Review on Malaysia Tax Performance: Rates and Land Tax

Siti Norfaizah Sahari*, Salfarina Samsuddin and
Ahmad Ariffian Bujang, Robiah Suratman,
Mohd Shahril Abd Rahman and
Wilson Rangga Anthony Jiram

Abstract--- *Rates and land tax are the most important tax in contributing to the finance sustainability and function of a government either at the State or Local authority level of Malaysia. The aim of this paper is to review the comparison on revenue performance from property tax in Malaysia between rates and land tax, in order to boom understanding about property tax as a whole, based on the review of literature references to local and foreign publications. The references include annual report of various authorities, the auditor's report on the financial, article in newspapers and reviews of previous research works as well as related journals. The findings revealed that there are several roles of local and state authority whereas the efficiency of the authorities in performing their role is largely dependent on their ability to effectively collect revenues from all sources available particularly rates and land tax. Since, for most local authorities' large proportion of their revenue comes from rates, while for state authorities' large proportion of their revenue comes from land tax, failure to collect rates and land tax efficiently may result in revenue shortages. The inability to collect taxes effectively make more dependent on grants provided by the states and federal authorities.*

Keywords--- *Finance, Land Tax, Malaysia, Performance, Rates, Revenue.*

I. INTRODUCTION

Property tax is the pillar to finance a government (Local and State) in most developed countries, and has been for more some time. More freshly, it has played an increasingly vital role in financing the services in a number of developing and transitional countries. Over the years, and irrespective of the country, property tax has not been without debate on a variety of issues and it still faces large controversy on a number of fronts [1]. Urban economic experts generally consider the property tax the most necessary of local taxes, since it has most of the characteristic of a good property tax either by local or state authorities. It's together with the potential to match burdens approximately with expenditure benefits, to cause relatively little unwanted interference with market decisions, and to avoid imposing heavy burdens on poor families. It's also a particularly good fit for urban areas, even where government structure is split.

Siti Norfaizah Sahari, Department of Real Estate, Faculty Built Environment and Surveying, UTM Skudai, Johor, Malaysia.*
E-mail: snorfaizah.utm@gmail.com
Salfarina Samsuddin, Department of Real Estate, Faculty Built Environment and Surveying, UTM Skudai, Johor, Malaysia.
Ahmad Ariffian Bujang, Department of Real Estate, Faculty Built Environment and Surveying, UTM Skudai, Johor, Malaysia.
Robiah Suratman, Department of Real Estate, Faculty Built Environment and Surveying, UTM Skudai, Johor, Malaysia.
Mohd Shahril Abd Rahman, Department of Real Estate, Faculty Built Environment and Surveying, UTM Skudai, Johor, Malaysia.
Wilson Rangga Anthony Jiram, Department of Real Estate, Faculty Built Environment and Surveying, UTM Skudai, Johor, Malaysia.

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The task of expenditure responsibilities to local authorities may be restricted to property interrelated services such as managing the markets, gardens, garbage collections, dumping grounds, local roads, street lighting, and drainage. Since these functions have relatively limited spillover effects and their benefits tend to be capitalized into property value, the case for financing of a property taxation (or to adopt the principle of user charges) is a strong one [2]. In spite of its long-standing appeal to the tax economist, in practice the property taxation is relatively weak performance to support the revenue in most developing countries[3].Reference [4] deliver some basis for inference about rent revenue performance. In the survey, most property tax revenue has been collected in urban areas. For example, local authorities in manila cover 20% of the Philippine population, but account for nearly half of the overall national property tax collections. Reference [4]also treasure that the recent revenue performance varies usually, with some large cities showing growth, but others experiencing real per capita declines. It's hard to generalize why some cities do well.

Tax on property have been used in many countries all over the world either as a tool to rise revenue or for other purposes as well. Property tax be present in about 130 countries[5]. Examples of countries operating property tax in their revenue system on the basis of taxation are shown in table 1.

Table 1: Type of property tax

Country	**Name of property tax**	**Tax on immovable property**
Australia	Local rates and land tax	Varies land
France	Land and housing tax	Land and Buildings
Denmark	Land tax and Service tax	Land and Buildings
Indonesia	Land and Building tax	Land and Buildings
Canada	Real property tax	Land and Buildings
Malaysia	Land tax (quit rent) and Rates	Land and Buildings

