

e-Proceeding

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IMPEDIMENTS OF RATING REVALUATION: EVIDENCE FROM WEST MALAYSIAN LOCAL AUTHORITIES

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Abstract

Rating is a form of taxation payable by real estate owners on their holdings because of their ownership or possession on the property. A revaluation of all holdings is done once every 5 years or within such extended period as determined by the state government. The Ministry of Housing and Local Government has recorded that most of the local authorities haven't revalued the property for almost 35 years. Thus, a focus group interview was conducted to identify the impediments in a revaluation of rating among local authorities. The sample consists of 43 officers from 22 local authorities in west Malaysia. Finding from the focus group revealed 4 main issues; namely, (1) lack of knowledge in rating revaluation paperwork, (2) lack of manpower, (3) cost constraints, and (4) time-consuming.

Keywords: *rating; rating revaluation; property; local authorities; West Malaysia*

1.0 INTRODUCTION

In general, rating is a tax levy issued by a government on a person's real or personal property. It is the way used by the local authority in west Malaysia to generate revenue that is required for providing public services such as waste disposal, road repairs, street lighting, as well as maintaining public buildings like schools, libraries, recreational parks, etc.

2.0 LITERATURE REVIEW

2.1 Rating: Definition and Concept

Referring to the 6th Edition of Malaysian Valuation Standard (MVS) 2019, rating is one of the statutory purposes in property valuation. Rating or also known as assessment is a local government tax imposed on holdings within a local authority area. The power to impose rate had been 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 approval by the state government.

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

2.2 Rating Revaluation: the implementation and issues

A revaluation of all holdings is done once every 5 years or within such extended period as determined by the state government (Section 137, Act 171). The old valuation list shall remain in use until it is superseded by a new valuation list. Unfortunately, most of the local authorities practice rating revaluation exercises for more than 5 years and in a longer time. The Ministry of Housing and Local Government has recorded that most of the 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 for their holdings where Seberang Perai City Council tops the list.

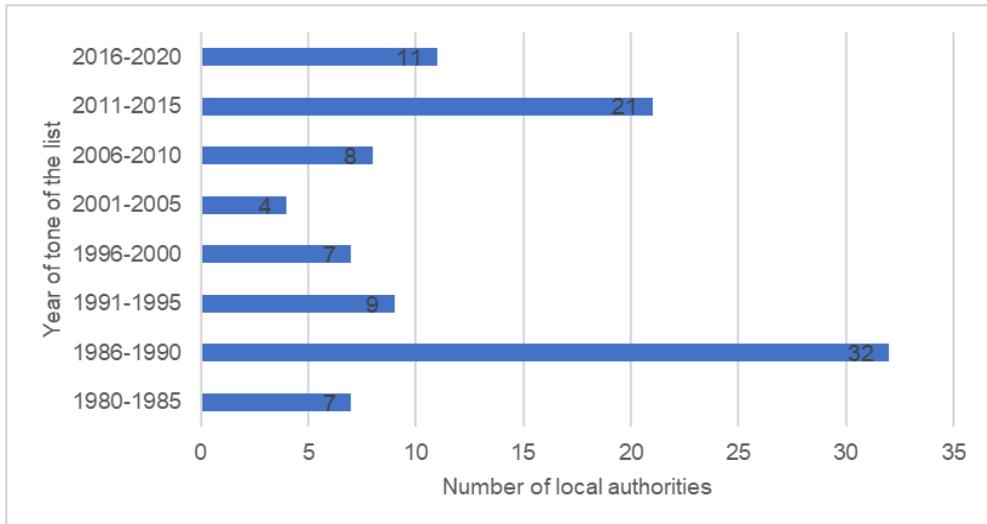


Figure 1: The practice of tone of the list by west Malaysian local authorities

Source: Local Government Department, Ministry of Housing and Local Government Malaysia

The outdated practice of tone of the list in Malaysia is not because there is no application being submitted to the state government. Some of the local authorities like Kajang Municipal Council had submitted the proposal of rating revaluation to Selangor State Government. Unfortunately, it was rejected and dragged into the court. Hence, this research seeks to identify the main reasons behind these issues from the local authorities' point of view.

During the revaluation exercise undertaken by Kuala Lumpur City Hall (DBKL), they highlighted reasons to increase the rates due to the last increase was more than 20 years ago and the property price has an increase in value (Chang, 2013). On the other hand, Chang (2013) reported some pertinent issues by the National House Buyer Association (HBA) which stated that it will be unfair to penalize the owner on the increased price when he has not enjoyed the benefit because most of the properties are owner-occupied which come from retirees and pensioners. Other than that, HBA also mentions that the increase in rating doesn't translate into a better service. This situation is against the Government's inspiration to help the citizens.

