

Property Tax in Malaysia and South Africa: A Question of Assessment Capacity and Quality Assurance

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Many developing countries have been strengthening subnational government through decentralisation policies (Shah 2004). The supporting argument is based on the increased efficiency and welfare gains that come from moving governance closer to the people (Bahl 2009). Fiscal decentralisation can increase revenue mobilisation because it involves subnational government more directly in taxation, and, in many respects, a lower tier of government can reach wealth-based taxes in ways that central government cannot. The broadening of the local tax base, particularly with property taxes, gives subnational government a potentially lucrative revenue source (Cornia 2013; Kitchen 2013; Walters 2013).

In terms of revenue mobilisation, the tax bases that are efficient and simple to administer at a subnational level tend

to be few (Bird and Slack 2008; Mikesell 2013). Non-tax revenues (including user charges, licences, rents, and fees) tend to be limited in scope and revenue-generating capacity. Local tax bases, according to Bird and Slack (2003), are narrow due to the possibility of tax exportation, externalities in the provision of public goods and services, factor mobility, and economies of scale. Broad tax bases, such as personal income tax, corporate income tax, and value-added tax (VAT), are generally best managed at higher levels of government. As a result, if subnational governments are to be important providers of public goods and services, it is necessary for higher level jurisdictions to share part of their revenues with subnational governments through transfers and grants to bridge the gap between spending and revenues mobilised locally (Bahl and Cyan 2010).

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However, local government should be encouraged to enhance revenues from its own sources of revenue.

Real property taxes are often cited as “good” candidates for independent subnational administration; in fact, the property tax is viewed as the “perfect” local tax (Bahl 1998). It provides a predictable and durable revenue source for local budgets, fosters local autonomy, and provides a fiscal mechanism for decentralisation (Bird and Slack 2008). Indeed, few fiscally significant taxes are more susceptible to local administration than the property tax (Bird and Slack 2004; Mikesell 2013). The immovability of the tax base makes it clear which government is entitled to the tax revenue. The tax captures for local government some of the increases in the value of land that are partially created by public expenditures. As McCluskey (1999) points out, real property is visible, immobile, and a clear indicator of one form of wealth. The property tax is especially attractive when compared to other potential sources of local taxes (Bird 2000; Bird and Slack 2008). The property tax is thus difficult to avoid and, if well administered, can represent a nondistortionary and highly efficient fiscal tool (McCluskey 1999; Slack 2013).

It has often been argued that the fundamental weakness of the property tax is its administration (Dillinger 1991; Kelly 1995; Bahl, Martinez-Vazquez, and Youngman 2008; Powers 2008; Martinez-Vazquez 2011). If the administration is inefficient either by design or default, unfairness and inequities can result. The key administrative tasks of property identification, recordkeeping, assessment, billing, collection, and enforcement are resource intensive in terms of workforce and technical expertise (Slack 2011). Creating the baseline data for a value-based property tax can be a significant task, often beyond the scope, ability, and capacity of local government. Therefore, if the administrative capacity does not ex-

ist to levy, assess, and collect the property tax at the subnational level, it is bound to become or be viewed as a nuisance tax. The property tax is often described as having “significant potential” or indeed “significant untapped potential” (Bahl 2009; Martinez-Vazquez 2011). However, policy advisors need to understand the barriers to releasing this potential and develop pragmatic workable solutions to these constraints (Slack 2013). Clearly, administrative capacity has been identified as a major barrier to delivering an effective and efficient property tax system.

However, once local government has the administrative responsibility for the property tax, the issues of capability and capacity arise. Whether local government has the capacity or capability may in some cases be a moot point, particularly if the private sector can be mobilised to provide the necessary services. In essence then, the administration of the property tax can be wholly undertaken within local government or wholly or partially subcontracted to the private sector. The private sector can clearly have a major role to play, but again premised on the basis that there is capacity and expertise within this sector. Even if some of the tasks are subcontracted to the private sector, monitoring the scope and quality of the outsourced services is integral and essential to the eventual success of the system.