Source: Author's

1.1 Tax on property in Malaysia

In Malaysia, the modern form of taxation was formally introduced into the Federation of Malaya in the 1940s [6]. There are two different kinds of taxes being imposed and managed by the Federal Authority: Direct taxes and indirect taxes [7]. A direct tax is a tax that levied on a person or company's income wealth and the tax is paid directly to the government. Meanwhile, indirect tax is referred to as tax excised to a person who consumes the goods and services and is paid indirectly to the government such as Sales Tax, Service Tax, Import Duty and Export Duty. Direct taxes include Income Tax, Stamp Duty, Real Property Gain's Tax, Land Tax and Rates. Under the Real Property Gains Tax of 1976, any gains obtained from transaction of chargeable assets such as properties were subject to tax (land and buildings). The Real Property Gains' Tax of 1976, enacted in 1976 was intended to curb land speculation on the spiraling of land prices especially in urban areas. It was an instrument used to redistribute wealth.At State level, State Authorities are entitled to collect a form of annual tax imposed on properties. The determination of land tax (locally known as quit rent) is set out in the Land Rules of each State as required by the National Land Code of 1965. The respective State Authorities used revenue from land tax to finance some of their activities. In contrast, at Local level, in addition to tax on land, owner of properties are also subjected to pay local tax known as rates, to Local Authorities. The right to impose rates is provided in the Local Government Act 1976 (Act 171). Under Section 39 (a) of Act 171, properties that are located within the Local Authorities' boundary limits are subjected to this type of tax. Revenue obtained by Local Authorities from rates would then be used to provide infrastructure, goods and services for local consumption.

By tradition, the role of the local government (Local and State Authorities) was to provide services to society. Most of their funds and workforces were dedicated to providing services to the public. As such local authorities, according to reference [8], were basically service institution, with legal and political entities. But, with the rapid expansion of urban areas carried about by economic richness, local government are increasingly involved in other activities such as planning and development of their urban areas and managing the effect of urban development. This is the spirit of the reorganization of local government in Malaysia. The reorganization took place as a result of the recommendations made by the Royal Commission of Inquiry in 1970. The purpose of the reorganization was to enable local government to perform their new function more effectively and efficiently. However, according to reference [9] and[10]although the reorganization exercise of local government had better-quality their legal, organizational and administrative capabilities, some were still financially weak and to depend on Federal Authorities. One of the reasons for this is inefficiency in the collection of revenue such as property tax[9], [10]. Inefficient collection revenue from property tax by local government was formally mentioned in the report submitted by National Audit Department. According to the report, large sums of uncollected property tax were allowed to accumulate in majority of local government either for local authorities or state authorities with no serious attempt on the part of local government to recover them. Therefore, this paper seeks to review on revenue performance from property tax in Malaysia between rates and land tax, in order to boom understanding about property tax as a whole.

II. LITERATURE REVIEW

2.1 Definition of tax

The word of "tax", stated in reference [11] defines as "the money payable by the person in public or private firms to the government". From the legislative perspective, as specified in reference [12] defines tax as "a compulsory contribution imposed by the government". Added by reference [13], the word of "tax" is consideration of the use of income, wealth or elements of the others in the government. Reference [14]say that "tax" is a mandatory fee but it is not fine and paid to meet social and economic objectives of the country. This is supported by [15].All of them wholly describe "tax" is a mandatory fee, but not the same as a fine, imposed by the government against the use of income, wealth or resources of other countries for the benefit of its citizens. This fee is not similar to such as license fees, permits, tolls, membership fees or other assessments that have specific benefits to the individuals involved. Reference [16]defined tax as the compulsory transfer of payment (or occasionally of goods and services) from private individuals, institutions or groups to the government. Reference [16] and [17]definite that tax are imposed to regulate the production of certain goods and services, protection of infant industries, control business and curb inflation, reduce income inequalities and so forth. The main purpose of tax is to raise revenue to

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meet government expenditure and to redistribute wealth and management of the economy [18], [19], [20]. The process of tax payment involving the compulsory transfer is well-known as “linkage” for an economic resource in the private sector to the public sector to meet the social and economic objectives set by a government[21].Thus, it can be concluded that the “tax” is not a voluntary payment or donation, but a compulsory, exacted pursuant to legislative authority and is any contribution imposed by the government to bring insufficient revenue to meet the growing public sector requirements and are used to run government planned expenditure.

2.2 Objectives of tax

Tax is a major player in every society of the world[22]. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations. A tax system offers itself as one of the most effective means of mobilizing a nation’s internal resources and it lends itself to creating an environment conducive to the promotion of economic growth. The tax base is considered to be the main sources of revenue to strengthen the financial system of a country [23], although the majority of the public is not willing to meet the responsibility to pay taxes[24].Reference [25]has stressed that the income tax serves to divide the parties involved in the community.

Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create economic conditions in the society [26], [27]. Hence, a tax was levied the tax collection (from the taxpayer’s income) is allocated to others who are less fortunate. In addition, the tax also guarantees the stability of the economy, reduces unemployment and bolsters the economic growth of a country [14]. Tax administrative can develop human resources through training and courses. This will create employment opportunities and contribute positive impacts to the development of the economy as a whole.

Furthermore, the imposition and collection of taxes is simply one of the fundamental policy instruments used to achieve governmental social and economic goals. The objectives of tax policy are similar to those of public policy in developing countries and overlap with the purposes of the tax system or the purposes of most governments. Reference [28] revealed that there are five purposes for collecting revenue through taxes: to give government power to allocate resources; to enable government to provide and support social development; to stabilize the economy; to constitute and define the market place; and to encourage optimal economic growth. Furthermore, three of these are of greatest urgency in developing countries: economic growth; internal and external stability; and ensuring that incomes are distributed appropriately.

