- ii) To identify the stakeholders involved and their roles in the process of property tax collection at PGMC.
- iii) To evaluate the barriers that attributed to low property tax revenue generated at PGMC.
- iv) To investigate the taxpayers expectations from the property tax revenue generated by the PGMC.

1.5 Scope of the Study

Pasir Gudang Municipal Council (PGMC) is a Local Government, which is resolute in providing quality and professional services as well as implementing continuous improvements and ensuring effectiveness of the management system in achieving quality objectives (PGMC, 2012). However, the objectives set by the PGMC are facing challenges in the area of property tax revenue generation.

The scope of the research is restricted only to PGMC and the issues surrounding residential property tax collection at municipal council. The scope is restricted to matters arising from low property tax collection generation at PGMC. The case study area is basically one of the Local Government council facing issues in property tax collection. Through pilot survey, it is discovered that the council have tried to resolve the problem through implementing different policies but the situation

is not yet contained. Hence, the researcher is inspired to find out the nature and extent of the persisting problem.

Another motivating factor is that studies that was written on property taxation, have discussed on related issues but not strictly on issues that militates against property tax collection at PGMC. So therefore, this is a new phenomenon in the area of research. The study investigates the issue that prevents the proper collection of property tax with a view to proffer most effective ways to increase the revenue base of the local governments. Similarly, the study's targeted respondents are the staff of the PGMC, while other respondents are the residents who are paying the property tax to the PGMC.

1.6 Significance of the Study.

The existing gap is widening between the aspirations of the public authority and its capacity to generate resources internally through property tax so to satisfy the growing need for sustainable social service provision. Property tax has long been the major source of own revenue at the local government level (Zodrow, 2007). The income that is generated from property tax is used to supplement the supply of facilities and services. So therefore, the study examines low property tax revenue generation with special emphasis on property tax collection in Malaysia with a view to evaluate the performance of the collection system which primarily generates revenue and channel it towards the supply of basic social services. This means that the revenue generated from property tax would enhance infrastructural development. The significance is that the study determines the imperative of property tax as a source of income generated by the local government. Mohamed (1998) stated that, it is important for local government to improve their revenue generating capacity to satisfy the needs of their community through efficient provision of services with income generated from rents and property tax and allocations from government. The major sources of income to PGMC are shown in Table 1.1 below.

Table 1.1 Pasir Gudang Municipal Council Sources of Income

i) Internal Revenue Sources:	Percentage of Income
Licenses	10%
Car parking charges	
planning fees	
finances and interests	
Assessments tax (property tax)	90%
ii) External revenue sources:	
Government grants	
Loans from governments or financial institutions	

Source: PGMCM, (2012).

The revenue generated from these sources provides huge capital to the local government which is to be used for community development from the grassroots, there is also the need to integrate the community in local government projects. Kasim (2011) emphasizes on the importance of integrating all stakeholders to work together in a new inventive setting for sustaining quality service delivery within economic, social and environmental dimensions in support of social and public interest. Therefore, the outcome of the research can stimulate the local government or encourage the government to fully comprehend the significance of property tax as a viable source of generating revenue to complement State/Federal grants. It can also provide an alternative way to resolve the identified gaps of the property tax system and provide avenue for related fields to carry out further research work.

1.7 Research Plan

The research plan of the study from phase 1 to phase 6 is illustrated in Figure 1.1 below.

