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## **INVESTIGATION OF IMPEDIMENT FACTORS IN PROPERTY TAX REVALUATION PRACTICES**

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### **Abstract**

Property tax is a form of taxation payable by real estate owners on their holdings because of their ownership or possession of the property. In Malaysia, a property tax revaluation is done once every five years or within an extended period as determined by the state government. However, the Ministry of Housing and Local Government Malaysia has recorded that most local authorities have not revalued their property for almost 35 years. Thus, the researchers conducted a focus group interview to identify the impediments in a revaluation of property tax among local authorities. The participants consisted of forty-three (43) officers from twenty-two (22) local authorities in the West of Malaysia. Data from focus groups identified were transcribed and analyzed using thematic analysis. Findings from the focus group revealed four (4) main impediment factors, namely (1) lack of knowledge in property tax revaluation paperwork, (2) lack of workforce, (3) cost constraints, and (4) time-consuming.

**Keywords:** Property tax, rating, property tax revaluation, local authorities, Malaysia

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## **INTRODUCTION**

The increasing rate of urban development in developing countries is driven by population growth, mechanization of the agricultural sector, and exogenous shocks such as climate change (Awasthi et al., 2020). The enforcement of property tax is vital to support urban growth, especially in developing countries. Property tax became the primary source of the municipalities besides rents, license fees, dues, and other sums or charges. A strong financial background associated with their revenue sources, particularly the property tax collection, is needed for local authorities to function sufficiently and efficiently (Ashmat, 2016; Jashari, 2020), thus providing essential services for urbanization expansion needs.

Property tax is considered a fair tax where many countries advise to increase their property taxes. Unfortunately, it has proved to be challenging to carry out successfully (Kuusaana, 2015). One of the significant hurdles in property tax is the revaluation process (Bustamin et al., 2018; Kuusaana, 2015; Piracha, 2016), requiring all holdings to be revalued their current market value within a specific cycle. Therefore, this paper seeks to determine the impediment factors on property tax revaluation practices.

### **Property Tax: Definition and Concept**

In general, property tax is a tax levy issued by a government on a person's real or personal property. The local authorities use the tax to generate revenue required to provide public services such as waste disposal, road repairs, street lighting, and maintaining public buildings like schools, libraries, recreational parks, etc.

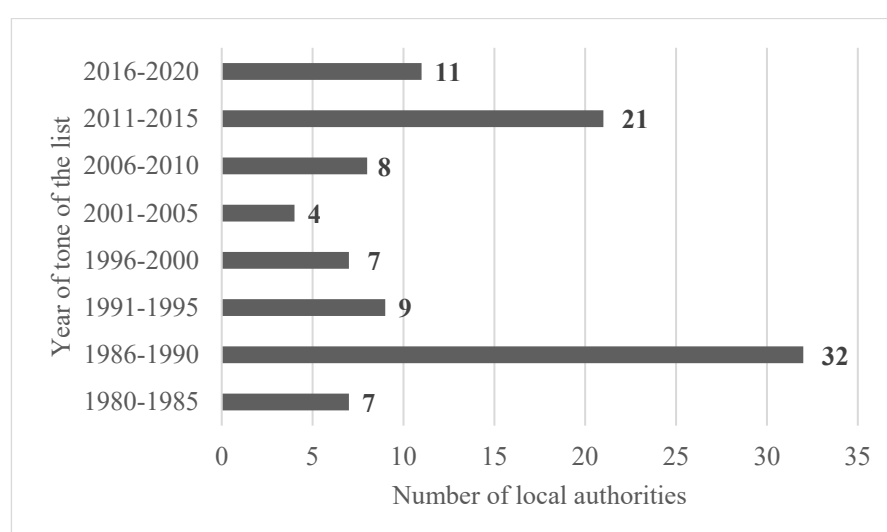
Referring to the 6<sup>th</sup> Edition of Malaysian Valuation Standard (MVS) 2019, property tax is one of the statutory purposes in property valuation. Property tax, known as a rating, is a local government tax imposed on holdings within a local authority area. The power to impose rate was stipulated under section 127 of Local Government Act 1976 (As amended) (Act 171), which granted local authority to impose rate within its boundary with the state government's approval.