2.2.1 Economic growth

Most developing countries are extremely focused on economic growth in both private and public sectors. Even in primarily market-based economies, governments need to acquire assets for public sector capital formation and development related expenditures[29]. There appears to be no limit to the tax gadgetry used in different countries to stimulate economic growth. Most developing countries encourage foreign direct investment to stimulate economic growth through the use of tax and many developing countries impose higher taxes on retained profits than on distributed profit in order to encourage distribution.

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2.2.2 Stabilization

The use of tax instruments to enhance economic stability is important in developing countries because this enable them to ensure elasticity with respect to changes in the value of money and income levels. If tax yields rise when national income rises, governments have less need to rely on deficit financing to maintain and expand the level of public sector activity in a growing economy.

2.2.3 Distribution of income

The distributional role of taxes in developing countries is another important purpose of tax system. Disparities in income can block development and increase demands for government social spending.

2.3 Principles of tax

Reference [23] have cited the Principles of Taxation by Adam Smith in 1776 on the rationale of taxation system. It should be based on the ability of the individual to pay the amount of tax charged and evaluated in terms of the principle of equality (justice), certainty, convenience and economic (affordable). The principle of justice have emphasized the concept of equity in the tax system. It is divided into two categories, namely “horizontal equity and vertical equity”. Horizontal equity is when the individuals who are possessed total assets at will have to pay the same tax amount while vertical equity for individuals with different levels of income have to pay taxes on the amount is different. This concept emphasizes the aspect of welfare and distribution of the wealth equation [30]. This is also good for fair contribution for the cost of government as described by[31]. In government agencies, it has categorized as “beneficial principle” as mentioned by [32].If any services or facilities do not meet the prescribed standards, the principle of equality will contribute into non-compliance. There are individuals who refuse to pay taxes, but enjoy the services or facilities, which is can describe as a “free riders” [32]. This is not fair to other taxpayers and does not meet the principle of “fairness” in taxation.

Meanwhile, the “certainty” principle has referred to the “dedicated purpose” in the operation of the tax system and its enforcement. The taxation procedures and regulations must clear and easily understand by the taxpayers [13]. This is similar to the effect in any practices of the tax system and capable for economic flexible. A tax system that is “definitely” has the elements to ensure the effectiveness in its administration, encourage people to taxes and estimate the realistic of tax revenue collection [33]. Therefore, the public should know the purpose of the rating to avoid any misunderstandings on either the amount collected or expenses in providing the facilities. In addition, the principle of “convenience” is the need for fair taxation basis so as not to burden taxpayer. This refers to the concept of utility that requires the public to distribute a total of income to pay taxes, in addition to the expense of other requirements. The important elements of this principle are lacking and it should refer to “the ability to pay” [32]. If something becomes a burden, then the methods of persuasion, such as consultation, payment by installments and grant reasonable discounts are important to apply the principle of convenience by [33]that he cited from Groves (1964). This method, according to reference [33]is categorized as a flexible repayment scheme to safeguard the rights and interests of the taxpayers.

Reference [23],by referring to Adam Smith’s taxation principle 1776 has listed the principle of “economic” in order to create a rational system of taxation. This principle has to do with the concept of “justice” which is relevant

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to the “efficiency” and “effectiveness” of the tax administration. The reasonable amount of tax is vital, so that taxpayers are not highly burdened with financial responsibility. It also affects the willingness to pay after the taxpayer has a different perception into the tax enforcement [31] whereas [32]also stressed about the principle of willingness to pay become very subjective and depends on the degree of influence received from other group members (reference group theory) as mentioned in [33]. This group also involved in the decision-making process that is either pays taxes on time, postpones the payment or fully refuses to comply with instruction to pay. It exists after the taxpayers get some feedback from friends or family members either positive or negative, about the payment of taxes. Hence, the government should provide ample information to educate the public on the importance of paying taxes and the implications for any avoidance [34], [35]. At this point, the government should revitalize the enforcement of existing laws on property tax. The effectiveness of law in taxation is depended on the efforts of the agencies and departments that collect and enforce, firmly.

2.4 The characteristics of property tax: Rates and land tax

2.4.1 Rates

Rates, or *'cukaipintu'*, is a local land tax collected by Local Councils to pay for developing and maintaining local infrastructure and services. All of Local Authorities are regulate by the respective legislation by each of state administration. At local level, the local authorities have played an important role in providing public good and services within their jurisdiction area. The Malaysian local authorities have categorized into three groups, namely, City Council for the city Centre’s, Municipality for large towns and District Council for small urban Centre’s or rural areas.

The Act 171 has set with very comprehensive roles and functions for Malaysia Local Authorities where the main function is to accommodate the public with goods and services in various areas. These are to undertake the role of state government in providing the highly needed services. There such as waste collection, road maintenance, street lighting and etc. Other physical development that are important to tackle include to provide housing, recreation park, sport facilities and public Centre’s. Whereas, local authorities are embarking for a special development grant from Federal and State Government such as for road maintenance and contribution in lieu of rates.

