

Transformation of Property Tax Management in Local Authorities (LA) Malaysia Based on Star Rating Concept

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Abstract. Property tax management of local authorities (LAs) has become more challenging due to robust developments. Property tax revenue is the main income for local authorities which are used to pay for services and maintenance in the local authority administrative areas. However, the amount of revenue collected is decreasing due to the serious problem of property tax arrears that affect the administrative system and as a corollary, the delivery of services by local authorities. The incidences of non-payment amongst ratepayers and tax collection issues by local authorities throughout Malaysia have become a serious problem. Therefore, this paper will analyse the Malaysian local authority property tax collection outstanding performance. The “Star Rating” concept is applied to address the performance of property tax collection in Malaysia. The results revealed that most of the property tax collections in Malaysia are performed under inadequate level. Property tax collection statistics for the research include the total revenue and property tax arrears for each local authority in Malaysia within six years from 2004 until 2009.

Keywords: Local Authority, Property Tax, Property Tax Collection, Property Tax Arrears, Star Rating Concept

1. Introduction

The property tax is a compulsory contribution to be paid by the taxpayer, where the taxpayer in return will receive benefits from the local authorities in the form of tangible and intangible services, community facilities, infrastructures and development projects for their enjoyment [1]. In the context of property tax, enforcement of the tax is intended as a tool to drive the development of areas administered by local authorities. Property tax imposed on the taxpayer is given back by local authorities in the form of services in their respective administrative areas. The imposition of property tax is related to the role of local authorities in developing the area and providing the necessary services and facilities. According to Section 127 to section 163 of the Local Government Act 1976, local authorities are empowered to impose property tax on property owners to carry out the functions and roles of local authorities as an organisation which has autonomy over the local populace. Thus, local authorities should ensure that the management of tax collection can be implemented effectively in the development process and services provided appropriately.

Local authorities have important responsibilities in carrying out their functions and roles, especially in property tax management to ensure the welfare and amenity of residents can be realised. If the local authority is weak and incompetent in handling the management of the property tax it would certainly affect the results of tax collection which is to be used for financing development projects and services provided. In addition, the arrears in property taxes will increase due to poor management and will burden the local authorities. This will have an impact on the quality of work and services performed. The prevalent issue of lower tax revenue in local authorities throughout the country continues to pose a very serious predicament.

Property tax management becomes more complex due to the robust development in the administrative area of the local authority itself. Hence, the administration and management of local authorities in carrying out their responsibilities to develop and provide services in their areas have become more challenging and difficult. Complete procedures which have been established in the provisions of the Act will guide local

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authorities in managing the property tax but the property tax collection performance is still under unsatisfactory level. As an example, local authorities in the state of Johor and Kuala Lumpur City Hall (Dewan Bandar Raya Kuala Lumpur, DBKL) showed that the amount of property tax arrears recorded amounted to about RM168 million and RM435 million in 2009 and this is certainly an issue of concern [4]. This depicts the overall situation of property tax performance of local authorities in Malaysia which is in a poor condition and has not reach a satisfactory level, where the country's agenda has set the target and vision to encompass about 70% of communities in Malaysia will be living in municipal areas in the year of 2020 [5].

The unending issue of lower tax revenue collection by local authorities in Malaysia is a very serious problem. Although complete procedures have been established in the provisions of the Act, laws and policies such as the Local Government Act 1976, MS ISO 9000, Total Quality Management (TQM), Client's Charter, and others that will guide local authorities in managing the property tax, the property tax collection performance is still under unsatisfactory level. This happened because there is no research and specific action or effective measures placed in addressing this problem [5]. Therefore, local authorities need to take this issue seriously as required by the public [6]. This is perceived to be not fair because the quality of services and facilities available do not commensurate with the amount of property tax payable [7]. Hence, this issue can lead to the incidence of property tax arrears problems.

