

Assessment Tax by Local Government in Malaysia: An Overview

¹Shamsinar Rahman & ²Khairul Anuar Abdul Hadi

¹ Faculty of Administrative Science and Policy Studies, Universiti Teknologi MARA,
Cawangan Pahang, Malaysia

² Faculty of Law, Universiti Teknologi MARA, Cawangan Pahang, Malaysia

shamsinar512@uitm.edu.my

ABSTRACT

Tax is an important source of income for the Government. Assessment tax refers to the tax collected by the Local Government (LG) on property. Assessment tax makes up most of the revenue collection of the LG. However, most of the LG in Malaysia are facing the problem of assessment tax arrears. According to the report by the Auditor General of Malaysia, most of the LG in Malaysia are facing the problem of assessment tax arrears and the number of arrears is increasing every year. The main purpose of this study is to identify the factors of assessment tax arrears by referring to Fisher's Tax Compliance Model. The focus area is on the attitude of taxpayers. This paper explores the challenges faced by local governments in collecting assessment tax. The study suggests that LG in Malaysia needs to find a way to reach taxpayers and spread the knowledge of tax compliance behavior among taxpayers.

Key Words: assessment tax, local Government, taxpayer, the property owner

1. INTRODUCTION

Local government is a public agency that has important responsibilities to provide urban services to the communities (Kuppusamy, 2008). Besides, LG may also be described as "the act of decentralizing power, which may take the form of deconcentration and devolution. De-concentration refers to the delegation of authority to the field unit of the same department. In contrast, devolution refers to a transfer of authority to LG units (Wraith, 1972). The LG in Malaysia is the third tier and lowest level after federal and state governments. According to paragraph 5 and 5 of the ninth schedule of the federal constitution of Malaysia, the LG is under the control of the state government. However, the Federal Government may exercise its considerable power over LG. This embarked on the concept of federalism as the central Government had enormous control over smaller governments (Phang, 2008). LG's in Malaysia perform two functions. The first is an obligatory function which is financial and administration, enforcement and licensing, public amenities, environment, social service and development, and public health and cleaning. In performing such a function, the LG depends on the allocation given by the federal and state Government and also based on the tax or fines collected. The other function is discretionary functions such as beautification of local areas, gardens, recreational parks, etc depending on the financial strength of the LG.

According to the report by the Auditor General (AG) of Malaysia, most of the LG in Malaysia are facing the problem of assessment tax arrears and the number of arrears is increasing every year. Kuantan Municipal Council (MPK) for instance has set up a special team to collect assessment tax amount RM14 million which has been outstanding for the past 10 years (Awang, 2018). According to the

AG report in 2017, Pasir Gudang Municipal Council (MPPG) recorded RM18.55 million of total assessment tax arrears in 2017 and has been outstanding between 1 to 72 months. In addition, the total arrears of assessment tax for 16 business premises in Kuala Terengganu has reached RM 193, 574.31 (Zulkifli, 2016). The above-mentioned examples explained the problem of assessment tax arrears faced by most of the LG in Malaysia.

The objective of this research is to identify the factors of assessment tax arrears by referring to Fisher's Tax Compliance Model.

2. LITERATURE REVIEWS

2.1 Tax

Taxation became a crucial economic tool to govern the economy of a country. Fund collected through taxes used by the Government in providing development for the country and providing better facilities for the population (Loganathan et al, 2007). Taxation affects citizens' lives in many aspects. By paying tax, the taxpayers may be able to enjoy various types of services provided by the Government. Through the revenue collection, the Government may spend the money in terms of public expenditure such as better transportation, education, facilities, and many other things. A tax is a mandatory financial charge or one type of levy imposed upon a taxpayer by the Government. Taxpayers may refer to individual taxpayers or any legal organization (Lin & Jia, 2019).

2.2 Assessment tax

Assessment tax is the primary source of revenue for municipalities in Canada, the United States, and Australia (Bird and Slack, 2002). Property taxes comprise recurrent taxes on property, property transfer taxes, stamp duties, financial transaction taxes as well as death and gift taxes. In addition to this definition, the International Monetary Fund (IMF) uses this definition for reporting purposes (Franzsen, 2020). Assessment tax or property tax is the main tax imposed by the LG. The assessment tax is a compulsory contribution to be paid by the taxpayers, and in return, the taxpayer will receive benefits from the LG such as the facilities, infrastructure, and development projects (Pawi. S et al, 2012).