According to Muhammad et al. (2012), political reasons and a shortage of qualified personnel have become the main reasons for the suspended Tone of the List of 1982 by Ipoh City Council (MBI), Perak. The act empowers the state government to approve submissions from local authorities on revaluation of rating but due to the extent of satisfying personal interest, the public interest was neglected. As a consequence, the application by MBI has been rejected because of the fear of losing votes.

3.0 METHODOLOGY

This research applies the qualitative method in order to discern the impediments in rating revaluation among local authorities in West Malaysia.

3.1 Data Collection

Focus group discussion (FGD) with the local authorities' officers were conducted to elicit their views regarding the rating revaluation impediments. The characteristics of focused group interviews are, it is focused on the respondent's experiences regarding the research topic and it takes place with respondents known to have been involved in a particular experience (Onwuegbuzie, et al., 2012).

3.2 Participants

A total of forty-three officers from twenty-two local authorities in West Malaysia were invited by means of purposeful sampling to participate in the FGD.

Table 1: Number of respondents according to government hierarchy

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

(Source: Authors' Research, 2018)

3.3 Location

The FDG was held at the Housing and Local Government Training Institute (I-KPKT), Pahang, Malaysia on 18 February 2020. The number of respondents according to the department are listed in Table 1.

3.4 Data Analysis

According to Ginn and Sunny (2015), three stages are involved in FGD 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 that were common amongst the participants that involve indexing, highlighting, and sorting out quotes and rearranging to develop thematic content (Creswell, 2015).

4.0 FINDINGS AND DISCUSSION

A successful FGD was conducted with 43 participants. The key findings revealed four impediments in rating revaluation, namely, lack of knowledge in rating revaluation paperwork, lack of manpower, cost constraints and time-consuming.

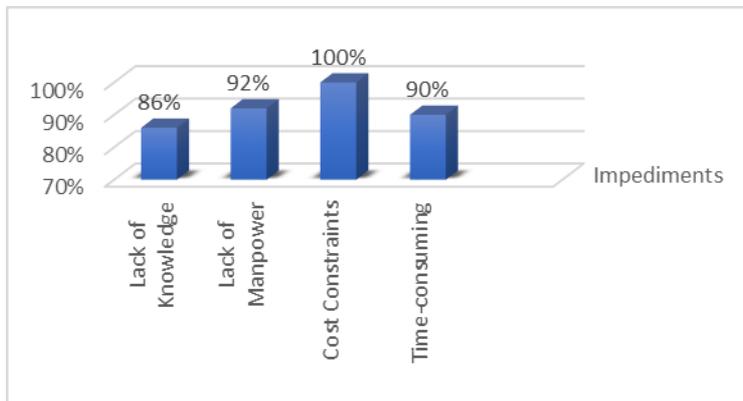


Figure 2: Frequency of rating revaluation impediments

(Source: Authors' Research, 2020)

4.1 Lack of knowledge in rating revaluation paperwork

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

"Given the basis of the rating system, it is obvious that frequent revaluations are necessary. However, my department decided to postpone the revaluation" N9

"It is because we have yet to be involved in the preparation of revaluation proposals (paperwork)." N21

"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." N17

4.2 Lack of manpower

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

"Whatever the reason (revaluation postponement), the majority of the local authorities at district level have manpower crunch." N19

"Lack of manpower could result in revaluation postponement. Hiring temporary staff will increase the operational cost." N26

4.3 Cost constraint

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

"It is the precise purpose of having a revaluation to reflect changes in values upwards. Yet the cost involved in revaluation is too costly." N1

"...too costly (revaluation)." N11, N15, N16, N20, N21, N27, 28, N31, N38

"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." N5

4.4 Time-consuming

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

"Kajang Municipal Hall calculates approximately ten years to complete the revaluation involving 320,000 ratable holdings." N17.

"I estimate the revaluation to complete in two years' time (involving 40,000 ratable holdings)." N40

"Approximately 2 years is needed to conduct such a purpose (involving about 80,000 ratable holdings)". N15

5.0 CONCLUSION AND RECOMMENDATION

The Ministry of Housing and Local Government has recorded that only 11 local authorities in West Malaysia practice the latest tone of the list for their holdings. The key findings revealed four impediments in rating revaluation, namely, lack of knowledge in rating revaluation paperwork, lack of manpower, cost constraints, and time-consuming. From the focus group findings, the cost constraints of rating revaluation are the most significant issues. The process needs a huge number of staff to exercise the valuation of all holdings located within local

authorities' boundaries. This will drive the engagement of additional labour force which undeniably higher in cost.

In addition, even though the policy granted the powers of extending the rating period beyond five, it does not mean an extension to be in perpetuity as there was never a specific official extension from this time to a definite future date, instead each time the local authorities made their proposal. To avoid drastic changes in rating value in the future, each local authority needs to do a revaluation close to 5 years' period. The rating revaluation is very important in making the functions of the local authority narrow and efficient for the development within its territory in the future.

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