According to section 130 of Act 171, annual value or improved value used to measure property tax value based on its current market value. Each local authority may-propose their valuation list consisting of the list's tone to indicate the valuation's base year. The amount taxed on a given property may change over time based on a revaluation of its value.

### **Property tax Revaluation: The implementation and issues**

In Malaysia, a revaluation of property tax is done once every five years or within an extended period as determined by the state government (Section 137, Act 171). The old valuation list shall remain in use until a new valuation list supersedes it. Unfortunately, most local authorities practice property tax revaluation exercises for more than five years and in a much longer time.

The Ministry of Housing and Local Government has recorded that most local authorities haven't revalued the property for almost 35 years. Figure 1 shows that only 11 local authorities in West Malaysia practice the latest tone of the list (within five years) for their holdings in which Seberang Perai City Council topped the list. Of 99 local authorities in west Malaysia, 49 local authorities have used the valuation list for more than five years, even up to 30 years. The remaining 39 local authorities have used the valuation list for more than 30 years. Though the act allows for an extension of the revaluation period to more than five years, that does not mean that the old valuation list will last as there is no official extension.



**Figure 1.** The Practice of Tone of the List by West Malaysian Local Authorities  
*Source: Local Government Department, Ministry of Housing and Local Government Malaysia*

A postponement of property tax revaluation practices will lead to various financial issues since the primary source of the municipalities' revenue comes from property tax collection (Awasthi et al., 2020; Kuusaana, 2015; Pawi et al., 2011). Local authorities will be facing a higher budget deficit as the cost continues to increase from year to year. The situation has indirectly resulted in lower performance by local authorities giving basic needs to their jurisdiction area.

On the other hand, hanging on the list's tone will also lead to drastic changes in the property price. During the revaluation exercise undertaken by Kuala Lumpur City Hall (DBKL), they highlighted reasons to increase the rates because the last increase was more than 20 years ago (Chang, 2013). The property price has an increase in value, and it's hard for the taxpayers to bear the rate, especially retirees and pensioners. This situation is against the Government's inspiration to help the public.

The outdated practice of tone of the list in Malaysia is not because of no application submitted to the state government. Some local authorities like Kajang Municipal Council submitted the proposal of property tax revaluation to the Selangor State Government. Then it was rejected and dragged to the court (Local Government Department, Ministry of Housing and Local Government Malaysia). Hence, this research seeks to identify the main reasons behind these issues from the local authorities' perspective.

One of the impediment factors in property tax revaluation practices is political interference (Kuusaana, 2015; McCluskey & Franzsen, 2005). According to Muhammad et al. (2012), political reasons become the main reasons for the hung on the tone of the list of 1982 from Ipoh City Council (MBI), Perak. The act empowered the state governments to approve local authorities' submissions on revaluation of property tax but not to satisfy personal interest and later the national interest. As a consequence, the application by MBI was rejected because of the fear of losing votes. However, this deductive factor is the external variable that can't be controlled.

Human resources become one factor that impedes property tax revaluation (Kuusaana, 2015; McCluskey & Franzsen, 2005; Muhammad & Ishak, 2012; Raja Abdullah, 2009). Some researchers suggest that outsourcing the service to the private sector could help implement the revaluation (Awasthi et al., 2020; Raja Abdullah, 2009). Moreover, Bahardin et al., (2019) suggested enhancing workforce competency by increasing the number of valuer and field technician capacity. Also, the need for an experienced valuer in property tax valuation will produce less property assessment variance (Atilola et al., 2019). Therefore, these factors need to be considered when practising property tax revaluation.

The budgetary manner is other property tax revaluation issues that need to be prioritized (Kuusaana, 2015; Raja Abdullah, 2009). A strong financial is required to reassess property tax due to a massive number of the property needing to be valued. On the other hand, cost issues are also associated with information technology (IT). Most of the researchers suggested local authority to have an IT-based approach to produce a quality property tax system (Awasthi et al., 2020; Grover et al., 2017; Kuusaana, 2015). Referring to Mian (2019), IT's investment will reduce the risk in local authority business. The problem is the authority needs to allocate some budget to this matter.