Under Section 39, Part V of the said Act, the local authority can derive their revenue from three main sources, namely, self or locally raised revenue, revenue provided by the State, Federal and Statutory Bodies and revenue raised through loans and credit facilities. In addition to revenue from rates, other sources of locally raised revenue include those fees received from the issuance of licenses for the operation of market stalls, hawkers, hotels, restaurants and all other trades, business and other professions. The amount of tax that a particular local authority collects from this source of revenue is dependent on the number of business operator locating their activities within a local authority area.

Reference [36], support the general viewing that rates are the most important revenue sources to local authorities in Malaysia. Thus, proper management of this source of revenue is important in order for local authorities to become financially stable and at the same time more efficient and effective in their operation.

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2.4.2 Land tax

Land tax as land state revenue and also State Authorities responsibility. The National Land Code (NLC) 1965 is the source of power and was formulated to create a uniformity of law and policy relating to land. Examples are land tenure, registration of title, dealing and collection of revenue in particular in the eleven States in Peninsular Malaysia. Land revenue include land tax where the payment is made to the State Government through land offices. As land is a State matter as stated under the Federal Constitution, land tax rate is determined accordingly by the respective State Government except for surveying fee which is set by the Federal Government. Speciously, land tax is considered as part of land revenue and is defined in section 5 of the NLC 1965 as: -

. . . any annual sum payable to State Authorities by way of rent; any other annual payment due to the State Authorities which by any written law is to be collected as if it were rent or land revenue; and any fee due to the State Authorities in respect of arrears of rent by virtues of rules under Section 14…

Normally, the imposition of the tax is not limited on land only but also on its attachment which includes buildings, crops, industries and etc. Such land tax, it is taxed on land and take into account the attachments which are expressed in the form of land used category and condition as stated in the land title. Land taxation is a tax based on the physical factors of land such as size, land use category, location and etc. while the principles of capital value, increments in value, transfer of property and income are irrelevant. The interpretation on the physical factors of land absolutely rest within the power of the State Authorities. Different State Authorities provide different interpretations which are suited to their own circumstances and needs. Hence, the land tax structure in the various State in Peninsular Malaysia has wide variations. For tax purpose, under Section 115,116 and 117 of NLC 1965 land use were categorized into three main categories based on purposes for agriculture, building or industry. Within the land use categories, there are a number of specific land use conditions determined by the respective State where land use condition is referred to any attachment to land determined and express in the land title. Examples of land use conditions under the building category are residential, worship, charity, cemetery, administrative purpose and etc., under the industrial category there are then different condition for light, medium and heavy industries, telecommunication tower and etc., while for agriculture, the conditions are depended on type of cultivation that are rubber, cocoa, coconut trees, fruit trees, palm oil trees, and etc. Hence, land use categories and conditions form the tax bases for rent rate determination.

As a general classification of land is based on country, village and town land but there are some States that have added other classification to the existing ones. Classification of land also forms the tax base influencing the rent rate. Other than that, type of ownership is also used as a tax base in rent rate determination. Size of land is also taken into account as one of tax bases. Besides that, metric measurements based on per square meter, per square hectare as well as per lot basis are used. Per square meter and lot basis are applicable to building and industrial categories whereas per square hectare is applicable for agricultural category. To summarize, the usage of physical factors of land such as land condition, category, classification, ownership, size and metric measurement in the determination of rent rate vary from one State to another. The expansion of the tax base other than the discussion criteria can be made by the respective State according to its needs and the specific tax policy objectives of the State.

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Within each State, there is a distinct of the tax bases as well as the tax rates in the land tax structure. Land tax is not based on the ability to pay approach which is mainly based on the individual income but determination of the rent rate take into consideration the low income citizens, prevailing economic activities, purchasing power of the citizens and socioeconomic background of the specific population in certain arrears (Ministry of Land and Cooperative Development (1993) cited in [36]. To meet the finance development and operating expenditures, different States set different tax rates. Apparently, in the classification of land, the rent rate is higher for land in town as compared to land in village. Similarly, in the categories of land use, the rent rate for industrial purposes is much expensive as compared to rent rates for building and agriculture. The agriculture category has the lowest rent rate. Within each category, the rent rates for the land use conditions vary too. Thus, the rates are not uniformed throughout land use category and condition and across the State or the country. In summary see table 2.

