

The Malaysian Transformation of Assessment Tax Management in Local Governments (LGs) Based on Star Rating Concept

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Abstract

Assessment tax management of local governments (LGs) has become more challenging due to robust developments. Assessment tax revenue is the main income for local governments which are used to pay for services and maintenance in the local government administrative areas. However, the amount of revenue collected is decreasing due to the serious problem of assessment tax arrears that affect the administrative system and as a corollary, the delivery of services by

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local governments. The incidences of non-payment amongst ratepayers and tax collection issues by local governments throughout Malaysia have become a serious problem. Therefore, this paper will analyze the Malaysian local government assessment tax collection and arrears performance in each local governments. The “Star Rating” concept is applied to address the performance of assessment tax collection in Malaysia. The results revealed that most of the assessment tax collections in Malaysia are performed under inadequate level. Assessment tax collection statistics for the research include the total revenue and assessment tax arrears for each local government in Malaysia within six years from 2004 until 2009.

JEL classification numbers: M2, M48

Keywords: Local government, Assessment tax, Assessment tax collection, Assessment tax arrears, Star rating concept

1 Introduction

The assessment tax is a compulsory contribution to be paid by the taxpayer, where the taxpayer in return will receive benefits from the local governments in the form of tangible and intangible services, community facilities, infrastructures and development projects for their enjoyment [11]. In the context of assessment tax, enforcement of the tax is intended as a tool to drive the development of areas administered by local governments. Assessment tax imposed on the taxpayer is given back by local governments in the form of services in their respective administrative areas. The imposition of assessment tax is related to the role of local governments 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 governments are empowered to impose assessment tax on property owners to carry out the functions and roles of local governments as an organization which has autonomy over the local populace. Thus, local governments should ensure that the management of tax collection can be implemented effectively in the development process and services provided appropriately.

Local governments have important responsibilities in carrying out their functions and roles, especially in assessment tax management to ensure the welfare and amenity of residents can be realized. If the local government is weak and incompetent in handling the management of the assessment 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 assessment taxes will increase due to poor management and will burden the local governments. This will have an impact on the quality of work and services performed. The prevalent issue

of lower tax revenue in local governments throughout the country continues to pose a very serious predicament.

Assessment tax management becomes more complex due to the robust development in the administrative area of the local government itself. Hence, the administration and management of local governments 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 governments in managing the assessment tax but the assessment tax collection performance is still under unsatisfactory level. As an example, local governments in the state of Johor and Kuala Lumpur City Hall (Dewan Bandar Raya Kuala Lumpur, DBKL) showed that the amount of assessment tax arrears recorded amounted to about RM168 million and RM435 million in 2009 and this is certainly an issue of concern [12]. This depicts the overall situation of assessment tax performance of local governments 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 [10].

The unending issue of lower tax revenue collection by local governments 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 governments in managing the assessment tax, the assessment 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 governments 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 assessment tax payable [7]. Hence, this issue can lead to the incidence of assessment tax arrears problems.

Assessment tax arrears crisis is an issue of much concern and it is caused in large part due to the weakness of local governments to manage their own assessment taxes. Local governments are often associated with poor financial management which is a factor that has impeded the performance of local governments to keep the good tax revenue. The increase in assessment tax arrears among local governments has resulted in constraints not only for development expenditure but also disrupted the business of daily administration of local governments. 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 government itself, where there are arrears of assessment taxes due to the problem of internal and external weaknesses of local governments. 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 governments to address these problems, but solutions cannot 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 LGs is capable to improve the collection of current and deferred tax assets. In which case, all local governments will seek to further enhance their achievement in the collection of assessment tax.

The objective of this study is to analyze the results and outstanding performance of the assessment tax collection of Las in Malaysia. This research will also be applying the “Star Rating Concept” in the aspect of taxation by LGs 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 governments 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 assessment tax management in local governments will be identified to assist local governments 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 governments (LGs) have always attracted the attention of the public. Some issues of government policies in force in LGs 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 governments in Malaysia. The SRS established by local governments is aimed at enhancing the delivery system and improving government services to citizens. The goals for this system are established as below:

- i. To assess the level of service delivery performance of local governments.

- ii. Placing local governments at the appropriate position according to the ranking for local governments to improve their competitiveness.
- iii. Modifying the characteristics of local governments 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 organization involved.