The rationale for choosing Malaysia and South Africa as two case studies is important. While from a property tax perspective there are similarities in these two countries, there are also significant differences. Both countries have a three-tier government structure. Malaysia has 13 states, 3 federal territories (i.e., Kuala Lumpur, Labuan, and Putra Jaya), and 147 municipalities, whereas South Africa has 9 provinces and 278 municipalities. Both countries have a long tradition in using property taxes. Malaysia has had a relatively settled system of property

taxation in which annual value is the predominant basis of the tax, although the State of Johor uses capital improved value. With the enactment of the new property tax legislation in 2004, South Africa, on the other hand, effectively abandoned some 150 years of property tax history during which municipalities could choose an appropriate tax base in terms of provincial laws. South Africa opted for a uniform, national basis for the property tax, namely, market value (i.e., capital improved value).

Property tax administration in both countries is at the municipal level. In both countries municipalities vary considerably in size and composition, from the large metro-city to the smaller, rural, less-developed local government. Malaysia has a federal valuation department (Valuation and Property Services Department, *Jabatan Penilaian dan Perkhidmatan Harta [JPPH]*), which historically provided a role in assisting those local governments with property tax revaluations. However, although this entity still exists, it is little used. In South Africa, there is no centralised valuation department, although the creation of a Valuer-General's office is now contained in draft legislation. Our examination of both countries found that there are lessons each can learn from the other. There are also potential problems evident in one country that could be replicated in the other.

This paper is organised as follows. The next two sections provide an overview of local government in Malaysia and South Africa in terms of expenditure responsibilities, revenue sources, and the importance of the property tax. The following section describes the property tax in both jurisdictions, highlighting the administrative and capacity issues facing local government. The next section provides an analysis of some fundamental issues, and in the final section, some conclusions and our recommendations are offered.

Local Government in Malaysia

As stated, Malaysia is a constitutional monarchy with a tri-system of government. Local governments are not constitutionally mandated; instead, the Constitution gives states the authority to establish local governments. Therefore, local government has historically developed as an organ of state government, with its powers and responsibilities being largely derived from individual states. Within this context, Malaysia adopts a largely centralist top-down style of functional and revenue distribution. According to the Local Government Act of 1976, state governments are elected every five years and appoint mayors, presidents, and councillors of local government. Thus, statutorily, in Malaysia local residents do not choose local government leaders, and that certainly undermines decentralised authority.

Local authorities in Malaysia have been given relatively wide powers under the Local Government Act of 1976. The services they provide include the usual functions of refuse collection, street lighting, and public health provision. In addition, they have responsibility for providing amenities, recreational parks, housing, and other commercial activities and also are often involved in certain development activities, such as urban planning and the provision of public utilities (Norris 1980). Given the importance of state and federal government, own revenues of local governments are relatively weak. In a study of local government finances in Malaysia, Phang (1997) concludes: "Except for a small minority of the larger local authorities, many do not have the extra income to meet demands and expectations of their communities." This analysis shows the relative importance of local assessment rates (i.e., property taxes) in the revenue structure; it generally contributes about 50–60 percent of total revenues. However, like most property-based taxes, it

suffers from relatively low-income elasticity and therefore is unable to keep pace with the increasing demands for public services, particularly in rapidly growing urban areas.

Table 1 shows the breakdown in terms of the type of local government in Malaysia. In general, municipal councils tend to be urban in character, whereas district councils are largely rural. The largest city council is in the capital, Kuala Lumpur.