Even though many impediment factors have been discussed in the literature, it involves external and internal elements from the local authorities. Therefore, this research will look up the internal issues in local authorities focusing on the management aspect. Moreover, this exploratory research will identify the other factors lacking from the literature that impede property tax revaluation practices in the Malaysian context.

## METHODS

### Study Design

Focus groups conducted with the local authorities' officers to elicit their views regarding the property tax revaluation impediments. The characteristics of focused group interviews focus on the respondent's experiences regarding the research topic. It takes place with respondents known to have involved in particular expertise (Onwuegbuzie et al., 2012).

### Setting and Participants

The focus group discussion was held at the Housing and Local Government Training Institute (I-KPKT), Pahang, Malaysia, from 18 to 20 February 2020. A total of forty-three (43) officers from twenty-two (22) local authorities in the West of Malaysia were invited using purposeful sampling to participate in the focus group discussion. Eligibility criteria include ages 21 years and older, have at least two years of working experience, and working in the valuation department. All participants invited to the focus group sessions were eligible, consented to, and enrolled in the study. The number of respondents, according to the department, are listed in Table 1.

Hierarchy	Participants	Percentage
Town Hall	1	2%
Municipal Hall	18	42%
District Hall	24	56%
<b>Total</b>	<b>43</b>	<b>100%</b>

**Table 1.** Number of respondents according to government hierarchy

*Source: Authors' Research (2020)*

### Data Collection

The questions used to guide the focus group sessions were developed from Liamputting (2015) guidelines for developing and asking effective focus group questions. The questions guide for focus group discussion are as the following:

**Table 2.** Questions Guide: The questions guide served to achieve the aim of the study

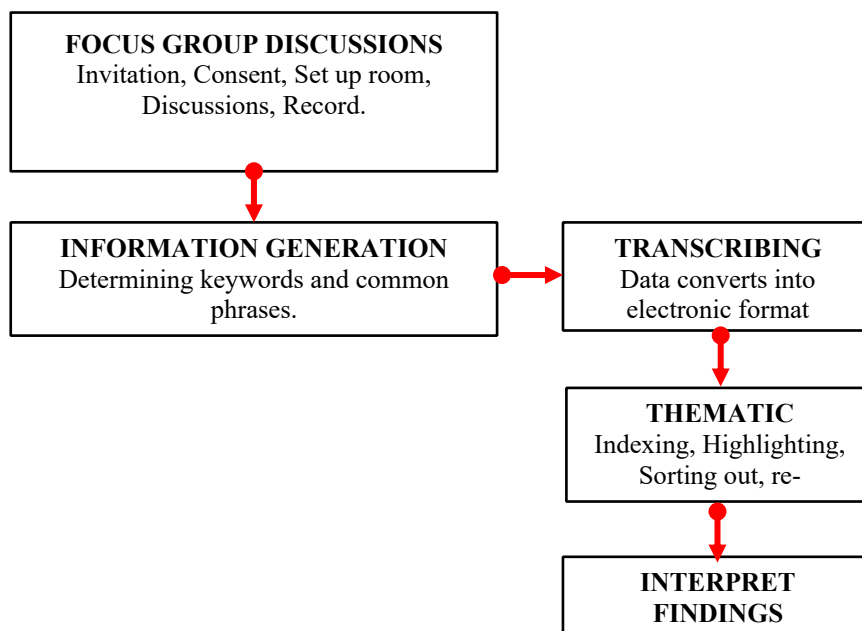
Questions guide	
Introductory question	Can you please tell us about your experience of property tax revaluation practice?
Focus questions	Can you tell us briefly about what stops the local authority from conducting a revaluation in your area? What are the most significant barriers faced by your department to practice the revaluation process?

Summarising question	As you know, we will be implementing a programme to prepare the property tax revaluation proposal. Think back on your experience and our discussions today and tell us what we can provide for assistance.
Concluding question	Is there anything else that anyone feels that we should have talked about but did not?

