

PROPERTY OWNER'S ATTITUDE TOWARDS ASSESSMENT TAX OBLIGATION

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Abstract: Tax is an important source of income to the government. Assessment tax or property tax is one of the main income to the local government in Malaysia. The successful collection of the assessment tax will ensure smooth and efficient implementation of local government administration. The taxpayer's attitude towards assessment tax obligation has been identified as one of the factors that contribute towards assessment tax arrears. The objective of this study is to provide extensive reviews of the property owner's attitude towards their assessment tax obligations. The extensive review is hoped to provide deeper understanding on the issue of assessment tax arrears as well as contribute to the body of knowledge in tax and local government context.

Keywords: Assessment tax, Local government, taxpayer, property owner

Introduction

Local government in Malaysia is ranked third after the Federal and State government in terms of hierarchy, powers and responsibilities. It is vested with the power to create its own revenue sources. Local government's financial autonomy will determine their ability in providing facilities and development to the residents under their jurisdiction. To provide these services, the local government relies heavily on their financial strength. According to s. 39 of the Local Government Act 1976 (PM), the property tax is the main revenue of local government. The revenue later normally being used by the local government to finance its services such as (1) to fund construction and maintenance of public amenities such as bus stops, recreational parks and public toilets, (2) maintenance and construction of infrastructure such as drains, street lights and traffic lights, (3) cleaning of public areas, housing and business industry and (4) development and beautification of the local government area. Therefore, with all the above mentioned services, the local governments must have enough **revenue** to deliver the best services to the local community.

In Malaysia, the law provides **the** local government with the power to collect assessment tax under s. 127 of the Local Government Act 1976 (PM) and the failure of doing so by the property owner might lead to the assessment tax arrears. Assessment tax arrears refer to the late payment or nonpayment of the tax that should be paid by the property owner to the respective local government before 28th of February and 31st of August each year. At present, the sum of revenues collected by the local government is decreasing due to the amount of uncollected assessment tax arrears. In an earlier article, it was proposed **that** the main problem of assessment tax arrears is due to the taxpayers' negative responses (Saad, 2010). This problem not only happens in Malaysia, but the property tax revenue also experiences significant **decline** in other countries such as the US (Cabral & Hoxby, 2012).

To overcome the problems of assessment tax arrears, the property owners are **obligated** to pay the assessed tax. Obligation in this context **refers** to the amount that needs to be paid by the residents for the services and facilities provided by the local government. Therefore, the property owner in this context is considered as the **taxpayer**. According to Kuppusamy (2008), taxpayers refer to the person that resides in one area and owns a property such as a shop, house, hotel and factories. They are responsible to pay the assessment tax, or in some other countries **this is referred to** as property tax. Assessment tax is generally practiced by countries around the world. Daud, Kamarudin, Franzsen, and

McCluskey (2013) reported almost all the governments around the world rely to some extent on assessment taxation. According to Rahman, Hardev, Hussin, and Baharuddin (2015) the assessment tax is seen as the main **source** of revenue for municipalities in Canada, United States and Australia. In the Malaysian context, the types of property imposed to pay assessment tax are the private holdings such as residential **buildings**, commercial **buildings**, industrial **buildings**, and agricultural **lands** including empty or undeveloped land **lots**.

Research Methodology

This study was conducted to gauge the response from the property owners on their understanding of property tax liabilities. The samples of the study **are** derived from the academic and non-academic **staff** who are currently working in Universiti Teknologi Mara (UiTM) Pahang, Raub Campus. In this case, a preliminary survey was carried out to identify the property owner and get the voluntary participation from them. During the preliminary survey, the staff were asked one by one **whether** they owned a house or not. Then they were selected to measure their knowledge and understanding of the tax obligation towards the government. The result was; out of the 190 staff in UiTM Pahang, Raub Campus which **consisted** of 112 academic staff and 78 administrative staff, only 44 staff owned **a** house. The online survey **then was** distributed to only **the** 44 staff that owned **a** house.