Table 1. Local government structures in Malaysia

Type	Number	Largest (est. population)	Smallest (est. population)
City councils	12	1,400,000	152,000
Municipal councils	33	480,000	230,000
District councils	97	163,000	80,000
Total	147		

Source: Ministry of Housing and Local Government, Malaysia

Local government revenue (section 127 of the Local Government Act of 1976) can be obtained from local sources and consists of taxes, rates, rents, interest, fines, user charges, dividends from investments, and income from local government properties (Phang 1997). Other local revenues include grants and contributions from the federal and state governments. Loans may also be raised but are subject to approval by the

state government. Research by Pawi et al. (2011) indicates that property tax revenue performance for many of the local authorities in Malaysia is relatively poor, with the unplanned effect of deteriorating local services to the community.

Table 2 indicates that for cities and municipal councils, the property tax is the most important. For district councils, however, there is more reliance on transfers. Particularly for the district councils, the weakness in their financial autonomy relates to the lack of capacity in terms of strengthening property tax administration.

Local Government in South Africa

According to the Constitution of the Republic of South Africa of 1996, the state consists of three spheres of government, namely, the national, provincial, and local government spheres. There are 9 provinces. At the local sphere, there are 278 municipalities (see table 3). As stated by the Constitution, along with the Local Government: Municipal Structures Act of 1998, there are three categories of municipality, namely, metropolitan municipalities (category A), local municipalities (category B), and district municipalities (category C).

Each of the 44 district municipalities comprises two or more local municipalities. Although metropolitan municipalities are predominantly urban,

Table 2. Major sources of local revenue in Malaysia

Local Authority	Status	Sources (%)				
		Property Tax	Licences	Federal Grants	Others	Total
Penang	City	63.70	2	5	29.3	100
Melaka	City	62.30	4	6	27.7	100
Alor Star	City	52.10	3	7	37.9	100
Klang	Municipal	79.00	8	4	9.0	100
Kluang	Municipal	57.80	5	8	29.2	100
Pasir Gudang	Municipal	69.30	2	0	28.7	100
Bacok	District	13.60	5	39	42.4	100
Dabong	District	3.75	1	76	19.3	100
Samarahan	District	23.11	1	58	17.9	100

Source: Authors' calculations from individual local authority audited revenue accounts.

Table 3. Local government structures in South Africa

Municipalities	Number	Largest (population)	Smallest (population)
Metropolitan	8	3,600,000	750,000
Local	226	651,000	5,200
District	44	1,500,000	56,000
Total	278		

Sources: *Local Government: Municipal Structures Act 1998; Municipal Demarcation Board 2011.*

district municipalities and even their constituent local municipalities consist of urban and rural areas. In some provinces, a typical local municipality consists of one or more towns or villages and all rural properties within the relevant geographic area (e.g., commercial farms, mines, and government-owned property), and in others, villages, some commercial farms, and communal land.

The 1996 Constitution provides the broad institutional and fiscal framework for all three spheres of government. Although there are still significant disparities between the per-capita expenditure levels among municipalities across South Africa, there has generally been a healthy growth in municipal revenues and expenditures since the new local government dispensation became operational in 2000 (National Treasury 2008).

As is the case in Malaysia, South African municipalities have to provide traditional municipal services, such as

municipal roads, street lighting, storm water drainage, solid waste disposal, and, in many instances, electricity distribution. South African municipalities also play an important developmental role. Unlike the provinces, which have extremely limited revenue-raising powers under section 228 of the Constitution, municipalities have significant revenue-raising powers (Ajam 2008). Section 229 guarantees “rates on property” (i.e., property tax) and “surcharges on fees for services” as sources of own revenue for municipalities. Typical service charges include charges for electricity, water, sanitation, and refuse removal. District municipalities do not have the power to levy property tax.

The most important source of revenue for South African municipalities is service charges on the provision of, especially, electricity, water, sanitation, and refuse removal (table 4). However, at an average of between 18 and 19 percent *per annum*, property tax is an important source of own revenue for municipalities.

