

# Property Tax Performance of Local Authorities in Malaysia

Soeb Pawi, David Martin Juanil, Wan Zahari Wan Yusoff  
University of Tun Hussein Onn Malaysia, Malaysia

Ibrahim Sipan  
University of Technology Malaysia, Malaysia

Fazira Shafie  
University of Tun Hussein Onn Malaysia, Malaysia

Property tax income of local authorities has become more challenging due to robust developments. Property tax revenue is the main income for local authorities that 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 affects the administrative system and as a corollary, the delivery of services by local authorities. The performance measurement of property tax is very important in order to manage the services, and for maintenance and development of sustainable local authorities. Therefore, this paper represents a review of the Malaysian local authority property tax collection performance. The rating system is applied to address the performance of property tax collection in Malaysia. The result revealed that most of the property tax collection in Malaysia 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 five years from 2004 to 2007. It is expected that this property tax performance will be employed as a basis to pursue the appropriate, innovative, and creative approaches for local authorities in Malaysia.

*Keywords:* local authorities, property tax, property tax performance, revenue collection, tax arrears

## 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 (Buang, 2000). 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 (Hassan, 2008a). 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 organization which has autonomy over the local populace. Thus, local authorities should ensure that the management of tax collection can be

---

Soeb Pawi, deputy head for Centre of Excellence for Facilities Management, University of Tun Hussein Onn Malaysia (UTHM).

David Martin Juanil, Ph.D., dean, Department of Real Estate Management, Faculty of Technology Management, Business and Entrepreneurship, University of Tun Hussein Onn Malaysia (UTHM).

Wan Zahari Wan Yusoff, Ph.D., head for Centre of Excellence for Facilities Management, University of Tun Hussein Onn Malaysia (UTHM).

Ibrahim Sipan, Ph.D., Faculty of Geoinformation and Real Estate, University of Technology Malaysia (UTM).

Fazira Shafie, secretary for Centre of Excellence for Facilities Management, University of Tun Hussein Onn Malaysia (UTHM).

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 realized. 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 as 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 (Ismail, 2008). The prevalent issue of lower tax revenue in local authorities throughout the country continues to pose a very serious predicament.

Complete procedures which have been established in the provisions of the Act will guide local authorities in managing the property tax, but the property tax collection performance is still under unsatisfactory level. For example, according to the Economic Report of the Ministry of Finance, revenue of the collection performance in local authorities throughout the country showed a worrying decline in the rate of decrease of 11.7% recorded in 2007 and 0.3% in 2008. The implications of the tax reduction has resulted in a deficit spending of RM75 million and RM1,179 million in 2007 and 2008, due to the higher prevailing costs. Collection of property tax revenue statistics generally show the majority of Malaysian local authorities collect property tax of less than 70% of the total taxable amount, while for the collection of property tax arrears show only within 30%-50% (Hassan, 2008a).

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 more than RM400 million in 2009, and this is certainly an issue of concern (Hassan, 2008b). 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 (Department of Town and Country Planning Peninsular Malaysia, 2010).

Property tax collection in local authorities is becoming more complex due to the vigorous development within the administration of the local authorities themselves (Ahmad & Hasmah, 1997). The administration and management of local authorities which carry the responsibility to develop and provide services in their administrative areas have become increasingly challenging and difficult. In the beginning of 2009, the government was urged to give serious attention to the departments involved in the collection and enforcement issues (Hassan, 2008b). This situation showed that the critical level of tax revenue collection performance needed to be prioritized and organized immediately with an effective strategy to overcome the problem of tax arrears.

This happened because there is no research and specific action or effective measures placed in addressing this problem (Department of Town and Country Planning Peninsular Malaysia, 2010). Therefore, local authorities need to take this issue seriously which is required by the public (Kuppusamy, 2008). 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 (Bardai, 1987). Hence, this issue can lead to the existence of property tax arrears problems.

The increasing incidence of property tax arrears crisis occurred due to the weakness of the local authorities themselves in managing their property tax. Local authorities are often correlated with weak financial management and this is a factor that contributes to the failed performance of local authorities in achieving good tax revenue collection performance. The increasing property tax arrears become a constraint for local authority not only in development expenditures and provision of services but also disrupt the daily business of the

smooth administration of local authorities. Fixed expenses such as administrative costs, payroll, and workers also face this constraint. Many problems that occur in an organization can directly be attributed to the organization itself, whether they are caused by internal or external factors (Zyadi & Ragayah, 1990). This situation occurs within the local authority themselves, where there are arrears of property taxes due to problems of internal and external weaknesses of the local authority organization.