Table 2: Comparison between rates and land tax

Rates	Differences	Land tax
• Rates (assessment tax/door tax) enforced in accordance with the provisions of Section 127 of the Local Government Act 1976 (Act 171). • It is a tax imposed on real estate located in the council area of the State including the following properties: a. residential b. business c. industrial d. vacant land	**What is tax**	• Interpreted as “rent” under Section 5 of the National Land Code 1995 “rent" includes: a. any annual sum payable to the State Authority by way of rent; b. any other annual payment due to the State Authority which by any written law is to be collected as if it were rent or land revenue; and c. any fee due to the State Authority in respect of arrears of rent by virtue of rules under section 14
Section 146 of the Local Government Act 1976 (Act 171): • "All rates (Assessment Tax / Door Tax) must be paid by the person who is the holder at that time." • All registered owners of residential, business, industrial and vacant land are subject to the above Act. • Section 155 of the same Act provides that if the tenant of a premises is forced to pay the assessment tax on behalf of the registered owner of the tenancy then the tenant may deduct from the rent thereafter whatever the amount paid.	**Who should pay tax**	Section 95 of the National Land Code 1965: • Each registered owner or representative of his behalf is responsible for paying the land tax. • "The rent payable in respect of any alienated land shall be paid by or on behalf of the proprietor thereof at the office of the Land Administrator (LA), any other place which the LA may deem fit or at such other place within the State as may be prescribed". • After the sale and purchase agreement has been signed by both the seller (or landlord/housing developer) and the buyer, the payment of the land tax is the responsibility of the buyer.
• 2 times a year on: a. 1 January to 28 February each year; b. 1 July to 31 August every year.	**When to pay tax**	• Once a year a. From 1 January to 31 May every year
• It is the responsibility of each property owner (or their representative) to pay the property tax to the Local Authority, without having to wait for notification through the assessment bills.	**Why to pay tax**	• It is the responsibility of each landlord (or its representative) to pay the land tax to the state authority, without having to wait for notification through the bill of land revenue.
• Section 148, Local Government Act 1976: any property may seize	**Implication if failure to pay tax**	• Section 100, National Land Code 1965: land may forfeiture to the State Authority

(Source: adopted from Local Government Act 1979 and National Land Code 1965)

2.5 Revenue performance from property tax

The common of weak revenue performance in the property tax have enlightened it as unpopularity with supporters and local political leaders. Property tax is visible and imposed on a subjective, judgmental basis, and they are tax on unrealized increases in wealth. The result is that most local government are unwilling to impose the tax at a meaningful and effective rate. Exemptions and preferential treatments narrow the tax base, now and then dramatically, collection rates are low in many urban areas, and aggressive enforcement measures have little support. Another explanation for the weak revenue performance of the property tax is that intergovernmental transfers have grown in step with the economies in many countries[37]. Extra possible explanation for leisurely growth in property tax revenues is that successful non property tax revenue, such as the sales tax on services in Brazilian cities, have crowded out the use of property tax [4], [37]. To finish, for the large urban areas, specifically those with significant slumps, property tax collection is limited due to the absence of legal title to property.

As well, the administration is a main constriction to property tax revenue mobilization, through significant improvements that have been made in many urban areas in current years. The uses of technology and improved superiority or quality of staff have led to a more comprehensive handling of parcels and better record keeping [4]. However, some of the biggest cities still tied to paper-based systems and the property tax rolls are incomplete. Also, property valuation presents main administrative problems. While it has turn out to be easier to identify properties and keep track of improvements with computerization and such tools as satellite photography and geo-coding of data, reliable information on market values are rarely available. Hence, the properties are infrequently been assessed at a rate or value and below market value. Finally, legal restrictions such as rent control in Mumbai have held back revenue mobilization [38].

Governments in developing countries have not been standing still on property tax policy, and they have tried many different tactics to defining the tax base. [4], note a trend that suggests that governments are moving toward capital value systems, where the tax levied on both land and improvements and away from rental systems and site value systems. In recent years, there are rises of awareness in area-based systems that levy the tax on the physical characteristic of properties rather than on the assessed value. Local government has also tried to reach the property value base with numerous other forms of taxation besides the conventional tax on capital or rental value of urban land and improvements. Such taxes include property transfer taxes, capital gains taxes on land, various kinds of special assessments and the sale of government land. In principle, these revenue instruments can increase the total return from the property value base. However, the size of the revenue yield on these taxes varies significantly from place to place, as does the quality of the administration and services provided.

The property transfer tax such Real Property Gains Tax in Malaysia, which is the utmost widely, used alternative tax on the property, it was levied at the same time of a sale of real property, usually against a legal base of the total market value of the property as stated in the sales contract. The tax base in developing countries has been constantly lower than the actual sales proceeds because of underreporting in the value of sales contracts [4]. Furthermore, the property transfer tax is sometimes a state or central government tax, and the revenues do not flow to local authorities in the urban area where the transaction takes place. Some political analyst has argued that the transfer tax is

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inefficient and badly administered sales tax whose elimination is unsettled or overdue [2]. Another sight is that, with appropriate reforms, it has a good potential as a revenue instrument to strengthen the annual property tax [39]. If there were joint administration with the property tax, local governments would be in a position to upgrade the property and the transfer tax administration simultaneously, based on a roll-on market values for all properties that sold in the urban area during a specified period. An alternative to the property transfer tax, and arguably a superior tax instrument, is a capital gains tax on real property.