Assessment tax is generally practiced by countries around the world. Property taxes have a long history in the U.S. and have traditionally been used by LGs to fund local public goods, such as schools, policing, fire protection services, recreational facilities, and local roads and transportation (Cabral and Hoxby, 2012)

Japan has an interesting story, whereby they have a strong belief that the LGs are the cornerstone of democracy and as the level of government closest to the people. Therefore, it should get greater shares of revenue to meet their needs. On the other hand, in China, they are not depending much on the financial grant of the Federal Government but depend on local taxes. China derived its local taxes from income, license plates, and real estate. In Indonesia, the LGs received revenues from hotels, properties, restaurant bills, and entertainment and enterprises owned by the LG.

As for Malaysia, the assessment tax is one of the main resources for the Malaysian Government where the LGs received its revenue from the assessment tax, fine, and grant (Daud, 2008). The property tax or assessment tax is a local tax levied on all property holdings, including shops, factories, residential, agriculture, and other, situated within the Council's area of jurisdiction.

Assessment tax imposed upon the property owners from a residential property such as houses to industries such as factories and other enterprises. These property owners are liable to pay their assessment rate even though the property is unoccupied. The amount of taxes varies from one state to another as the rate is set by relevant local authorities. The collection of assessment rates by local authorities is done 2 times per year, which is in February and August. All property owners in Malaysia are obliged to pay the assessment rate, the failure to do so may result in penalty charges by the Government.

2.3 Assessment tax arrears

The arrears may occur when the property owner fails to pay the rates assessment payment to the respective LG by the end of February or by the end of August each year (Section 147(2) Local Government Act 1976).

2.4 Factors of assessment tax arrears: Attitude

Fisher identifies 4 groups that affect tax compliance which are demographic, Noncompliance opportunity, Attitude and perception, and tax system. However, this paper may focus on the attitude of the taxpayers towards LG. Results of a study conducted in South Africa concluded that taxpayers feel discomfort and frustration with the current level of services by the municipal council and they indicate that the LGs' service delivery is inadequate (Asha, 2014). In addition, trust is one of the elements that reflect citizens' attitudes towards government. If the citizen perceives that the LGs are trustworthy in spending money it may shape their compliance behavior. Furthermore, according to Hiskey and Seligson (2003), there is a link between LG performance and citizens' attitudes. If LGs' performance is unsatisfactory it may create frustration among citizens and result in citizens refusing to give cooperation towards LG. Kosecik et al (2004) stated that citizens' attitude towards LG is different depending on several variables which are age, sex, education, income, and occupation.

2.5 Local government legislation in Malaysia in relation to assessment tax.

The main LG legislation in Malaysia predominantly under the Local Government Act 1976. As revenue is concerned Section 39 of the said act stated one of the revenues of the local authority is taxes. This provision is the primary source of authority to allow the local authority to collect the assessed tax.

In *Majlis Daerah Dungun v. Tenaga Nasional Berhad* [2006] 4 MLJ 731, the issues raised based on failure to pay the annual assessment rate by the defendant. The court held that the acceptance of interim payment and entering into negotiation is an indication the Plaintiff estopped from imposing a new rate without notice.

Section 119 of the said that:-

Every person who is guilty of any offense against this Act or any by-law, rule or regulation for which no penalty is expressly provided shall on conviction be liable to a fine not exceeding two thousand ringgit or to a term of imprisonment not exceeding one year or to both.

This provision suggests, the failure of any person to comply with the requirement under this Act includes to pay assessment tax shall be subjected to legal action. This legal action can be initiated under 120 of the Act. The provisions read as follows:-

The local authority may direct any prosecution for any offense under this Act or any by-law, rule, or regulation and shall pay such expenses as may be incurred in such prosecution and any advocate and solicitor authorized in writing by the local authority or any officer of the local authority may conduct any such prosecution.

Failure of the assessment can be subjected to the penalty and proceeding stated under section 147 and 148 of the said Act, and this includes 2% from the arrears as per Form E of the Act. The failure of the owner of the premises to pay arrears will lead to prosecution and confiscation processes and procedures.

3. RECOMMENDATION TO IMPROVE THE COLLECTION OF ASSESSMENT TAX

An individual will only comply with rules and regulations when confronted with harsh sanctions and penalties. The collection of assessment tax could be improved by implementing three strategies which are an incentive for prompt payment, penalties for late payment, and actions against non-payments (Mohamad et.al, 2006). Based on the literature review, it is recommended that the LGs need to educate

the local residents so that they understand why they need to pay the assessment rate on time. Furthermore, LG's also can organize programs and be more transparent to get citizen trust in the council. The LGs enforcement unit also needs to find ways on how to reach taxpayers. It is recommended also that the LGs should continuously get the response from citizens in measuring the satisfactory level of the citizen.

4. CONCLUSION

In short, we can see the importance of assessment tax to LGs. Even though LGs is the smallest province, LGs is the closest to the people. The LG plays an essential role in delivering the policy of the federal and State Government to the residents and acts as a medium to inform the states and Federal Government of the demand of residents. Apart from that, the assessment tax was regulated under the law that enables the LG to initiate legal proceedings against the tax defaulter. This provision is to ensure the resident abides with the rules and requirements concerning payment of tax assessment. Thus, understanding of the importance of tax assessment and its implication of non-payment must be taken seriously by the members of the public.