Property tax arrears crisis is an issue of much concern and it is caused in large part due to the weakness of local authorities to manage their own property taxes. Local authorities are often associated with poor financial management which is a factor that has impeded the performance of local authorities to keep the good tax revenue. The increase in property tax arrears among local authorities has resulted in constraints not only for development expenditure but also disrupted the business of daily administration of local authorities. Fixed expenses such as administrative costs, salaries paid and others also face such constraints. Many problems that occur in an organisation are due to both internal and external factors affecting the organisation itself (Gibson, 1988). This situation occurs on the local authority itself, where there are arrears of property taxes due to the problem of internal and external weaknesses of local authorities. Chief Secretary, Dato Sidek Hassan, issued a statement in *The Star*, 2008, suggesting that beginning in 2009, the government should give serious attention to the departments involved in revenue collection and enforcement issues. This situation reflects the performance of the critical tax revenue that should be taken seriously and immediately addressed with effective strategies to overcome the problem of tax arrears.

Various initiatives were taken by local authorities to address these problems, but solutions can not be implemented effectively to eradicate this problem. Creativity and innovation are essential in improving and enhancing quality in the aspect of taxation. Star Rating is a system implemented for the grade level of excellence of government agencies to improve service delivery. Applying the Star Rating system in the jurisdiction of LAs is capable to improve the collection of current and deferred tax assets. In which case, all local authorities will seek to further enhance their achievement in the collection of property tax.

The objective of this study is to analyse the results and outstanding performance of the property tax collection of LAs in Malaysia. This research will also be applying the "Star Rating Concept" in the aspect of taxation by LAs in Malaysia. The purpose of this study is to ensure that the government use tax performance of the property as a basis to proceed with an appropriate approach, innovation and creativity of local authorities in Malaysia. In addition, the study will benefit policy makers in the Ministry of Housing and Local Government Department, or Division of Local Government at the state level, legal officers, assessment officers and accountants in the local government and taxpayers. Through this study, all information related to property tax management in local authorities will be identified to assist local authorities to play their role effectively so that the goal of achieving administrative efficiencies can be achieved successfully and effectively.

2. Related Work

2.1. Star Rating

The function and role played by local authorities (LA) have always attracted the attention of the public. Some issues of government policies in force in LAs are a result of several constraints faced by the local

organisation. As a consequence, the local service delivery system is said to be weak and frail. This situation lasted until the cause for concern arose that if it is not addressed soon it will have an impact on national competitiveness. The Star Rating System (SRS) is one of the ideas conceived by the fifth former Malaysian Prime Minister, Dato' Seri Tun Abdullah bin Ahmad Badawi and have been applied to all local authorities in Malaysia. The SRS established by local authorities is aimed at enhancing the delivery system and improving government services to citizens. The goals for this system are established as below:-

- To assess the level of service delivery performance of local authorities.
- Placing local authorities at the appropriate position according to the ranking for local authorities to improve their competitiveness.
- Modifying the characteristics of local authorities in high-performance, always keep and maintain the efficiency and effectiveness.

Star Rating is one mechanism to measure and evaluate the quality of an agency's services in the public sector. Star Rating issue was first raised on 2 February 2005 by the fifth Honourable Prime Minister of Malaysia, Dato' Seri Tun Abdullah Bin Ahmad Badawi, in which he proposed to conduct a study on the use of the Star Rating in public agencies. It was established to evaluate and assess the implementation of public sector on the quality of service. In addition, it also aims to give recognition to the government agency of good performance on an ongoing basis to improve the quality of service. Further, Star Rating also aims to promote policies, strategies and innovative initiatives that can bring success to the organisation involved.

With this model, it can promote healthy competition between government agencies. In fact, the star of government agencies, particularly local authorities will increase every year. Lastly, according to Dato 'Seri Tun Abdullah Bin Ahmad Badawi, "To help the level of the local authority, an implementation of Star Rating System (SSR - PBT), which will be held in line with the government's intention to further improve service delivery to citizens. Through this system, all local authorities are expected to be more responsible in ensuring that services are rendered more efficiently and of quality, the level of performance will be assessed against the quality of local authority services. Implementation of this system is done by the Inspectorate ministry as well as some other parts of the Ministry (Ahmad, May 22, 2011, New Straits Times).