Thus, the objective of this research is to review the performance of local authorities' property tax collection in Malaysia. The aim of this research is to make sure that the government employs this property tax performance as a basis to pursue the appropriate, innovative, and creative approaches for local authorities in Malaysia. Furthermore, the research conducted will benefit policy makers at the Ministry of Housing and Local Government, Department or Division of Local Government at the state level, legal officers, assessment officers, and accountants at the local government level as well as tax payers. Through this research, all information pertaining to the management of property tax in local authorities will be identified to help local authorities play their role effectively so that the objectives of achieving administrative efficiency can be attained successfully and effectively.

### **Related Work**

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

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

Performance evaluation is a requirement to identify the strengths and weaknesses of a performance from various perspectives (Kuppusamy, 2008). It also explains the definition of performance appraisal of many intellectuals and western scholars. Besides that, it defines performance appraisal as a process of measuring work performance in terms of quantitative and qualitative aspects. From this definition, the two aspects of performance both in terms of subjective and objective should be taken into account. They consider the performance evaluation as a mechanism for organizations, groups and individuals to obtain feedback on work. It should reflect the actual performance of the evaluation made (Bardai, 1987).

Armstrong (1993) considered performance evaluation as a mechanism for organizations, groups, and individuals to obtain feedback on work. It should reflect the actual performance of the evaluation made. There are a number of cycles or processes that need to be considered in evaluating performance. Among them are establishing performance standards, determine the method of performance evaluation, comparing the level of attainment with the standards set, and finally evaluate the performance. To establish standards of performance,

fundamental questions that need to be addressed are: What extent has performance been achieved? What will happen after the assessment is done? And what would be obtained? (Dranita, 2006).

In this study, the results of performance evaluation refer to the assessment of tax collection quantitatively and objectively. The dimension or rating that is used in assessing the level of performance will have an impact on the decision or action taken in the future. For example, the dimensions that are commonly used such as excellent, good, fair, satisfactory, and not satisfactory should be made with precision, clear, and transparent. To analyze the performance of the property tax collection and arrears, the dimensions used are A-E grades based on achievement of the revenue derived percentage. Grade labeling by determining the position or level of the performance is shown in Table 1 below.

Table 1

*Grade and Performance Level of Achievement*

Grade	Performance (%)	Status
A+	90-100	Excellent
A	80-89	Very good
A-	75-79	Good
B+	70-74	Moderate
B	65-69	Moderate
B-	60-64	Satisfactory
C+	55-59	Less satisfactory
C	50-54	Less satisfactory
C-	45-49	Less satisfactory
D+	40-44	Not satisfactory
D	35-39	Not satisfactory
D-	30-34	Not satisfactory
E	0-29	Weak

## 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 to 2008. 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 five consecutive years, from 2004 to 2008 to identify more clearly the collection of property tax appraisals in LA in Malaysia. Actual collected data from all local authorities in Malaysia generated from the monthly and annually report are analyzed to show the percentage of property tax performance.

## Results

### Property Tax Revenue Performance (2004-2007)

In Malaysia, there are 147 local authorities which consists of 12 City Halls, 35 Municipal Councils, and 77 District Councils. Overall, the average performance of the property tax proceeds in the 12 City Halls was 86.48% as showed with Figure 1. This means that the performance of the proceeds of the City Halls for the years 2004-2007 is at a GOOD level. For municipal level, which is refer to Figure 2 the average performance of the collection of property tax was 84.20%.

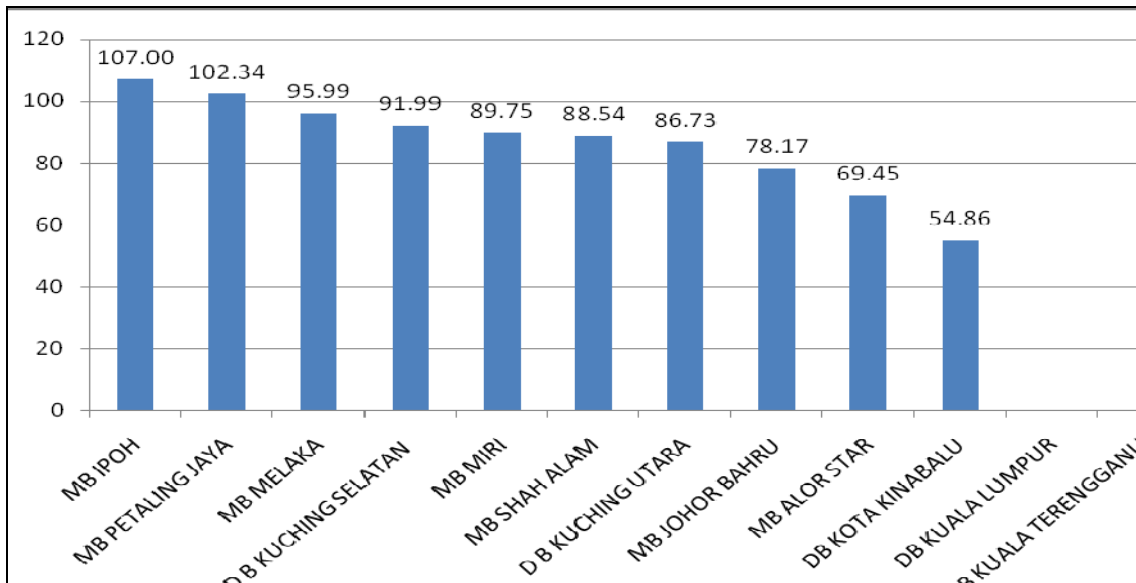


Figure 1. Local property tax collection performance at rating board/city councils for the year 2004-2007 (%).