REFERENCES

- Asha, A. A. (2014). Attitudes and Perceptions Towards Local Government Service Delivery Efforts in Limpopo Province, South Africa. *Mediterranean Journal of Social Sciences*, 5(20), 224.
- Awang, Asrol. "Perhebat kutip cukai taksiran tertunggak." *Berita Harian Online*, 15 Julai 2018, <https://www.bharian.com.my/berita/wilayah/2018/07/449253/perhebat-kutip-cukai-taksiran-tertunggak>. Accessed 5 November 2020.
- Bird, R. M., & Slack, E. (2002). Land and property taxation around the world: a review. *Journal of Property Tax Assessment and Administration*, 7(3), 31-80.
- Cabral, M., & Hoxby, C. (2012). *The hated property tax: salience, tax rates, and tax revolts* (No. w18514). National Bureau of Economic Research.
- Daud, D. Z. (2008). The Needs for Capacity Building in Local Government in Malaysia (ith Regards to Property Taxation Administration) By
- Franzsen, R. (2020). A review of property transfer taxes in Africa. In *Rethinking land reform in Africa new ideas, opportunities and challenges* (p. 112). African Development Bank. https://www.researchgate.net/profile/Uchendu_Chigbu/publication/340455858_Negotiating_land_rights_to_redress_land_wrongs_women_in_Africa's_land_reforms/links/5ecee899299bf1c67d23b2ea/Negotiating-land-rights-to-redress-land-wrongs-women-in-Africas-land-refo
- Hiskey, T. Jonathan and Seligson, A. Mitchell, (2003). Pitfalls of Power to the People: Decentralization, Local Government Performance, and System Support in Bolivia. *Studies in Comparative International Development*, Vol. 37, No. 4, pp. 64-88.
- Jabatan Audit Negara Malaysia. 2014. Laporan Ketua Audit Negara 2014 Penyata Kewangan Kerajaan Negeri dan Pengurusan Kewangan Jabatan/Agensi.
- Kosecik, Muhammet and Sagbas, Isa (2004) 'Public Attitudes to Local Government in Turkey: Research on Knowledge, Satisfaction and Complaints', *Local Government Studies*, 30: 3, 360 — 383.
- Kuppusamy, S. (2008) "Local government in Malaysia : Back to basics and the Current Scene," *Journal of Malaysia Chinese Studies* vol. 11, pp. 77-96, 2008. Lines, Lincoln Institute of Land policy, Cambridge, MA, April, pp. 5-6.
- Lin, B., & Jia, Z. (2019). Tax rate, government revenue and economic performance: A perspective of Laffer curve. *China Economic Review*, 56, 101307.
- Local Government Act 1976 (Act171)*. (2012).
- Loganathan, N., & Taha, R. (2007). Have Taxes Led Government Expenditure in Malaysia?. *Journal of International Management Studies*, 2(2), 99-113.
- Mohamad Sharofi Ismail, Md. Suhaimi Md Saleh, Syed Soffian Syed Ismail & Ummi Kalthum Shuib (2006). *The Management of Assessment Taxes in Malaysian Local Authorities*. Shah Alam: Universiti Teknologi MARA (UPENA) Publications
- Pawi, S., Martin, D., Yusoff, W. Z. W., & Shafie, F. (2012). Assessment Tax Management Model of Local Governments in Malaysia. *China-USA Business Review*, 11(1), 133-144.
- Phang, S. N. (2008). Decentralisation or Recentralisation? Trends in local Government in Malaysia. *Commonwealth Journal of Local Governance*, (1), 126-132. <https://doi.org/10.5130/cjlg.v1i0.759>

- Razak, R. A., Ramli, R., & Palil, M. R. (2017). Hubungan Antara Faktor Institusi dan Tunggakan Cukai Taksiran Pihak Berkuasa Tempatan (PBT) di Semenanjung Malaysia. *Asian Journal of Accounting & Governance*, 8.
- Setapa, A., & Lin, E. Y. S. (2009). The revenue performance of Malaysian local government. In *Decentralization Policies In Asian Development* (pp. 307-331).
- Wraith, R. E. (1972). *Local Administration in West Africa*. Allen and Unwin.
- Majlis Daerah Dungun v. Tenaga Nasional Berhad [2006] 4 MLJ 731
- Zulkifli, Ahmad Rabiul. "Tunggakan cukai taksiran RM193,574.31." *Harian Metro*, 9 November 2016, <https://www.hmetro.com.my/node/180385>. Accessed 5 November 2020.