2.2. Application of Star Rating in the Model Tax Aspects

Star Rating method is practiced in every council/city hall (MB) and municipal (MP) in each local authority. The success enjoyed by the local authorities in addressing the problems of management and functions of local authorities after using the Model of Star Rating should be commended. So, it is not wrong if the Star Rating Model can be applied and implemented in tax collection. This method of grading the tax will indirectly raise the status and image of local authorities and being able to do the actual collection of taxes is a major income source for the country (Bin Datuk Nik Mustapha Nik Hassan, 2011).

Previously the Star Rating for PBT simply refers to measuring the performance of public service excellence. But now, a study will be carried out that is more focused on taxation; Star Rating model which is applied to improve better quality management in the collection of property rates. In addition, the rate of tax arrears can be reduced up to a satisfactory level. Next, enhance cooperation between citizens, especially local authorities under the tax. Star Rating is a rating, thus helping to identify improvements to the shortfall in tax collection.

2.3. Calculation and Grading of Taxation Aspect Based on Star Rating Model

The use of the Star Rating system for tax calculation is divided into two parts, a collection of current property tax arrears. Current tax comprises tax arrears of 75% and accounted for 25%. This percentage is obtained after the study has been made in the 7 local authorities in Peninsular Malaysia, where the tax is calculated by adding the two parts to be 100%. Table 1 illustrates the computation of collection using the Model Star rated property.

Table 1: Calculation of Property Tax Based on Star Rating Concept

| Property Tax | Tax Arrears | Total |
|--------------|-------------|-------|
| A | B | A+B |
| 75% | 25% | 100% |

After that, the grading is done by comparing the percentage of marks obtained by each local authority with a standard set of tax marking. Table 2 shows the scoring standard for tax collection.

Table 2: Standard Grading for Property Tax Collection

| TOTAL MARK | STAR RATING |
|--------------|-------------|
| 90-100 | ★★★★★ |
| 75-89 | ★★★★ |
| 60-74 | ★★★ |
| 45-59 | ★★ |
| 45 and above | ★ |

Star Rating Model application to the tax aspects benefits local authorities themselves. Among the benefits that can be seen in the use of this concept is that local authorities can make a comparison in the collection of property rates. This tax known as property assessment is collected twice a year. The collection rate can be identified through this Star Rating Model. This Star Rating system is also able to create healthy competition among local authorities. Determination of each local authority can be seen through various methods, strategies, and innovative arrangements. Local authorities which are able to achieve the standard of 5 stars would definitely encourage other local authorities to strengthen the collection of property in their respective areas.

3. Research Methodology

This research focuses and covers the physical aspects that include local authorities throughout the country. The scope of property tax collection statistics includes the total revenue and property tax arrears for each local authority in Malaysia within five years from 2004 until 2009. Case studies about the aspects of tax revenue and tax arrears would include most local authorities throughout the country. These two aspects are described for six consecutive years, from 2004 to 2009 to identify more clearly the collection of property tax assessments in Malaysian LAs. Actual collected data from all local authorities in Malaysia generated from the monthly and annual reports are analysed to show the percentage of property tax performance.

This research focuses on and covers the physical aspects, including local authorities across the country. The scope of the study refers to the collection of statistics, including total revenues of the property and the property tax arrears for each local authority in Malaysia within six years from 2004 until 2009. The case study is to review the performance of the city councils (MB) and municipal councils (MP) but does not include City Halls in terms of tax collection and property tax arrears for a period of six consecutive years (2004-2009). Performance evaluation is made using the rating or grade based on the results obtained.

4. Results and Data Analysis

4.1. Analysis of Local Grading for City Councils

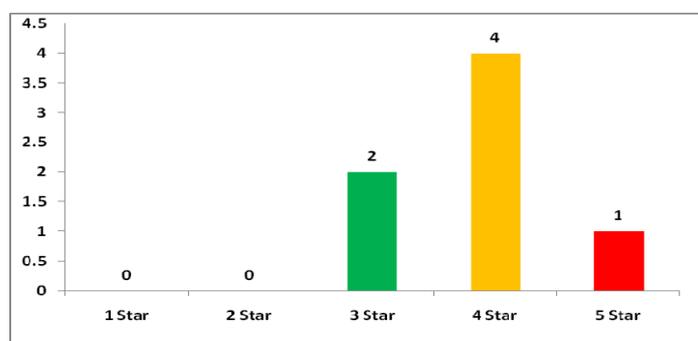


Fig. 1: Graph for the Local Property Tax Collection Performance at City Councils

The graph and table above shows the star rating for the City Councils. Only one council obtained 5 star rating based on the Star Rating Grading while 4 councils obtained 4 star, which included the Ipoh City