Property Tax

Property tax revenue is, in essence, a function of assessed (capital or rental) value and tax rate(s). Whereas the assessed values should be determined uniformly and objectively and remain

Table 4. Importance of local revenue sources in South Africa, 2004/2005–2009/2010

Revenue Source	Percentage Contribution					
	2004/2005	2005/2006	2006/2007 (est.)	2007/2008 (est.)	2008/2009 (est.)	2009/2010 (est.)
Property tax	18.8	18.1	17.5	18.1	18.6	18.9
Service charges	44.3	41.9	42.0	41.6	42.0	42.9
RSC levies ^a	8.0	7.9	0.4	0.1	0.0	0.0
Investments	2.4	2.5	2.8	3.2	3.1	3.2
Grants	15.7	18.1	25.7	22.4	23.1	22.3
Other revenue	10.8	11.5	11.8	14.5	13.3	12.7
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

Source: *National Treasury local government database*

^a *Regional services council (RSC) levies, constituting a turnover tax and a payroll tax, were abolished on June 30, 2006. The amounts reflected in the 2006/2007 and 2007/2008 fiscal years constitute arrears that were collected.*

“fixed” for a relevant valuation cycle, the tax rate or rates ideally should be determined annually by municipalities on the basis of local revenue needs. Diverse local conditions make it difficult to apply uniform standard tax rates across the whole country in either Malaysia or South Africa.

Local governments throughout Malaysia are directed under the Local Government Act of 1976 to raise revenue from the property tax (assessment rates). The tax applies to all forms of real property, such as land, buildings, and other improvements. The basis of the tax, the annual rental value, is largely uniform throughout the country; however, the one exception is the State of Johor, which utilises the improved capital value of the property (Dass 1998; Usilappan 1998).

The responsibility for the valuation for property taxation is primarily carried out by in-house local government valuers or by the private sector (for revaluation or specialised properties). Not all local governments have the resources to provide in-house valuation departments; in fact, only the larger cities, such as Kuala Lumpur, Johore Bahru, Penang, Seberang Perai, Klang, Shah Alam, and Petaling Jaya, have the resources and the range of work that justify the employment of full-time valuers. Therefore, for the majority of local governments, the tendency is to rely on the private sector for their property taxation valuations. Valuation capacity is often not the only problem. A case in point is the fact that the valuation department in Kuala Lumpur had prepared a general revaluation that was not approved for political reasons. For property tax billing, the city is currently still using assessed values based on a 1995 roll.

The common issue faced by almost all the local authorities in Malaysia is updating the valuation list (Muhammad, Ishak, and Halimoon 2012; Hoe 1992). The rate of urbanisation throughout the country has increased the number of properties to be valued, and with the

infrequent revaluations and historically fixed tax rates, the revenue collected is not sufficient to manage all urban facilities. Revaluations are provided under section 137 of the Local Government Act and have always been a major problem for local municipalities in Malaysia.

Before the Local Government: Municipal Property Rates Act 6 of 2004 (MPRA) was enacted in South Africa, property tax was levied in terms of provincial laws. Three different systems existed, namely, a site value system, a system based on total (market) value, and a so-called composite system (or split-rate system) taxing land and improvements as separate taxable objects at different tax rates. In terms of the MPRA, which now applies nationally, there is only one uniform tax base that applies country-wide—the market value of property. Property owners are the principal taxpayers. As metropolitan and local municipalities now provide “wall-to-wall coverage” of the total surface area of the country, comprehensive property tax coverage is, in principle, attainable. However, this presents challenges in terms of capacity and skills, especially valuation services and local tax administration.

Only valuers who are registered with the South African Council for the Property Valuers Profession (SACPVP) are allowed to undertake municipal valuation for property tax purposes. According to SACPVP, there were approximately 1,300 professional valuers and professional associated valuers in South Africa at the end of 2010, with another 940 candidate valuers. Given that a total of 244 municipalities (i.e., 8 metropolitan and 226 local municipalities) require valuation services and that only about 20–25 percent of accredited valuers are actually involved in municipal valuations (Zybrands 2003), it is not entirely clear that the capacity currently exists to provide professional, high-quality valuation services to, in particular, smaller rural local municipalities in South Africa. Whereas all the metro-

politan municipalities and a few of the larger local municipalities have in-house valuation departments, the remainder of the local municipalities have to procure the services of private valuers to prepare valuation rolls.