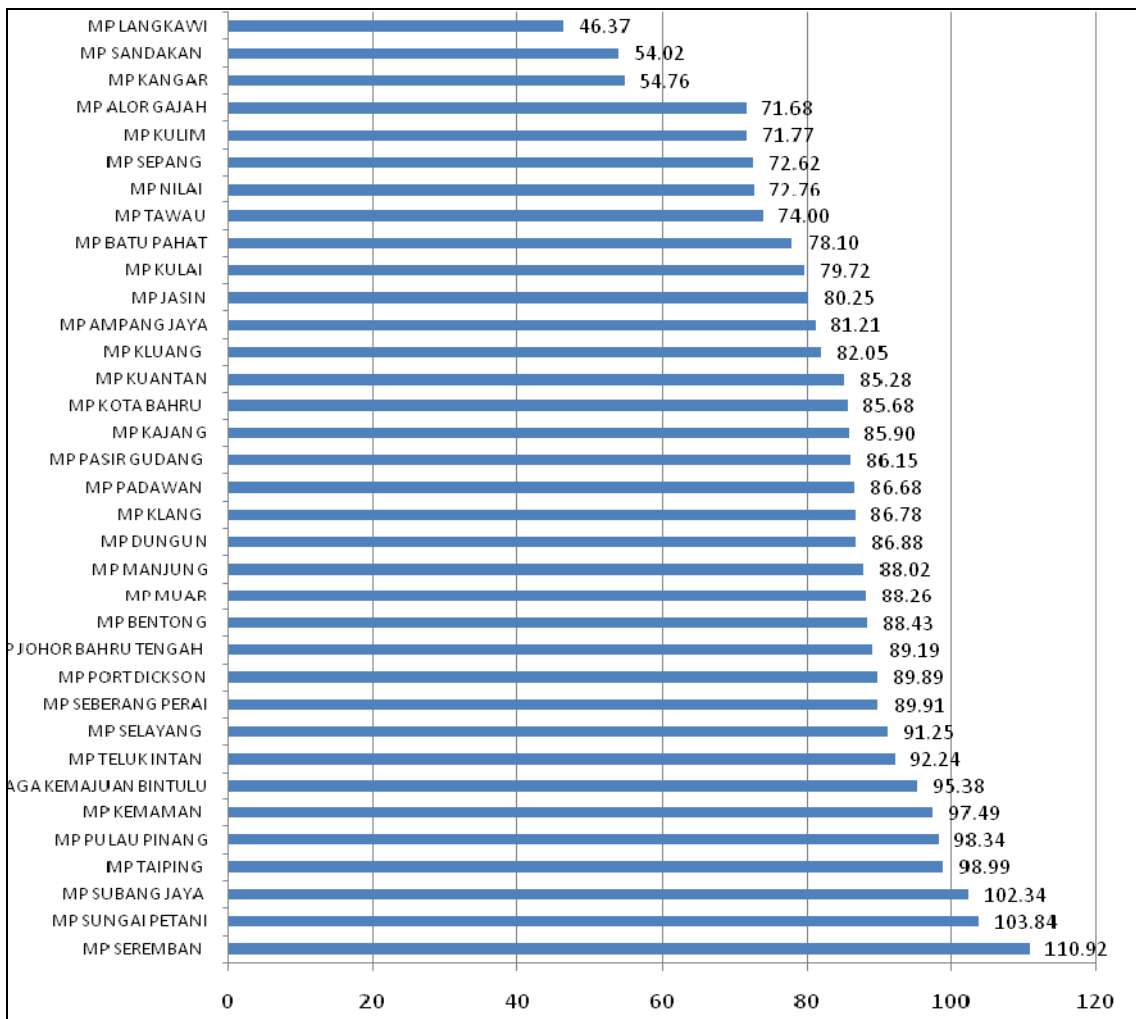


Figure 2. Local property tax collection performance of municipal councils for the year 2004-2007 (%).

This shows that the performance of the property tax proceeds of the Municipal Councils for four consecutive years (2004-2007) is at a GOOD level. Meanwhile, by seeing from Figure 3, the average performance of the property tax proceeds to the 77 District Councils was 74.29%. This shows that the performance of the property tax proceeds of the District Councils for four consecutive years (2004-2007) is located at the level of MODERATE.