Council, Shah Alam, Malacca and Miri. Johor Bahru and Alor Star City Councils obtained the standard 3 star rating. No City Councils obtained the 1 and 2 standard star rating.

4.2. Analysis of Local Grading for Municipal Councils

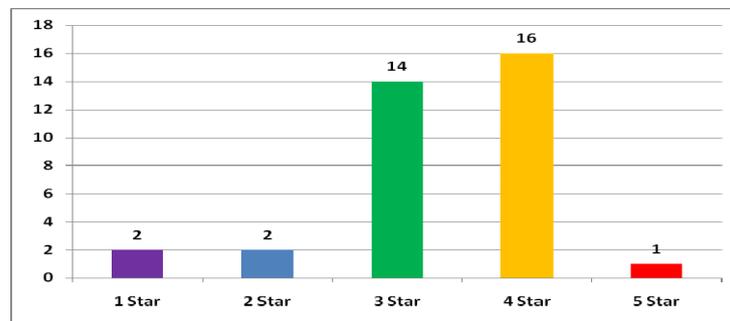


Fig. 2: Graph for the Local Property Tax Collection Performance at Municipal Councils

From Figure 2 above, it can be seen that only one Municipality obtained 5 star rating while there are 15 Municipal Councils which obtained the standard 4 star. These are the Sungai Petani, Bintulu Development Authority, Seremban, Selayang, Ampang Jaya, Kemaman, Taiping, Penang, Teluk Intan, Dungun, Kluang, Pasir Gudang, Kulai, Muar, Manjung and Kajang Municipal Councils. There were 14 municipalities which obtained the standard 3 star namely Port Dickson, Port Klang, Butterworth, Johor Bahru Central, Padawan, Kuantan, Bentong, Jasin, Alor Gajah, Kota Bahru, Tawau, Sepang, Balikpapan and Kulim Municipal Councils. Two Municipal Councils received two stars i.e. the Nilai and Sandakan Municipal Councils. The lowest standard star 1 rating were obtained by the Municipal Councils of Kangar and Langkawi.

5. Conclusion

With a working performance measurement for the efficient administration of property tax as a basis, revenues will be maximised through the outstanding performance of local authorities and arrears will also decrease. It is expected that this property tax performance measurement will be employed as a basis to pursue the appropriate, innovative and creative approaches for Malaysian local authorities in tax management. Thus, with high yields local authorities will be able to implement and fulfill the desires of taxpayers for the provisioning of appropriate services. If there are poorly executed, tax equity will suffer, revenue generation may also suffer and public acceptance will erode.

With the emergence of a property tax management model, it is hoped that the problem of property tax collection in LAs will be solved in which the yield can be increased to a maximum, while the amount in arrears at minimum levels based on legislation, policies and guidelines. With the high amount of tax revenue, local authorities will be able to perform the duties and responsibilities in line with the Government's slogan "People First, Performance Now" in providing basic amenities, recreational, social, community, and sustainable development. This will create a culture for taxpayers who are willing and happy, along with a full sense of responsibility, to pay their taxes.

Thus, through the existence of performance measurement for the efficient administration of property taxes as a basis, income will be maximised through excellent performance of the local authority (LA) and the arrears will be reduced. It is expected that the performance of the property tax will be used as a basis to proceed with an appropriate approach, innovative and creative in the management of local property tax by local authorities in Malaysia. Therefore, the high yield of local authorities will enable them to perform and meet the needs of taxpayers for the provision of appropriate services. If this cannot be fully implemented, there will be issues of tax equity, and income generation will also likely suffer which would erode public acceptance.

6. References

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