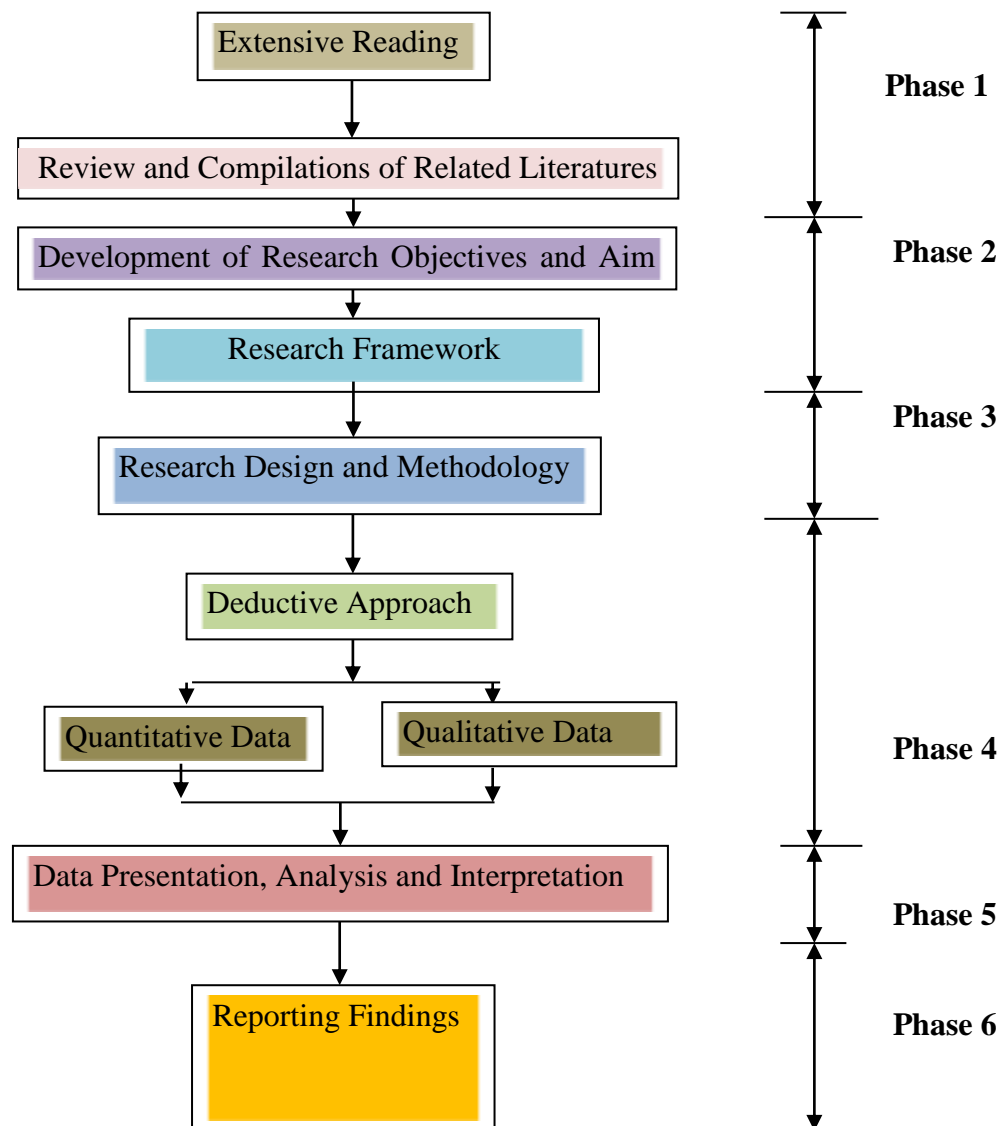


Figure 1.1: Phases of the Research Plan

1.7.1 Phase 1

The research process consists of compilation of relevant literature, response from interviews, and deductive reasoning. This stage consists of the review of relevant literature, to provide an understanding of property tax in Malaysia. This stage comprises of the following aspects: the concept property tax, rationale for property tax, merits of property tax. This extensive literature research provides the background for the preliminary development of the research objectives and questions centers on Malaysia.

1.7.2 Phase 2

The research framework development marked the second stage in the research process. The framework gives an insight into the nature of the research for example whether a deductive or inductive approach is to be employed. It helps in identifying the research gap which the thesis seeks to fill the gap.

1.7.3 Phase 3

The next stage seeks to outline the research design and methodological aspects of this research. This is essential because it helps in positioning research philosophy, implement research questions and determine research approach as well as research techniques. The use of structured, unstructured and semi-structured questionnaires, interviews in some cases and field survey which will present in clear term property tax collection as a tool for a sustainable local government reform. A pilot survey would be first conducted around the study area. This is imperative because it gave an insight into the nature of the problem that could be encountered in the process of data collection, as vividly explained in chapter five and six. The process

of interviewing the respondents is strategically planned.

1.7.4 Phase 4

In this stage, the numerous feedback got from the respondents would eventually be screened and analyzed. The analysis was done with the help of regression analysis, chi square, an analysis of variance and the use of tables and percentages. In a wider perspective, the researcher intends to collect data from interviews from PGMC and direct observation. The data obtained for analysis in Malaysia, Looking at the nature of the research, the data collected for the research are qualitatively summarized to confirm or reject whatever pre-conceived idea about the relationship among variables. The findings of the study are discussed with the view to answering the research questions and achieve the objective of the study.