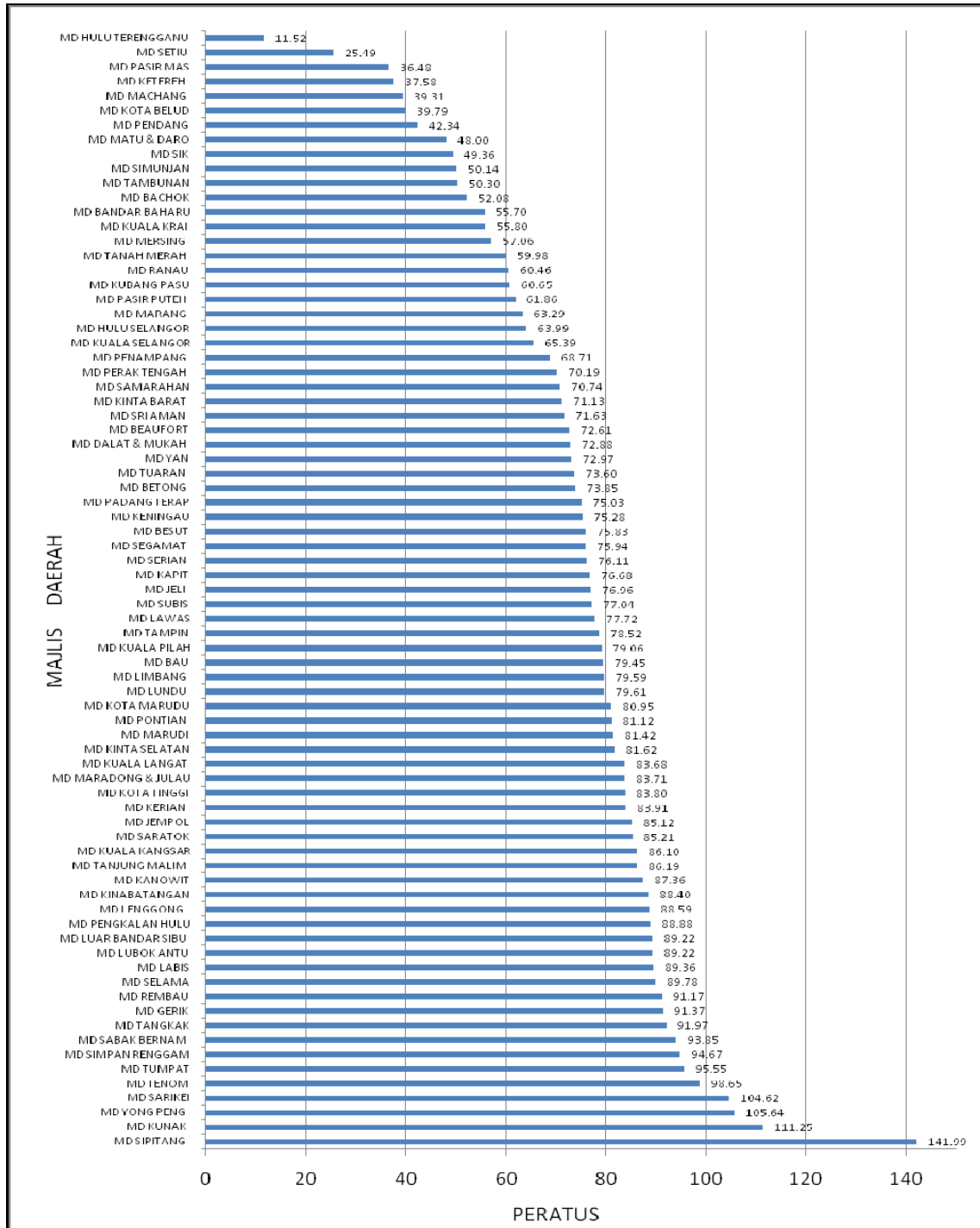


Figure 3. Local property tax collection performance level of district councils for the year 2004-2007 (%).

Local property tax collection performance overall between the three levels of function can be described by Figure 4. An analysis of property tax collections for the past four consecutive years showed the Board/City Councils listed the percentage of total proceeds at the highest level. Result of analysis for the collection of property tax is 86.48% with a performance status of the Board/City Councils being VERY GOOD. The Municipal Councils recorded total revenue of tax collection at 84.20% while the District Councils were in a MODERATE position with rate percentage at 74.31%.