The data from this study were collected using **a** questionnaire-based survey. This **study employed** quantitative methods **as a data** analysis technique. According to Creswell and Clark (2017) this method focuses on collecting **and** analyzing the data in a study or series of studies. Distribution of the questionnaire was conducted through the online survey, using Google Form as **an** online survey platform. The questionnaire was designed in such a way that the statements were not too short, not too long and it contains simple words to enhance the response rate from the respondents. The survey was made available in both languages namely in Bahasa Melayu and English. This is to ensure that the respondents can choose the language they prefer and **are** comfortable with. This is seen as necessary to ensure they do not simply answer the survey without having the full understanding of the subject matter.

The questionnaire for this study was separated into two sections namely; Section A and B. Section A consists of the demographic profile of the respondents such as gender, age, marital status, and income and employment status. Section B on the other hand consists of 5 questions designed to answer the objective of this study. Respondents were asked to answer the questions based on multiple choices format. This is to get the accurate findings on the property owner's understanding of the assessment tax obligations. For data analysis, descriptive analysis **that** was carried out **comprises percentage** and frequency value. The following sections **discuss** the result and discussion of the study.

Result and Discussions

The survey questionnaires were distributed among staff from UiTM Pahang, Raub Campus using Google Form. Total responses received **were** 22.6% (44 respondents) from the total population. Table 1 depicts the descriptive statistics of the respondents' demographic profiles. As indicated in Table 1, **the majority** of the respondents **were** male, 54.5% (24 **respondents**) while female respondents were 45.5% (20 respondents). The survey had received well balanced responses from both genders. Majority of the respondents are in the age group of 31-40 years old with 79.5% which represents 35 out of 44 respondents. This indicates most of the respondents **own property** at a young age. In addition, the results showed that **the** majority (88.6%, 39 respondents) are married. With respect to the income level of the respondents, it was found that **the** majority of the respondents (54.5%, 24 respondents) indicates that their take home income is RM4000 and above. Meanwhile respondents with the income of RM3001-RM4000 are 20.5% (9 respondents), RM2001-RMM3000 is 15.9% (7 respondents) and the remaining 4 respondents (9.1%) indicate that their income is **below RM2000**. A study by Houston and Tran (2001) found that individuals with lower income tend **not to comply to** pay tax. In addition, Ritsema, Manly, and Thomas (2003) in their study found that income level is positively related to the tax owed. Regarding the employment status, 75% (33 of the respondents) are permanent staff. Basically, the findings in Table 1 reveal that most of the property **owners** owned a property at middle age between 31 to 40 years.

Table 1: Profile of the Respondents

Characteristics		N (%)
Gender	Male	24 (54.5)
	Female	20 (45.5)
Age	18-25	0 (0)
	26-30	2 (4.5)
	31-40	35 (79.5)
	41-45	5 (11.4)
	50 and above	2 (4.5)
Marital Status	Married	39 (88.6)
	Bachelor	4 (9.1)
	Widow/ widower	1 (2.3)
Income	<RM2000	4 (9.1)
	RM 2001-RM 3000	7 (15.9)
	RM 3001-RM 4000	9 (20.5)
	>RM 4000	24 (54.5)
Employment Status	Permanent staff	33 (75)
	Contracts	8 (18.2)
	others	3 (6.8)

Table 2 explains the analysis of the main questions on the property owner's understanding about assessment tax liabilities in Malaysia. The questions were asked to get the feedback whether they really **understand their** responsibility and accountability towards the paying of the assessment tax imposed by the local government. The respondents' acceptance scores were derived from their responses based on the multiple-choice scales, which were categorized under 3 main categories namely, true, false and not sure. The items were designed in such a way to get the precise findings on the property owner's understanding of the assessment tax liabilities.

The first question asked was 'as a property owner, I am responsible for paying tax assessments to local governments'. 84.1% of the respondents or 37 of them indicate true for the statements, while 11.4% (5 respondents) indicate false and another 4.5% (2 respondents) were not sure about the statements. Even though there were respondents **that indicated** with the response **as a false** statement or unsure, it was found that the majority of 84.1% (37 respondents) were aware of their responsibility towards the local government. This shows that they know of their responsibility as a property owner to pay the assessment tax to the local government.