Municipalities must undertake revaluations every four years, with a possible extension for a maximum of one additional year should “exceptional circumstances” warrant this. However, a proposed amendment to the property tax legislation, if passed into law, will extend the four-year period to five years with a possible extension for a further two years. In other words, it is likely that in the near future the valuation cycle will *de facto* amount to seven years. In metropolitan areas a seven-year cycle may indeed be too long. For municipalities in remote rural areas, however, the proposed extended valuation cycle may indeed be welcomed, because it will prevent an unnecessary and costly revaluation after four (or five) years simply to comply with the legislation, particularly where market evidence indicates limited if any movement (Franzsen and McCluskey 2000). Note that a municipality may decide to request a general revaluation at an earlier stage; that is, the seven years constitute a maximum, not a fixed period.

After a transitional period of six years, July 1, 2011 was the last date for implementation of the MPRA. All metropolitan and local municipalities in South Africa now have valuation rolls in place that were (in theory at least) prepared in terms of the new law.

Key Structural Issues

If the property tax in Malaysia and South Africa is to remain an important locally based revenue source for local government, then the structural impediments that result in irregular revaluations need to be addressed. The intimate relationship between the data contained in the valuation roll and the determination of appropriate tax rates must also be

well understood by (national, state/provincial, and local) politicians and local government officials. In this regard, three key areas require review: provision of valuation services to municipalities, oversight and quality control, and appropriate valuation cycles.

Provision of Valuation Services to Municipalities

The private appraisal sector, if mobilised correctly, can have significant benefits for the property tax. In Malaysia, Dzurlkanian and Kamarudin (2010) and Zulkarnaini, Buang, and Chitrakala (2010) have alluded to a capacity gap within local government to undertake property tax valuations. However, this gap can be filled, at least in part, by employing the private sector. In this case, the private sector can not only deliver cost-effective valuations by utilising automated valuation methods, but also provide the necessary capacity training to provide local government with the skills in automated valuations and geographic information systems (GIS) required to administer and maintain the property tax effectively in the future.

According to section 127 of the Local Government Act of 1976, each local authority is responsible to set up its rating units to undertake the revaluation. This is often a significant burden to many small municipalities because they lack the capacity to recruit and retain sufficient qualified and experienced staff (Muhammad, Ishak, and Halimoon 2012). Currently, those staff members who are recruited are provided on-the-job training when senior officials undertake valuations of properties in the area. The JPPH can offer technical training on property valuation to the staff of the local authorities.

However, the reality is that municipalities tend to be isolated and receive little support from the federal authorities. Clearly, there is a need for either the state or federal government to control and administer some training pro-

grammes to assist local government in the administration of the property tax. This should be explored more carefully because it could lead to a fragmentation of functions, with unclear demarcation of responsibilities between each level of government. In addition, a major policy decision would be required to determine which tier of government would have responsibility for ensuring consistency and uniformity across the key administrative aspects. This would have the benefit of at least standardising valuation practices among the different local government categories.

In South Africa, the private sector is already involved in the vast majority of jurisdictions, even in some of the jurisdictions in which larger municipalities have an in-house municipal valuation department (e.g., the City of Cape Town and Buffalo City) (Franzsen and Welgemoed 2011). However, lack of oversight over municipal valuations and the overall quality of completed valuation rolls remains a serious challenge. This issue is discussed in more detail below.