1.7.5 Phase 5

In a wider perspective, data would be collected by interviews from the PGMC, also interview and direct observation. The valid responses were used to analyze the information obtained in Malaysia. Data were obtained from the local governments who have the records of property tax administration within the areas under study

1.7.6 Phase 6

Looking at the nature of the research, the data collected for the research are presented, analyzed and interpreted in a well explained manner. The section is organized quantitatively/ qualitatively summarized in such a way that it enables one to confirm or reject whatever pre-conceived idea we have about the relationship

among variables. The findings of the study are discussed with the view to answering the research questions and achieve the objective of the study.

1.8 Thesis Organization

The thesis is divided, organized and structured into six chapters. Therefore, due to the nature of study, it is imperative to explore in details the length and breadth of the subject area. The chapters are outlined as follows:

1.8.1 Chapter 1: Introduction

Chapter one forms the introduction of the study. Issues that were highlighted in chapter one include: Research background, statement of the research problem, research aim, objectives of the research, research question development, and scope/delimitation of the research. Other issues discussed include: research plan, thesis organization of the thesis and summary of chapter one.

1.8.2 Chapter 2: Literature Review

The second chapter reviews related to literature about the research and is categorized into sections. The first part presents the introduction of this chapter. Then the second part defines the related terms about the research such as property rating, assessment value, tenement, hypothetical tenant, valuation list, ratable value, property tax etc. The third part touches on the theories/models of property taxation and the stakeholders involved. The fourth part highlighted the process with special

emphasis on property tax collection procedure. The fifth part is examining the issues associated with property tax collection; the last aspect looks at the perceptions of tax payers on property taxation in its present circumstances based on review of literatures and also factors that militates against property tax. The last part is the conclusion of this chapter.

1.8.3 Chapter 3: Research Design and Methodology

This Chapter shades more light on the methodological framework used in attaining the stated aim and objectives of the research. The chapter explains how the research questions were empirically determined and examined through relevant methodological approaches adopted in the research. Furthermore, the research design, type and sources of data were also examined and accomplishing the research objectives. In essence, attention is also given to the research populations. The targeted respondents should be the staff of the PGMC and civil servants (taxpayers). Consideration is given to sample frame and its features, sampling technique chosen, and a description of the choice of data collection instruments, questionnaire design, and methods of data measurement, analysis and presentation were contained in this chapter.

1.8.4 Chapter 4: Findings from Qualitative Data Collection and Analysis at PGMC

This chapter looks into the PGMC. It covers the background of the municipal council, with the structure of the organization. Information is collected from the staff of PGMC in an attempt to describe and interpret some data regarding the issues on why property tax revenue generation is decreasing at PGMC. Qualitative data collection and analysis is employed.

1.8.5 Chapter 5: Findings from Quantitative Data Collection and Analysis at PGMC

Chapter five presents and analyses of quantitative data. Information is collected from the taxpayers and the data is to be documented and analyze with regards to the reason property tax revenue generation is decreasing at PGMC.

1.8.6 Chapter 6: Summary of Research Findings Recommendations and Conclusion

The last chapter in this thesis is chapter six. An attempt was main this chapter to draw inferences from the data analysis and elucidate the findings using a format that is constructive and beneficial for policy implementations. It presents the findings in relation to the research objectives. This is followed by the strengths and limitations of the study and potential areas for future research. The limitations or problems encountered in the process of data collection and research contribution to knowledge were also highlighted and explained. The chapter concludes with some closing statements highlighting the contribution the research has made to knowledge.

1.9 Summary and Link

This chapter has examined in details the introduction of the study and other issues discussed include: background of the research, statement of the research problem, research aim, research objectives, research questions, the scope of the research, research contribution to knowledge, research limitation. In the next chapter is the literature review, which reviewed various literatures with the ultimate aim of having a clear focus of the research. Issues to be discussed include: Introduction, concepts

of property tax, rationale for property tax, property tax reform, tax payers expectations on property tax and other related areas.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Chapter two discusses the concepts of property taxation, theoretical background of property tax, merits of property tax, liability to pay tax, principles guiding assessment, theories of property tax, overview of property tax, management function of local government, reason for imposing property tax, overview of local government reform, overview of property tax reform, common goals of property tax reform, based on reviewed literatures and theories associated with property tax collection is discussed.