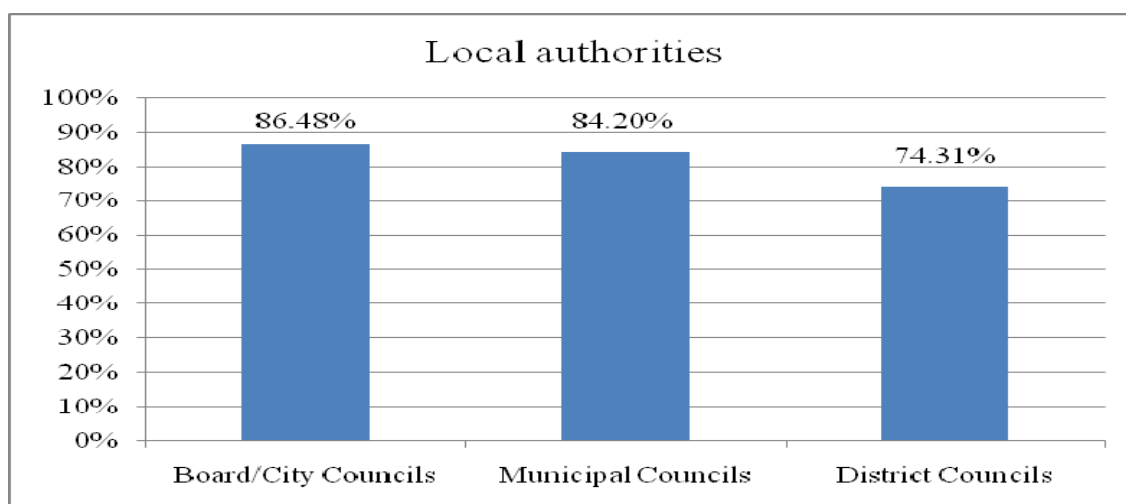


Figure 4. Overall property tax revenue performance between LA within 2004-2007 (%).

Table 2

*Grade and Performance Level of Achievement for Property Tax Revenue Among LAs in Malaysia*

Grade	Performance (%)	Status	No. of LA	Percentage (%)
A+	90-100	Excellent	28	23
A	80-89	Very good	32	26
A-	75-79	Good	17	14
B+	70-74	Moderate	14	12
B	65-69	Moderate	3	3
B-	60-64	Satisfactory	6	5
C+	55-59	Less satisfactory	5	4
C	50-54	Less satisfactory	4	3
C-	45-49	Less satisfactory	3	3
D+	40-44	Not satisfactory	2	2
D	35-39	Not satisfactory	3	3
D-	30-34	Not satisfactory	0	0
E	0-29	Weak	2	2
Total			119	100

Based on the Grading System which refer to Table 2, there are only 28 local authorities which received a grade A+ (EXCELLENT), 32 grade A and 17 A- grade in their respective positions of VERY GOOD and GOOD. For grade B+ and B, there are 17 LA in a MODERATE position while six LA are in the B- grade (SATISFACTORY). There are a total of 12 LA representing C+, C, and C- with the status of LESS SATISFACTORY. For grade D+ and D, there are five LA at the NOT SATISFACTORY level. However, the majority of the LA was ranked VERY GOOD (grade A) in the performance of property tax revenue.

**Property Tax Arrears Performance (2004-2007)**

Overall, which is based on Figure 5, for the average performance of the arrears of property tax revenue for the 12 City Councils is only 34.52%. This means that the overall performance assessment of tax arrears of the Board/City Councils for the years 2004-2007 is located at the UNSATISFACTORY level.

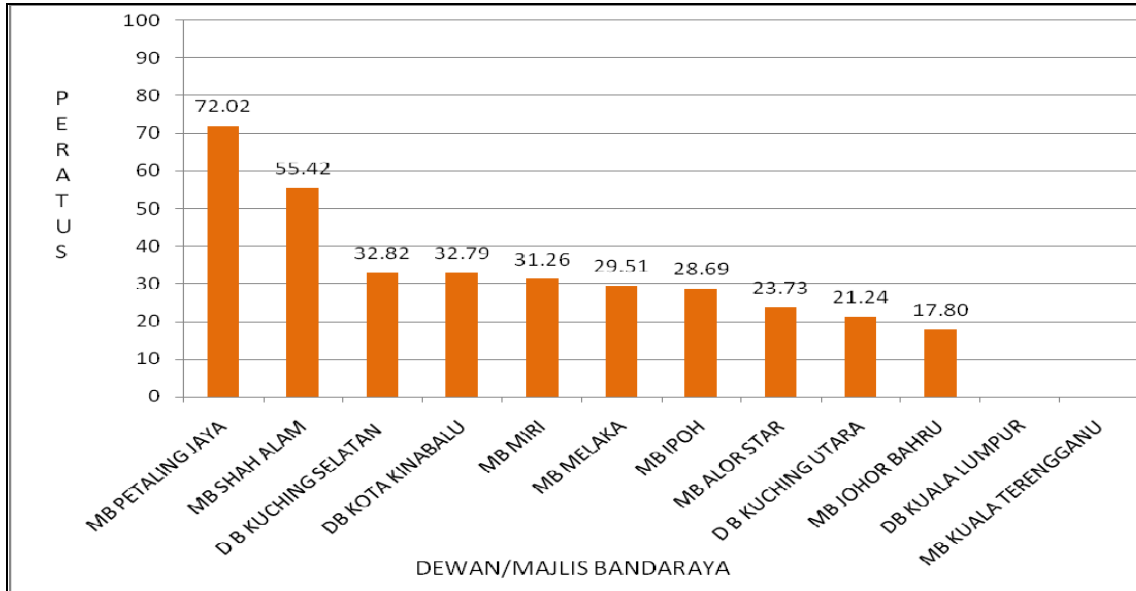


Figure 5. Local property tax arrears performance rating of board/city councils for period 2004-2007 (%).