*Source: Authors' Research (2020)*

**Analysis**

The thematic analysis used to code the identified transcript data in a descriptive preliminary framework for later analysis. In Brinkmann and Kvale (2015), there are three stages involved in focus group data analysis. The first stage begins with a discussion session facilitation. Next is information generation, and lastly, transcribing the generated information into electronic format. After the data transcription, their responses were coded by determining keywords and phrases common amongst the participants that involved indexing, highlighting, and sorting out quotes and rearranging to develop thematic content (Creswell, 2015). As it builds directly from the raw data, the process itself ensures the work's validity (Bryman, 2012). The steps involved in the thematic analysis summarized in Figure 2.



**Figure 2.** Focus Group Discussions Procedures  
*Source: Brinkmann & Kvale (2015)*

## RESULTS

A successful focus group discussion conducted with 43 participants assigned into six groups, namely G=1 is group one, G=2 is group two and so on. The mean age was 35 years old, and over half were male (60%), and 56% of participants were from district local authorities. There were six to seven participants assigned in a group. Analysis of the focus group discussions on the barriers in property tax revaluation practices revealed four codes or themes: lack of knowledge in property tax revaluation paperwork, lack of workforce, cost constraints and time-consuming.

### **Lack of knowledge in property tax revaluation paperwork**

According to the law in West Malaysia, a property tax revaluation must take place every five years. But due to lack of knowledge in drafting the property tax revaluation paperwork resulted in revaluation postponement.

*"Given the basis of the property tax system, it is obvious that frequent revaluations are necessary. However, my department (has) decided to postpone the revaluation" (G=2)*

*"It is because we have yet been involved in the preparation of revaluation proposal (paperwork)." (G=3)*

*"It is a very, very important thing (paperwork), and I don't think I can draft a good proposal (paperwork) without an explanatory or a guide listing specific criteria for drafting revaluation paper proposal." (G=6)*

### **Lack of Workforce**

Subsequently, many local authorities in West Malaysia have encountered a shortage of human resources to conduct revaluation purposes.

*"Whatever the reason (revaluation postponement), the majority of the local authorities at district level have manpower crunch." (G=1)*

*"Lack of manpower could result in revaluation postponement. Hiring temporary staff will increase the operational cost." (G=4)*

### **Cost Constraints**

From the discussions, cost constraints still topped the list. All participants agreed that one of the reasons for revaluation postponement is cost constraints.

*"It is the precise purpose of having a revaluation to reflect changes in values upwards. Yet the cost involved in revaluation is too costly." (G=1)*

*"...too costly (revaluation)." (G=3)*

*"It is not economical for the district hall level to conduct the revaluation every five years as the local authorities at district level have a small budget and small revenue." (G=5)*

### **Time-consuming**

Another key is that the process of revaluation takes years to complete.

*"Kajang Municipal Hall calculates approximately ten years to complete the revaluation involving 320,000 ratable holdings." (G=2)*

*"I estimate the revaluation to complete in two years (involving 40,000 ratable holdings)." (G=5)*

*"Approximately two years is needed to conduct such purpose (involving about 80,000 ratable holdings)". (G=6)*

## **CONCLUSION AND RECOMMENDATION**

The Ministry of Housing and Local Government has recorded that only some local authorities in West Malaysia have practised the latest tone of the list for their holdings. Even though the policy granted the powers of extending the property tax period beyond five years, it does not mean an extension to be in perpetuity. There was never a specific official extension from this time to a definite future date. Therefore, to avoid drastic changes in property tax value in the future, each local authority needs to do a revaluation close to 5 years' period. The property tax revaluation is significant in making the local authority's functions narrow and efficient for the development within its territory in the future. The result will then bring a better quality of the built environment to provide buildings and infrastructure for the surroundings.

The key findings revealed four impediments in property tax revaluation: lack of knowledge in property tax revaluation paperwork, lack of workforce, cost constraints, and time-consuming. From the focus group findings, cost and workforce prove to impede property tax revaluation implementation as support the literature from other countries. The process needs many staff to exercise the valuation of all holdings located within local authorities' boundaries. Hence, this will drive an additional labour force's engagement, which is undeniably higher in cost. On the other hand, the time factor revealed from the analysis due revaluation work requires a lengthy procedure starting the paperwork preparation, valuation process and later approval. Knowledge workers in preparing the paperwork also became the prominent bone of contention in this



practice. In aid of this, future research may continue to see the result quantitatively on the relationship between all themes from our findings and test them via a more rigorous research design.

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