2.2 Concepts in Property Tax

Property tax is a form of tax levied on property in lieu of the services provided by the local government. This property tax generates a significant proportion of local government revenue in many parts of the world (Nor Azriyat et al, 2007). It is a form of tax levied on real property that is normally charged at local level for raising the

required revenue to carry out specific developmental projects. Many countries have different names for taxes on properties. Almy (2001) stated that it is called property rating in the UK, while in Austria, Germany, Netherlands is known as property tax, Georgia, Estonia, and in Hungary they called it land tax, while in Nigeria it is called property rating and taxation, but in Malaysia it is called rating. The Encyclopedia of real estate defined rating as a valuation process for local taxation. The objective is to estimate the rate or levy on a property, tax produce from this process is known as assessment tax. Another definition of Rating is that, it is a form of tax levied on property in lieu of the services provided by the local authority. Property tax generates a significant proportion of local government revenues in many parts of the world (Wan Nor Azriyati et al, 2007).

More so, the preliminary process of property tax collection involves the determination of the property values by the local government through statutory valuation to ascertain the improved value of the realty. Similarly, Realty refers to such property as land or any other thing that is permanently attached to the land such as landed property. While Compounding is the collection of rates from the owner of hereditaments rather than from individual occupiers according to (Kuye, 2002). Mixed hereditament is having more than one use one of which is residential where part of the rateable value attributed to the private residential use is more than one eighth of that attributed to the non-residential element. Unoccupied Rate is the rate chargeable by a rating authority on an empty commercial or residential property. General Rate is the rate levied by a local government at a uniform rate on the rate able value of each hereditament in the rating area.

Local government is required to declare a general rate for each rating period. All the afore mentioned terms are related to ad valorem which is the rate charged in proportion to the estimated value of the hereditament as defined by (Betts and Ely, 2005). In addition property taxes hinges upon the value of the property which is valued *Rebus sic Stantibus* the principle requires that premises must be valued in their existing state, condition or circumstances as at the time of valuation (Kuye, 2002). Therefore, improved value in the case of object of valuation is the total property encompassing all land and the improvement that have been made on the land over a period of time (William and Bell, 2008). While tone of list is a statutory criterion used where a new or altered hereditament is valued for rating since the last valuation, so as

to determine what value would have been ascribed to the hereditament, had the latter been in existence throughout the year before the valuation list came to force (Kuye, 2002).

2.3 Overview of Property Tax

Property tax is a process of determining a value charged for maintenance of infrastructures, it is a tax on people who enjoy the facilities provided by local governments (Hakim, 1987). While assessment tax can be referred to as rates payable on a property which is collected by the local government. The basis of tax assessment should be uniform and comprehensive for the governments to cover expenses for services and development (Bardai, 1987). Property tax operates with a legal background.

However, there may be a statutory provision stating the laid down method of determining the market value of some of the types of hereditament is to be adopted, (Bird and Slack, 2005). More so, Market value is the estimated amount for which an asset will exchange as at the date of appraisal between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion (IVSC, 1994). While Youngman and Malme (1994) opined that: two distinct assessment methods is universally used which are property tax area-based assessment and value-based assessment, with the latter being divided into capital and rental value approaches. Characteristics' of a good property tax according (Kuye, 2002) are:

- (a) **Equitability:** the tax should be equitable in terms of assessment based on measurable criteria. It must consider the economic situation prevailing in the area and the income yielding capacity of the hereditaments.
- (b) **Convenience:** the rate charged should not be punitive or too much.

- c) **Simplicity:** the tax system should be simplified in terms of understanding the obligation to pay tax and clearly state the penalties for default and powers accorded by the provision of the law.
- d) **Equity and fairness:** this ensures rate liability is commensurate with the service provided.
- e) **Economic production:** the cost of administrating the tax should be lower than the revenue generated as such should contribute significantly to the local government.

However, Richard Almy carried out a study that involves the general principles of property tax in Europe according to (Almy, 2001) are: uniformity, neutrality, simulation of business enterprise investment, buoyancy, public acceptance, transparency and cost effectiveness are the issues to be considered. But, he did not consider property tax system evaluation. Assessment of performance on property tax is not mentioned. Property tax revolves around the taxpayers and the services provided to them, but evaluation of the system functionality and relevance is very important in order to achieve the objectives of property tax.