Capacity gap have addressed between the requirement for resources, efficiency in the tax administration and transparency which is all of them will create a backlog in financial management, which is property tax non-compliance [33],[40]. Tax non-compliance is a complex issue and deliberate non-compliance is a constant problem worldwide. There has been a significant amount of research undertaken in the area of a tax compliance and tax non-compliance in the USA and other countries. Relating to their income tax crisis, the Inland Revenue Services of USA indicated that there are 64 factors that related to tax non-compliance by taxpayers or companies as disclosed in [6]. Such as, in the USA, the estimated sizes of tax gap were US$280 billion in 1998 and US$312 to US$353 billion in 2001 [41].Tax gap is the measure of the difference between the total tax collected and what should have been collected (can be adapted to explain "gap" in property tax). It has classified as under-reporting of income, underpayment of taxes and non-filling of returns [42]. Reference [43] and [44] estimated that tax evasion accounts for an average of 20% of the actual income tax collection in Malaysia over 25 years period ending 1994. Although precise estimates of tax evasion for the years 1995 to 2005 are not available, but the Inland Revenue Board (IRB) figures show that almost RM402.5 million of unpaid taxes (inclusive of penalties) were recovered from investigation activities for the period of 1995 to 2002. In addition, another RM324.4 million was recovered from audit activities for the period of 1999 to 2002 (IRB, 2000-2002).

Reference [45] well-defined tax non-compliance as "illegal tax evasion". Tax non-compliance occurs when there is a failure to perform a timely filing or submission by taxpayers of all required tax returns, when not accurately reporting the tax liability in accordance with the tax laws, when there is a non-payment or late payment on the tax due, an understatement of income and overstatement of expenses [24]. Tax non-compliance is difficult to measure because it involves individuals and firms obscuring the true level of them assessable income whether intentionally or unintentionally. The pattern of non-compliance had interpreted into increasing of uncollected property tax over the years. Reference [33] described the uncollected property tax heavily magnitude and seriousness due to the trends keeps rising. As the overview of Malaysia revenue performance on collection from the property tax, there are varies performance have recorded either for Local Authorities (accumulated uncollected rates) or State Authorities (accumulated uncollected land tax) in each state in Malaysia. The National Audit Department have found the pattern and these are reported in the audit report for 2012 to 2017.

III. METHODOLOGY

General review based on the review of literature references to local and foreign publications. The references include annual report of various authorities, the auditor's report on the financial, article in newspapers and reviews of previous research works as well as related journals.

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IV. DISCUSSION

4.1 Performance of rates

The sources of revenue for local authorities through taxation on properties located within the respective local authorities. In terms of importance, rates contributed the highest proportion to local authorities' revenue. The national audit department has found pattern and these are reported in the audit reports from year 2012 to 2017. Based on the figure 1 as shown below, the line graph illustrates the rates' revenue position of a Malaysia local authority from 2012 to 2017. It is measured in millions of Ringgit Malaysia (RM). Overall, it can be seen that collected tax and uncollected tax from rates are predicted to increase over the period. Collection rates revenue and uncollected rates revenue will follow a very similar pattern over the time frame. Also, it can be clearly seen that collected rates started at amount roughly RM2844.6 million in 2012 and then went up gradually RM2974.0 million in 2013 and continued up to RM3257.8 million in 2014 and then in went up slowly approximately RM3629.8 million in 2015 to RM3724.1 million in 2016 and then went up more sharply to RM3948.1 million in 2017, while uncollected rates rose consistently from RM1324.4 million in 2012 to just over RM1721.7 million in 2017.Based on the figure 2, the graph gives information about the total amount of accumulated uncollected rates in Malaysia from 2012 to 2017. The total amount was measured in Ringgit Malaysia. It's evident from the charts that the amount of uncollected rates in Malaysia continuously increased each year, as can see that in 2012 the total uncollected rates was RM1324.4 million and then rapidly increased by nearly RM1721.7 million in 2017. To begin, uncollected rates in Malaysia experienced an upward trend, starting the period at approximately RM1324.4 million in 2012, but increased RM33.5 million into RM1357.9 million in 2013. Then, continued up roughly RM1443.9 in 2014 and RM1549.7 million in 2015. It then climbed up from RM1598.8 million in 2016 to RM1721.7 million in 2017.

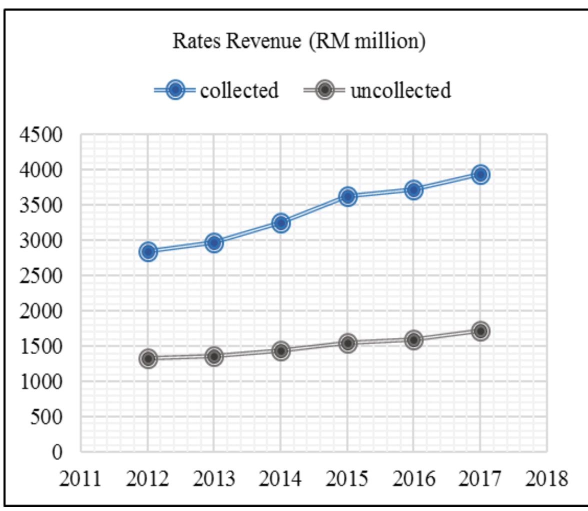

Figure 1:Trend rates revenue in Malaysia
(Adapted from Malaysia National Audit Report,2018).