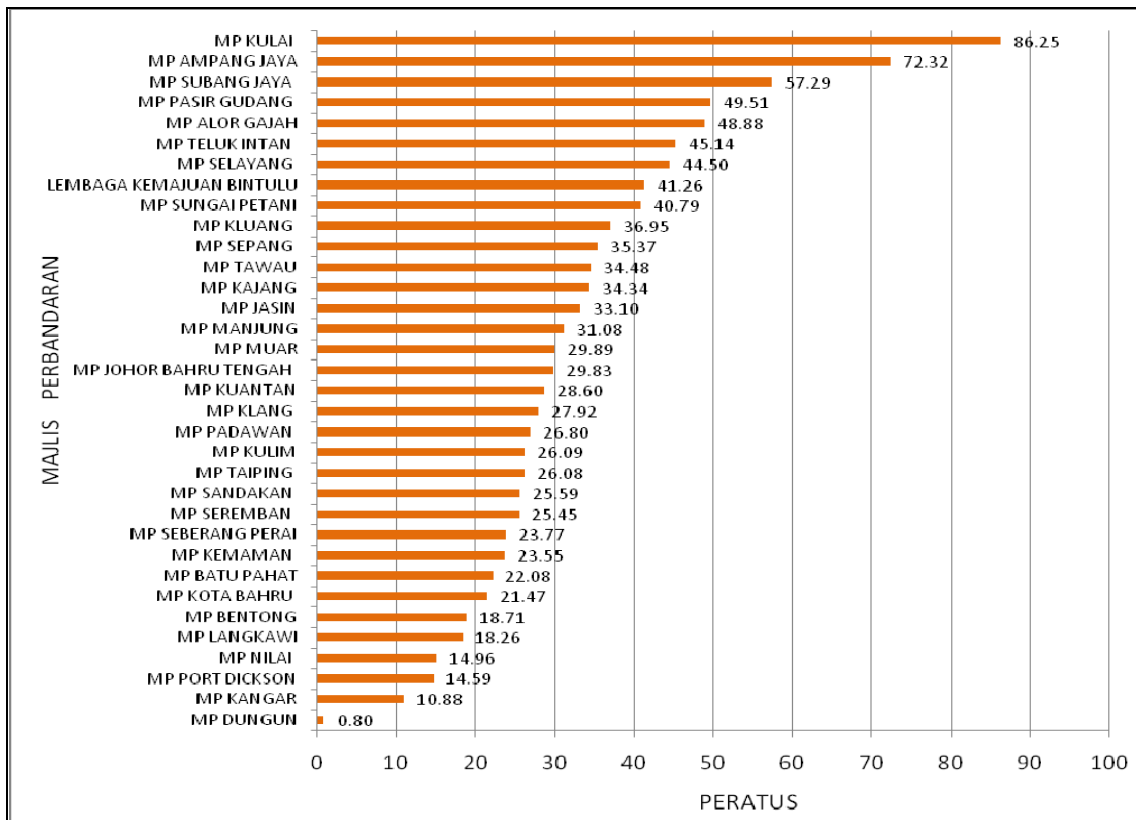


Figure 6. Local property tax arrears performance rating of district councils for period 2004-2007 (%).



Average yield performance of the property tax arrears of the 35 Municipal Councils is only 47.15% refer with Figure 6. This means that the overall performance assessment tax arrears of the Municipal Local Authority for the year 2004-2007 just obtained a low grade level of C-. Meanwhile, if we see Figure 7 the average performance of the property tax proceeds to the 75 District Councils was 69.38%. This shows that the performance of the property tax proceeds of the Local District Councils for four consecutive years (2004-2007) is located at the MODERATE level.