For the second question, the respondents were asked to respond to the statement 'assessment tax is paid twice a year'. This question was intended to measure the awareness of the respondents regarding **the** number of assessments issued by the local government. 72.7% (32 of the respondents) said it is true, while 11.4% (5 of the respondents) **indicated** false as their feedback and the balance of 15.9% (7 of the respondents) were not sure **about** this statement.

The third question asked was 'if I renovate my house, the assessment tax will be increased'. This question aims to evaluate the property owner's understanding in relation to the value of the property. The response for this question was 38.6% (17 of the **respondents**) were not sure of the statements. Meanwhile about 14 respondents (31.8%) **indicated** false as their feedback. This indicates that generally 31 of the respondents have no knowledge that the property value **increases** due to the house or property renovation and only 13 of the respondents are aware of this.

The fourth question asked is 'assessment tax is imposed to finance the construction of public facilities such as public toilets and construction of infrastructure such as drains and beautifying local areas'. The purpose of the question asked is to find out the understanding of the respondents regarding why they need to pay assessment tax to the local government. The **aim** of this question **is** to find out whether the property owner **is** aware that the assessment tax that they pay will become the revenue for the local government and in return they will be provided with all the facilities and services by the local

government. The result shows that 63.6% (28 of the respondents) indicate true as their feedback to the question. About 31.8% (14 of the respondents) indicate that they were not sure of this answer and about 4.5% (2 respondents) indicate false as their answer. According to Rahman et al. (2015), those who are not sure of the service provided by the local government could be due to their ignorance and do not have the interest to know what the local government is doing to their residential area. This group feels they get just about the same amount of benefit from government as they pay in taxes (Song & Yarbrough, 1978).

Table 2: Property owner's understanding on the property tax liabilities

Statements	Percentage (%) & Frequency		
	True	False	Not sure
As a property owner, I am responsible for paying tax assessments to local governments	84.1% (37)	11.4% (5)	4.5% (2)
Assessment tax is paid twice times a year	72.7% (32)	11.4% (5)	15.9% (7)
If I am doing the renovation on my house, the assessment tax will go up	29.5% (13)	31.8% (14)	38.6% (17)
Assessment tax is imposed to finance the construction of public facilities such as public toilets and construction of infrastructure such as drains and beautifying local areas.	63.6% (28)	4.5% (2)	31.8% (14)

According to the simple analysis from Table 2, this is where the problem of assessment tax arrears occurs whereby they did not pay the assessment tax on time. This result is concurrent with the study done by Chirico, Inman, Loeffler, MacDonald, and Sieg (2016) whereby one of the reasons why municipal government commonly confront the problem of assessment tax collection is because of the late payment and the taxpayers' procrastination with the payment. In addition, 26% (12 of the respondents) claimed that they have no time to pay the assessed tax. This shows that the respondents were not aware of the initiative taken by most of the local governments about the method of payment. Some of the local governments open special counters so that the property owner can easily pay their assessment tax (Rahman et al., 2015).

In addition, some local authorities in Malaysia even offer a special gift if the property owner pays the assessment tax on time. **For example**, Kuala Lumpur City Hall (DBKL) **came** up with incentives to encourage ratepayers to pay their assessment tax arrears such as lucky draw and about 200 ratepayers winning attractive prizes ranging from cars, scooters, televisions, smartphones, tablets and foldable bicycles. The promotion carried out by Kuala Lumpur City Hall was for two categories of ratepayers: Category A (individual and private companies) and Category B (GLCs and financial institutions). The latter were offered assessment rebates of up to 50% (Bavani, 2015). We can conclude that even with all the initiative taken, the problem of assessment tax arrears still exists.

Conclusion

Based on the data collected, it can be concluded that the understanding of the property owner is at **the** moderate level. A specific course of action should be taken by the local government to educate and increase the taxpayers or property **owners'** understanding regarding the assessment tax liability. In addition, a continuous sharing and availability of information to educate the property owners hopefully would reduce the confusion and ignorance. Furthermore, this move can increase and shape their understanding **of** their obligations as a property owner. The findings of this study will hopefully shed a clearer view on the **taxpayers'** level of understanding of the tax authorities and might help the local government to best cater the problem of assessment tax arrears.

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