2.3.1 Objectives of Property Tax (Rating)

Objectives of the tax system in any economy are connected with the overall government policies. Objectives of property tax differ between developing, developed and under-developed countries. A tax system like value added tax is considered an ideal form of indirect taxation, but its adoption in developing countries is not as comprehensive as in European countries. The objectives property tax are the pillars which supports or assist the local governments stated aim or goal. According to Mangaung Municipal Council, (2009) the objectives are:

- a) To ensure that all ratepayers within a specific category are treated equally and reasonably.
- b) To determine the rate which is based on the value of all rateable property and the amount required by Council to expenditure of rates related services reflected in

the operational budget, taking into account any surpluses generated from the council services and the amounts required to finance exemptions, reductions and rebates that the municipality may approve from time to time.

- c) To make certain that rates are levied in accordance with the market value of the property.
- d) To optimally safeguard the income base of the municipality by only approving exemptions, reductions and rebates that is reasonable and affordable. More so, the stated objectives are the blue prints to the targets set by the local governments, for the development of the local government.

However, according to Kuye, (2002) property tax objectives include:

- i) Redistribution of income equality; wealth redistribution in an economy is very essential because it creates a balance by bridging the gap between the rich and the poor people
- ii) Provision of rebates or relief for the less privileged; exemption is given to poor people or those that are in a critical situation. While relief is given to those with lesser problems.
- iii) Commitment of taxpayers; taxpayers usually weight or monitor the programs, projects or even service delivery issues According to Abdullah, (1993) the factors that influence the success of rates arrears are identified., they tend to provide external observation and evaluation of performance in affairs of local government.

Any state or nation has its own property tax objectives depending on their economy and policies. In addition, the afore mentioned objectives indicates some of the local government property tax collection objectives. But critical view of these objectives suggests evaluation of performance on property tax collection and service delivery by the local government should be included. More so, revaluation should also be considered in the setting of objectives in order to update the records of the rateable holdings to capture their current values.

2.3.2 Tax Assessment

Assessment tax is a tax levied on all property holdings, including shops, factories, residential, agricultural and others, situated in the areas under the jurisdiction of local authorities. Kuppasamy (2008) authorities can only impose assessment tax on properties occupied by residents, government agencies and business operators under their jurisdiction.

2.3.3 The Basis of Rate Assessment

The basis of rate assessment can easily be highlighted by understanding the meaning of annual value, which according to Kuye (2002) is the rent at which any tenement might be expected to be let at the time of valuation, from year to year if the tenant undertook to pay all the usual tenant's rates and taxes and if the landlord undertook to pay the cost of repairs and insurance and other expenses, if necessary to maintain the tenement in a state to command the rent. However, in accordance with the provision of the law, section 130 (1) of the local government act 171, 1976 defined the basis of rate assessment as any rate or rates imposed under this Part may be assessed upon the annual value of holdings or upon the improved value of holdings as the State Authority may determine. While section (2) of the local government act, 1976 state that:

If any rate or rates are assessed upon the annual value or holdings such rate or rates shall not exceed;

- (a) 35% of the annual value in the case of the rates imposed under section 127;
- (c) 5% of the annual value in the case of the rates imposed under section 132 (Local Government Act, 1976. Pp79).

Section 2 (a) above implies that the assessed rateable value imposed which is to be paid by the property owner on annually basis should not be more than 35% of the annual value of the property under section 127 which imposed separate or

consolidated rates under the local government Act of 1976. While section 2 (c) surmises that the assessed rateable imposed which is to paid by the property owner on annual basis should not be more than 5% of the annual value of the property under section 123 for the purposes of any prosecution for an offence under this section of the local government Act of 1976. Section (3) of Act 171, 1976 states that:

If any rate or rates are assessed upon the improved value of holdings such rate or rates shall not exceed:

- (a) 5% of the improved value in the case of rates imposed under section 127;
- (c) 1% of the improved value in the case of rates imposed under section 132 (Local Government Act, 1976. Pp. 80).

Section 3 (a) above implies that the assessed rateable value imposed which is to be paid by the property owner on annually basis should not be more than 5% of the annual value of the property under section 127 which imposed separate or consolidated rates under the local government Act of 1976. While section 3 (c) surmises that the assessed rateable imposed which is to paid by the property owner on annual basis should not be more than 1% of the annual value of the property under section 132 for drainage rate which may be imposed to meet the cost of the construction of any drainage system under this section of the local government Act, of 1976. Similarly, according to Valuation and Property Services Department, assessment is a local government tax imposed on holdings (real property) within a local authority area for the services rendered by the local government. The power to impose rates is provided for in the:

- a) Local Government Act 1976;
- b) Local Government Ordinance of Sabah 1961; and
- c) Local Authorities Ordinance 1996 for the State of Sarawak.