Oversight and Quality Control

In a situation in which valuation rolls are predominantly prepared by private-sector valuers in terms of a competitive private tendering regime, quality assurance is of fundamental importance. Ultimately, it is the quality of the valuation roll that must be ascertained, and as part and parcel of that assessment, various related factors must be considered, such as data (e.g., quality and quantity), valuation methods (e.g., manual or automated), and an assessment by the valuation service provider of the impact of the value of the new valuation roll in relation to the previous roll. This is also important for municipalities with in-house valuation departments. To ensure public trust and an actual division of assessment and taxation, the overall quality of the valuation roll should ideally be externally evaluated. Achieving uniformity necessitates detailed regula-

tions that must stipulate the quality of the audit, as well as the responsibilities of the relevant role players, namely, the municipality, the valuation service provider, and the auditing body. Part and parcel of moving forward on this and ensuring that the uniform, minimum service standards are met is a quality audit manual, which must be prepared so as to give valuation service providers precise directions as to what is expected of them and how the audit will proceed.

There are two key stages to be monitored: first, the procurement and provision of outsourced valuation services, and second, the standard and quality of the finished product, that is, the valuation roll. In terms of procurement, do municipalities know what to ask for and how to evaluate the tenders they have to review? The successful service provider or service providers must perform the task professionally and according to uniform standards, especially when more than one service provider is involved. For example, in its 2009 general revaluation, the City of Cape Town used its 27 in-house valuers as well as 19 valuers from the private sector (Franzsen and Welgemoed 2011).

With the involvement of the private sector, there is then a fundamental need for state or federal/national oversight, particularly of the new valuation rolls. In Australia and New Zealand, this tends to be a function of the various state valuer-general departments, whereas in the United States, it tends to be the function of oversight agencies (Almy, Dornfest, and Kenyon 2008).

In South Africa, the lack of appropriate guidance on the provision of valuation services in the past will likely result in amendment of the MPRA. The proposed amendment will make it compulsory that the process be monitored by the Member of the Executive Council (MEC) responsible for local government to assess the quality of valuations and to monitor and sign off on critical milestones. This raises a fundamental

issue: Should the monitoring and quality control functions for a highly technical issue, in principle, be given to a political office? Although it is probable that the MEC is likely to appoint a technical advisor to do the actual analysis, this is likely to be done on an *ad hoc* rather than a permanent basis and may or may not happen in some or all provinces.

Second, giving this type of technical task to a provincial MEC, as is proposed, is fraught with potential problems and could eventually result in different approaches in different provinces. A more consistent and uniform approach is required. To ensure quality, continuity, and uniformity, it is recommended that a department or government agency be created at the national sphere with the primary responsibility for the assessment of valuation roll quality. A dedicated valuation authority could also play an important role in advising municipalities in developing appropriate contracts for the provision of valuation services, given that the valuation service provider will be audited against certain criteria established by that authority. The monitoring of the key milestones should also be a role to be performed by such an authority. The Valuer General office to be established in South Africa in the near future should ideally be assigned the responsibility for performing this crucial task.

For Malaysia, the quality of service providers is monitored by the relevant local authorities. Tenders for service provision are offered through private or public tenders. The decision for selecting service providers lies entirely with each local authority. As is the case in South Africa, there is actually no provision for controlling the quality of the process. This is a weakness in the process of controlling the quality of services provided by the service providers. Procedures need to be legalised as a standard of practice for all local authorities to adopt. JPPH could well have a quality assurance function for Malaysia, given its previous role in

undertaking revaluations and its current role in being the federal valuation department. Otherwise, potentially the state could provide the oversight for its constituent municipalities.

Appropriate Valuation Cycles

An international criticism of the property tax is the potential for negative political influence, which often results in delayed, cancelled, or postponed revaluations (e.g., in the United Kingdom). Appropriate revaluation cycles tend to be one of the universal problem areas of a value-based property tax system. There are typically two approaches to addressing this problem: first, legislation is prescriptive and states that revaluations must be undertaken on the basis of some specific cycle, for example, every three, four, or five years, or indeed on an annual basis (e.g., in Hong Kong). Internationally this is the approach most often encountered (e.g., in Australia, Canada, Kenya, Malawi, Namibia, New Zealand, Singapore, South Africa, Tanzania, and Uganda). Second, revaluations are undertaken at the discretion of the Minister.