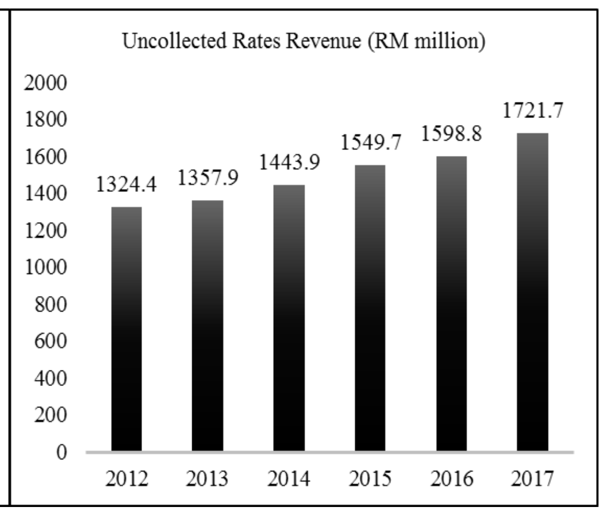

Figure 2:Trend uncollected rates revenue in Malaysia
(Adapted from Malaysia National Audit Report,2018).

As presented in figure 3, the graph illustrates the trends in accumulated uncollected rates in 13 states in Malaysia from 2012 to 2017. Analyzing the data presented in the graph reveal that the local authorities in every state in Malaysia have been experiencing problems regarding uncollected rates revenue. Over the period, it can be observed

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that there was a significant surge in the accumulated uncollected rates that happen in the state of Selangor nearly RM2987 million in seven years between 2012 to 2017. Then, followed by the state of Johor with approximately RM1265.56 million and the states of Pulau Pinang with RM623.74 million respectively. The following section highlighted various performance of accumulated uncollected rates for local authorities in respective states as showed in figure 4. The graph delineates data on the accumulated uncollected rates for 2016 and 2017. The figures are given in percentage. Overall, there are ten states that have increased the accumulated uncollected rates, while the other three states have decreased in the amount of accumulated uncollected rates. It can be clearly seen that the highest increment in accumulated amount of uncollected rates is recorded by local authorities in Sabah with approximately 30.8% or RM29.51 million. The second highest increment in accumulated amount of uncollected rates is recorded by local authorities in Melaka with about 29.1% or RM19.65 million and followed by the third highest is recorded by local authorities in Johor, with approximately 18.6% or RM42.53 million.

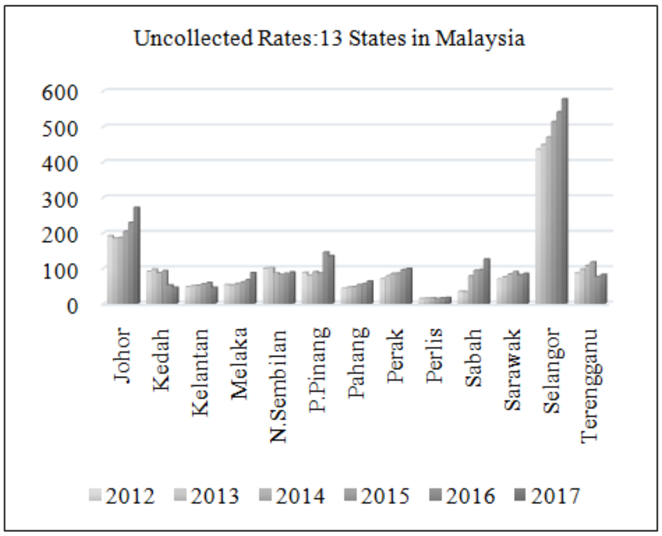

Figure 3: Trend uncollected rates revenue by State (Adapted from Malaysia National Audit Report, 2018)

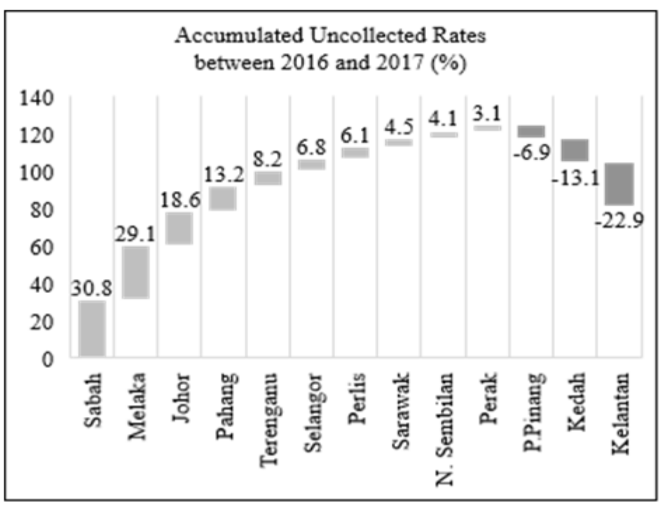

Figure 4: Trend percentage differences for rates (Adapted from Malaysia National Audit Report, 2018)

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The above circumstances also showed that ten states have increased the accumulation of uncollected rates have failed to control and reduce the non-compliance in property tax. However, three states have reduced in accumulated amount of uncollected rates as recorded by local authorities in Kelantan about 22.9% or RM13.53 million, followed by local authorities in Kedah about 13.1% or RM6.83 million and local authorities in Pulau Pinang about 6.9% or RM10.05 million respectively. In conclusion, local authorities in Kelantan, Kedah and Pulau Pinang had showed their impressive pattern in managing the non-compliance of property tax and have performed well in reducing the accumulated uncollected rates.