With this model, it can promote healthy competition between government agencies. In fact, the star of government agencies, particularly local governments will increase every year. Lastly, according to Dato 'Seri Tun Abdullah Bin Ahmad Badawi, "To help the level of the local government, 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 governments 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 government 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 government. The success enjoyed by the local governments in addressing the problems of management and functions of local governments 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 governments and being able to do the actual collection of taxes is a major income source for the country (Datuk Nik Mustapha bin 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 governments 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 assessment 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 governments 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 Assessment Tax Based on Star Rating Concept

Assessment 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 government with a standard set of tax marking. Table 2 shows the scoring standard for tax collection.

Table 2: Standard Grading for Assessment Tax Collection

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

These are Star Rating Model application to the tax aspects benefits local governments themselves. Among the benefits that can be seen in the use of this concept is that local governments 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 governments. Determination of each local government can be seen through various methods, strategies, and innovative arrangements. Local governments which are able to achieve the standard of 5 stars would definitely encourage other local

governments to strengthen the collection of property in their respective areas.

3 Research Methodology

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

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 assessment 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

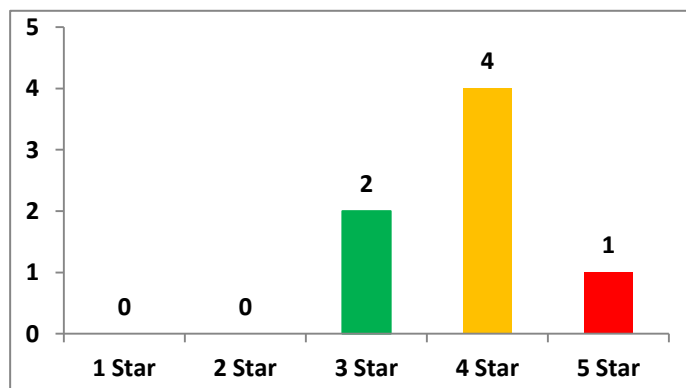


Figure 1: Graph for the Local Assessment Tax Collection Performance at City Councils

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

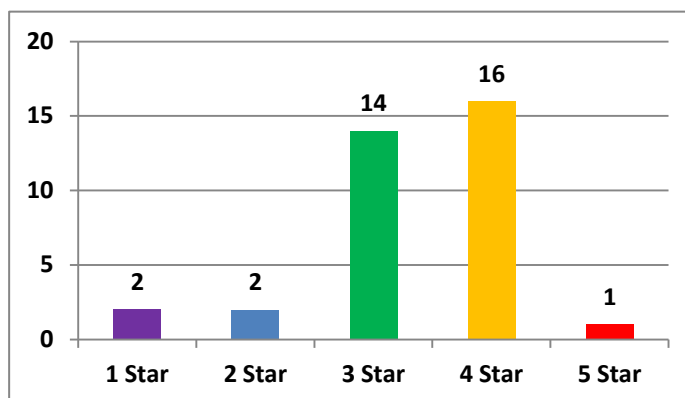


Figure 2: Graph for the Local Assessment Tax Collection Performance at Municipal Councils

5 Conclusion

With a working performance measurement for the efficient administration of assessment tax as a basis, revenues will be maximized through the outstanding performance of local governments and arrears will also decrease. It is expected that this assessment tax performance measurement will be employed as a basis to pursue the appropriate, innovative and creative approaches for Malaysian local governments in tax management. Thus, with high yields local governments 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 an assessment tax management model, it is hoped that the problem of assessment tax collection in LGs 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 governments 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 assessment taxes as a basis, income will be maximized through excellent performance of the local governments (LGs) and the arrears will be reduced. It is expected that the performance of the assessment tax will be used as a basis to proceed with an appropriate approach, innovative and creative in the management of local assessment tax by local governments in Malaysia. Therefore, the high yield of local governments 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.

ACKNOWLEDGEMENTS: The authors would like to thank University of Tun Hussein Onn Malaysia (UTHM) for supporting this research under the Postgraduate Incentive Research Grant. Furthermore, the authors wish to express their sincere appreciation to the supervisor for his ideas and time and also for all the support received from relevant parties to the success of this research.

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