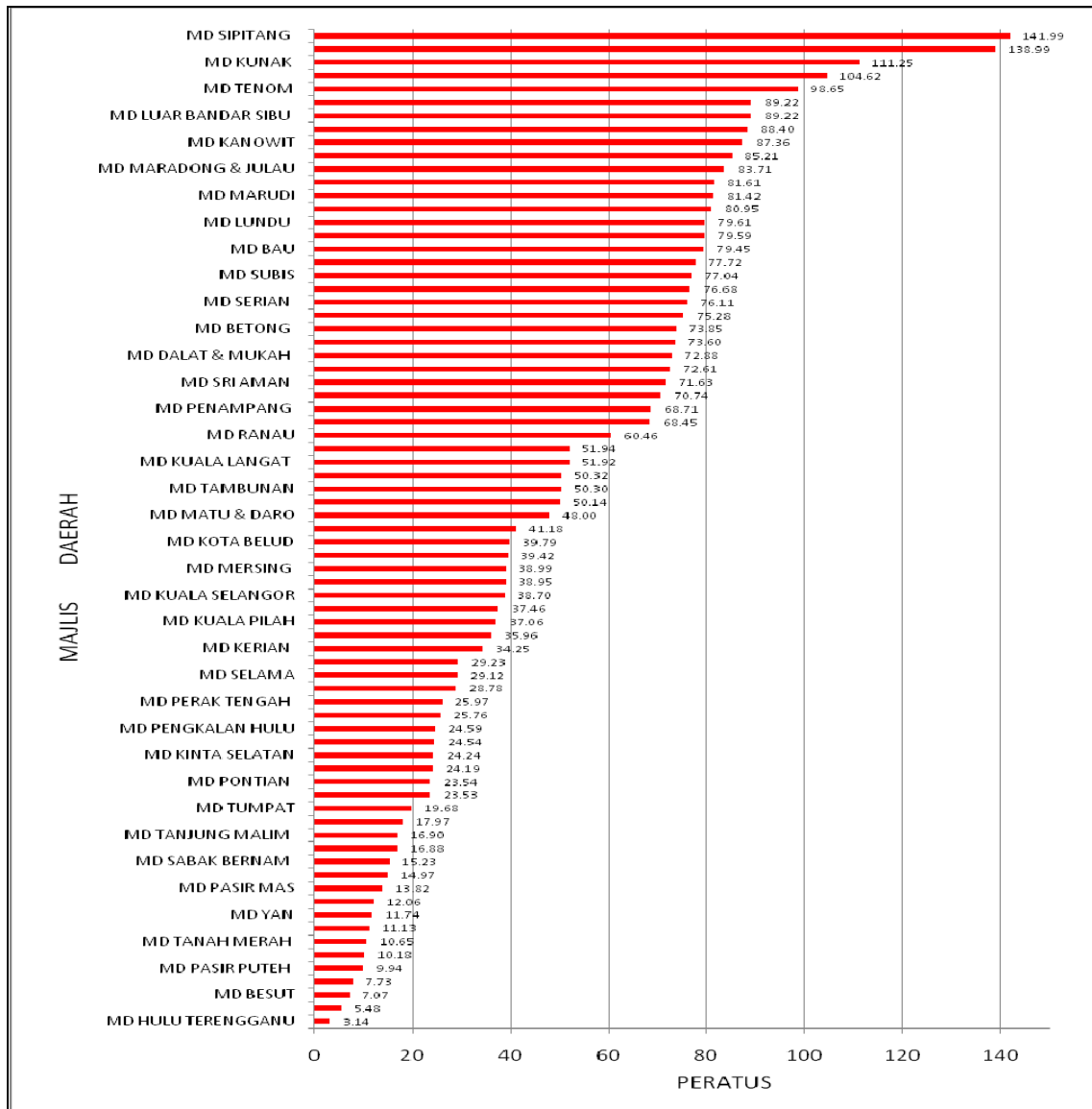


Figure 7. Local property tax arrears performance of the state for the year 2004-2007 (%).

The overall local property tax arrears performance between the three levels can be described by Figure 8. An analysis of property tax arrears for the past four consecutive years showed the Board/City Councils listed the percentage of total proceeds at the highest level. Results of analysis for the revenue of property tax are 86.48% with a performance status of the Board/City Councils as VERY GOOD. The Municipal Councils recorded total revenue of tax collection at 84.20% while the District Councils are in a MODERATE position at 74.31%.