According to Local Government Act, 1976 the local government can imposed rate on property with the approval of State Authority. The taxes are generally levied on all types of properties such as residential, commercial, and industrial, as well as on vacant.

2.3.4 Rateable Value

Rateable value is a fixed value assigned to a property by the local government on the basis of which variable annual rates are charged (Teignbridge District Council, 2012). All the non-domestic properties have a rateable value. A table of previous year's multipliers can be found on the rateable value of business property will show on the front of your bill. The council is obliged to levy and recover Business Rate based on the current entry in the valuation list (Teinbrigde District Council, 2012).

2.3.5 Notice of Transfer of Rateable Holdings

The local government act section 160. (1) stated that:

Whenever any rateable holding within a local authority area is sold or transferred it shall be the duty of the seller or transferor and the purchaser or transferee within three months after such sale or transfer to give notice thereof to the local authority in Form I of the First Schedule hereto (Local Government Act, 1976. Pp. 90).

Section 160 (2) stated that:

Whenever the owner of any rateable holding within a local authority area dies it shall be the duty of the person becoming the owner thereof by succession or otherwise to give notice thereof to the local authority within a period of one year of the death in Form J of the first schedule hereto (Local Government Act, 1976. Pp. 91).

Section 160 (3) also stated that:

On receipt of such notice the local authority may require the production of the instrument effecting change of ownership or of a certified copy thereof (Local Government Act, 1976. Pp. 91).

Section 160 (4) stated that:

Every person who sells or transfers any rateable holding within a local authority area shall continue to be liable for the payment of all rates payable in respect of such

holding and for the performance of all other obligations imposed by this part or by any by-law upon the owner of such holding which become payable or are to be performed at any time before notice of such transfer has been given or until the sale or transfer has been recorded in the books of the local authority. (Local Government Act, 1976. Pp. 91).

Section 160 (5) stated that:

Nothing herein shall affect the liability of the purchaser or transferee to pay the rates in respect of such holding or to perform such obligation, or affect the right of the local authority to recover such rate or to enforce such obligation under this part notwithstanding that such rates became payable or such obligations were imposed before notice of such sale or transfer had been recorded (Local Government Act, 1976. Pp. 91).

Section 160 (6) stated that:

Every person failing to give any notice shall on conviction be liable to a fine not exceeding two thousand ringgit or to a term of imprisonment not exceeding six months or with both (Local Government Act, 1976. Pp. 91).

The local government act 171, 1976 has elaborated all the intricacies surrounding a transfer of property, but enforcement is absolutely necessary to ensure conformity to law and to promote the municipality, because compliance of people simply means more revenue to the local government and consequently more service delivery.

2.3.6 Principle Guiding Assessment

There are established principles guiding assessment through which local authority generates its income by imposing rates on rateable properties Bujang and Abu (2001) supports this and stated that; the ability of a local authority to execute its authority and function depend upon their capabilities to increase revenue from tax. Many

scholars attest to the fact that property tax is a lucrative means of generating revenue for local governments. Layfield (1976) supports this by his statement, that rating is a form of tax levied on property and generates a significant proportion of local government revenues. The author further added that local taxation should have the following criteria:

- a) Must lie within an area of a local authority and local authority should be capable to change or diversify rate of tax.
- b) Local taxation must be understandable and accepted by local taxpayers. Any amendment and change must be explained clearly by local governments.
- c) Local taxation imposed can be paid directly by local buyer.
- d) Local taxation does not necessarily contain all features needed in the taxation system, but should take into consideration the unwanted nature, which those features which cannot be corrected or being converted in taxation system.

2.3.7 Approach in Property Tax Valuation

Bird and Slack (2005) stated that the three methods are commonly used to estimate market values are:

- The comparable sales approach
- The depreciated cost approach.
- Under the income approach/ rental value (or annual value) approach.

The comparable sales approach looks at valid sales of properties that are similar to the property being assessed. It is used when the market is active and similar properties are being sold. These properties with similar features and characteristics are used as the basis of comparison in order to arrive at capital value (improved value) of the property. While the depreciated cost approach values property by estimating the land value as if it were vacant and adding the cost of replacing the buildings and other improvements to that value. This approach is

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