The first approach provides clarity and certainty, particularly to municipalities and national government (regardless of who has the primary responsibility to initiate and undertake the actual task of revaluation). If the revaluation has to be undertaken on a national basis, this can be an extremely onerous task; the scale of the problem requires the mobilisation of resources both human and capital to deliver the new valuation rolls. If, as is the case in both Malaysia and South Africa, revaluations are the responsibility of municipalities, then revaluations with reference to a single, uniform national date would be impractical, given the paucity of valuation resources. Given the total number of municipalities in both countries, a rolling national revaluation programme over a period of four or five years could likely ease the pressure on

valuation resources. To some extent it is also evidenced by current South African practice. Municipalities implemented the MPRA at different dates (over a six-year implementation period commencing on July 1, 2006), which implies that scarce resources are spread more evenly across all municipalities, to some extent assisting with revaluation compliance given the scarcity of qualified valuers. However, because a significant number of municipalities implemented the MPRA on July 1, 2009, timely general revaluations of an acceptable standard in 2012/2013 will likely be a critical issue in South Africa.

For Malaysia, the primary legislation is very clear in that general revaluations should be conducted in each local government area every five years (subject to an extension with the approval of the state government). Although this is a legislative requirement, few local governments are able to comply. After the passing of the 1976 act, with its quinquennial revaluation requirement, the federal government provided a free valuation service to many smaller local governments through the JPPH. During the period 1981–1991, some 70 local governments used this revaluation service (Cheng Kee, Ong Swee Lan, and Haron 2006). However, although JPPH can currently provide a revaluation service, it is no longer free. The result is that for many local governments, their property tax is based on outdated valuations. Research by Dzurlkanian, Eboy, and Alias (2003, 2006) found that there were inadequacies in tax administration within local government, such as the lack of assessment tools, the absence of technically qualified personnel, and the need to employ valuers (Dzurlkanian and Kamarudin 2010; Dzurlkanian, Kamarudin, and McCluskey 2012).

Although the legal provisions are in place, few municipalities have been able to implement a regular revaluation cycle. The usual reasons given include the lack of technical and financial capacity as well

as undue political influence. The legal requirement is that the new valuation list must have approval from the state authority. In many cases, this will be refused by the state authority, particularly if the date selected is close to the date of a general election. For example, the new valuation list prepared by the Kuala Lumpur City Council in 2005 was not implemented for various reasons, including the pending general election.

However, one success in implementation of the new revaluation list is the one prepared by the Kuantan municipality. It was prepared by using computer-assisted mass appraisal (CAMA) methodologies. The new valuation list was completed within 24 months (including data collection, inspection, and valuation) and was complemented by a GIS system for visual presentation and analysis.

Various studies have examined the frequency of revaluations. All have reached broadly similar findings on the overly lengthy periods of time between general revaluations. The reasons for such infrequent revaluations generally include the lack of in-house valuers, the cost of the revaluation exercise, and the lack of political will. A study undertaken in 2006 showed that out of 146 local governments, only 32 (22 percent) had valuation rolls less than 5 years old; on the other hand, 78 (53 percent) had rolls more than 10 years old (Cheng Kee, Ong Swee Lan, and Haron 2006). A more recent study by Raja Nor Wafiah (2009), which examined 19 local governments, found that only one had a valuation roll less than 5 years old. The majority, 14 (74 percent), had rolls older than 10 years.

One issue with legislative prescriptive revaluation cycles is that all municipalities are treated the same. Enforcing prescriptive revaluation cycles on smaller municipalities with limited resources can become extremely onerous and costly and cannot be justified in all cases (Franzen and Welgemoed 2011).