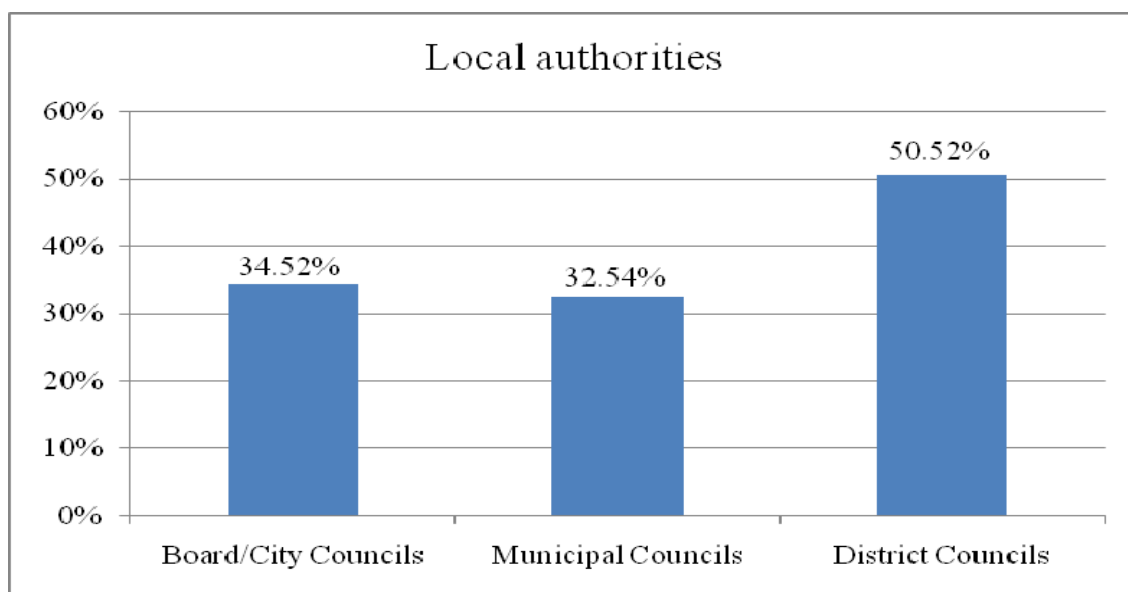


Figure 8. Local property tax arrears performance rating of municipal councils for period 2004-2007 (%).

Based on the Grading System, see Table 3, there are only four LA in Malaysia which received a grade A+ (EXCELLENT), 10 LA with grade A and eight LA with A- grades in their respective positions of GOOD and VERY GOOD. For grade B+ and B, there are 10 units of the District Council in a MODERATE position while a District Council is at the grade of B- SATISFACTORY. There are a total of six councils representing C+, C, and C- with the status NOT SATISFACTORY. For grades D+ and D, there are 10 LA at the NOT SATISFACTORY level.

Table 3

*Grade and Performance Level of Achievement for Property Tax Arrears Among LAs in Malaysia*

Grade	Performance (%)	Status	No. of LA	Percentage (%)
A+	90-100	Excellent	4	3
A	80-89	Very good	10	8
A-	75-79	Good	8	7
B+	70-74	Moderate	8	7
B	65-69	Moderate	2	2
B-	60-64	Satisfactory	1	1
C+	55-59	Less satisfactory	3	3
C	50-54	Less satisfactory	5	4
C-	45-49	Less satisfactory	5	4
D+	40-44	Not satisfactory	3	3
D	35-39	Not satisfactory	11	9
D-	30-34	Not satisfactory	10	8
E	0-29	Weak	49	41
Total			119	100

However, the majority of the LA with a total number of 49 was ranked low (grade E) in the performance of property tax arrears. Overall, the average performance of the property tax proceeds of LA is about 41%. This

shows that the performance of the property tax proceeds of the Local District Councils for four consecutive years (2004-2007) is located at the MODERATE level.

### Conclusions

With a working performance measurement for the efficient administration of property tax as a basis, revenues will be maximized through the outstanding performance of local authorities and arrears will also decrease. It is expected that this property tax performance will be employed as a basis to pursue the appropriate, innovative and creative approaches for local authorities in Malaysia. 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.

### References

- Ahmad, A., & Hasmah, A. Z. (1997). *Pengenalan kepada undang-undang kadaran di Malaysia* (Universiti Teknologi Malaysia, UTM).
- Armstrong, M. (1993). *Armstrong's handbook of performance management: An evidence-based guide to delivering high performance*. Great Britain: Kogan Page Publishers.
- Bardai, B. (1987). *Percukaian: Prinsip dan amalan di Malaysia* (M. Mngt. thesis, DBP Kuala Lumpur).
- Buang, A. (2000). *Analysis of factor that contributes to the accumulation of uncollected rates in local authorities in Malaysia* (Universiti Teknologi Malaysia, UTM, thesis).
- Department of Town and Country Planning Peninsular Malaysia. (2010).
- Dranita, J. S. H. (2006). *Prestasi kadaran: Kajian terhadap masalah dalam pengutipan cukai harta, majlis perbandaran Kulai* (D. Mang. thesis).
- Hassan, D. S. (2008a). *Report of Johor State assembly meeting. Ketua Setiausaha Negara, Utusan Malaysia*.
- Hassan, D. S. (2008b). *Ketua Setiausaha Negara. Utusan Malaysia*.
- Ismail, A. (2008). *Pematuhan pembayaran cukai pintu di majlis perbandaran sibu* (Universiti Teknologi Malaysia, UTM).
- Kuppusamy, S. (2008). *Local government in Malaysia: Back to basics and the current scene. Journal of Malaysian Chinese Studies, 11, 77-96*.
- Zyadi, M. T., & Ragayah, M. Z. (1990). *Ekonomi percukaian* (M. Mngt. thesis, DBP Kuala Lumpur).