The second approach, in which the Minister uses his or her discretionary

powers to determine when a revaluation occurs, is generally applicable where national, uniform revaluations occur on a country-wide basis (e.g., the United Kingdom) and/or where the property tax is a national tax (e.g., Jamaica). In cases like these, political issues can sometimes be used as arguments to postpone a revaluation that may be much needed in practice. The United Kingdom is a case in point. In the context of local government institutional dispensation and the scarcity of valuation skills in Malaysia and South Africa, this approach should not be considered.

A third possible approach, which could address the positive aspects of prescriptive revaluation cycles while also building in some flexibility, is to differentiate on the basis of the size and/or location of municipalities. This approach recognises the vastly different types of municipalities encountered in both Malaysia and South Africa. In the context of South Africa, for example, it could imply that category A municipalities (i.e., the eight metropolitan municipalities) must retain a valuation cycle of, at most, four years; larger category B municipalities (e.g., secondary cities and other predominantly urban municipalities identified on the basis of budget size) must revalue at least every five years; while small category B municipalities (again determined on the basis of budget size) need only revalue (at least) every seven years.

Conclusions and Recommendations

The administration of the property tax involves dealing with several discrete, but interrelated, components: discovery of the taxable property, property data collection and updating, inspection, data management, valuation, billing, collection, and enforcement. From a local government perspective, it is the lack of adequately skilled and qualified human resources, particularly in terms of property tax assessment/valuation, that can be a major impediment to the proper functioning of the property

tax. The other components are largely computer-driven, and with the use of in-house systems, local government can generally administer these with little or at least less difficulty. Discovery of the tax base and its valuation including supplementary annual valuations and general revaluations are the most difficult for local government to administer, especially if the title or deeds registration system is dysfunctional. Therefore, this paper has largely focused on assessment issues but recognises the importance of the other elements, such as billing, collection, and enforcement.

This paper has investigated a number of property tax assessment issues in two large and quite diverse countries, namely, Malaysia and South Africa. In both countries the authority responsible for administering the property tax is the municipality. The findings in this paper highlight the problems of administrative capacity, particularly for the valuation/assessment function. The larger cities in each country appear to have the capacity and capability to deal with the valuation of the tax base; however, the same cannot be said for many small urban and rural municipalities. In South Africa, such municipalities are having difficulties in adhering to the requirements of the Property Rates Act; hence, the private sector has become very active in providing a revaluation service for smaller municipalities. Thus, municipalities must be able to procure appropriate valuation services that are sufficiently skilled, to evaluate the extent and quality of the services provided (or to have them evaluated), and to translate the valuations into a tax base with appropriate tax rates. In Malaysia, on the other hand, the private sector is slowly recognising property tax assessment as a potential area of work; however, many municipalities are currently levying the property tax based on very outdated valuation rolls.

The role of the private sector in Malaysia and South Africa is becoming more important in the delivery of valuation services. Although these developments

are significant and important, it is essential that government provide an oversight function that maintains a degree of control over the quality of the valuation rolls. Proposed amendments in South Africa will give a more comprehensive oversight function to the provincial MEC to supplement the limited existing oversight functions of the national minister responsible for local government. It is proposed that these important oversight and auditing tasks be assigned to an independent professional government agency, such as the Office of the Valuer General. In Malaysia, there is no oversight. However, the national valuation department, the JPPH, could provide this service, given its (albeit historic) role in providing a revaluation service to municipalities.

In South Africa, the quality of some of the valuation rolls is questionable. There are also instances in which valuation rolls have been submitted to municipalities, but property tax is not levied on the basis of these valuation rolls, simply because the municipalities do not have the necessary skills to use the assessment data for purposes of striking a tax rate or tax rates and billing accordingly (Franzsen and Welgemoed 2011).

Property tax in Malaysia and South Africa represents an important revenue source for local government. However, from the perspective of both countries, the administration of the tax is creating sustainability issues. If these issues are not addressed, it is likely that the property tax will become more of a nuisance tax, particularly for small urban and rural local governments. Although problems also exist in the metropolitan areas and secondary cities, these tend to be more political than administrative.

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