4.2 Performance of land tax

In contrast to rates by local authorities, land tax is the sources of revenue for state authorities through taxation on properties located within the respective state authorities. In terms of importance, land tax also contributed the highest proportion to state authorities' revenue. Figure 5provides information about the total amount of accumulated uncollected land tax (quit rent) in Malaysia from 2012 to 2017. The total amount was measured in Ringgit Malaysia. Overall, it can be seen that collected tax and uncollected tax from land are predicted to rise over the period. It can be clearly seen that collection of land tax has slightly increased from 2012 to 2017, started at amount about RM1318.5 million in 2012 and then went up slightly with RM1332.0 million in 2013 and RM1375.2 million in 2014, then in 2015 suddenly rise up to RM1433.1 million and then went up gradually with around RM1551.0 million in 2016 and about RM1681.1 million in 2017. While uncollected land tax climbed slowly in 2012 to 2013 and then slowly down for the next in 2014 and 2015 and then in 2016 the amount uncollected land tax sharply increased and in 2017 the amount uncollected is slowly down.

Figure 6 showed the total amount of accumulated uncollected land tax in Malaysia. The total amount was measured in Ringgit Malaysia. The provided graph delineates data on the changes of the total amount accumulated uncollected land tax from 2012 to 2017. From the beginning, the amount of uncollected land tax had rose from RM872.8 million in 2012 to RM885.7 million in 2013. However, between 2014 and 2015 it slumped to RM868.5 million to RM846.8 million. Moreover, the most substantial increased in the amount of uncollected land tax had shown approximately RM931.1 million in 2016 and then by 2017 the amount was slowly declined to RM901.4 million.

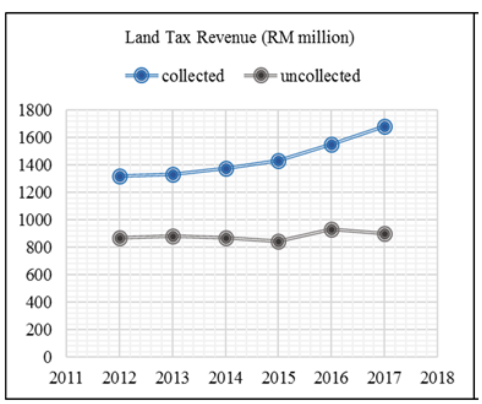

Figure 5: Trend land tax revenue in Malaysia (Adapted from Malaysia National Audit Report,2018)

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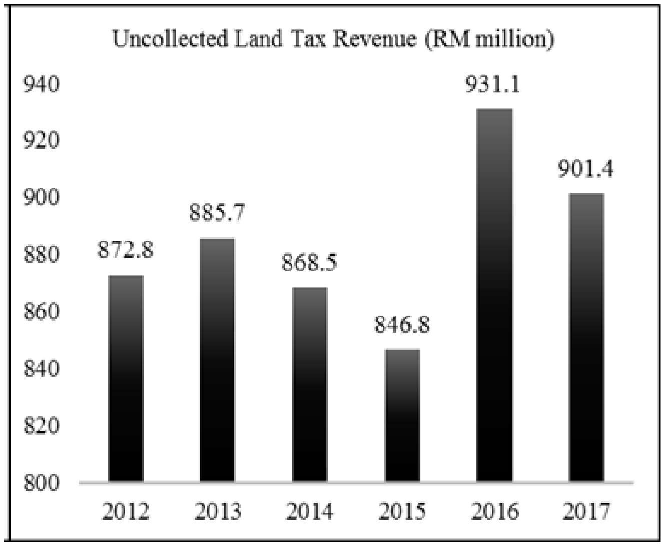

Figure 6: Trend uncollected land revenue in Malaysia (Adapted from Malaysia National Audit Report,2018).

As presented in figure 7, the graph illustrates the trends of accumulated uncollected land tax in 12 states of Malaysia, with exemption of Sarawak from 2012 to 2017. Analyzing the data presented in the graph reveal that the state authorities in every state in Malaysia have experiencing problem regarding uncollected land tax revenue. Over the period, it can be observed that there was a significant surge in the accumulated uncollected land tax that happen in the state of Selangor, with approximately RM1954.75 million in seven years between 2012 to 2017. Then, followed by the state of Perak with approximately RM582.15 million and the states of Johor about RM515.67 million respectively.

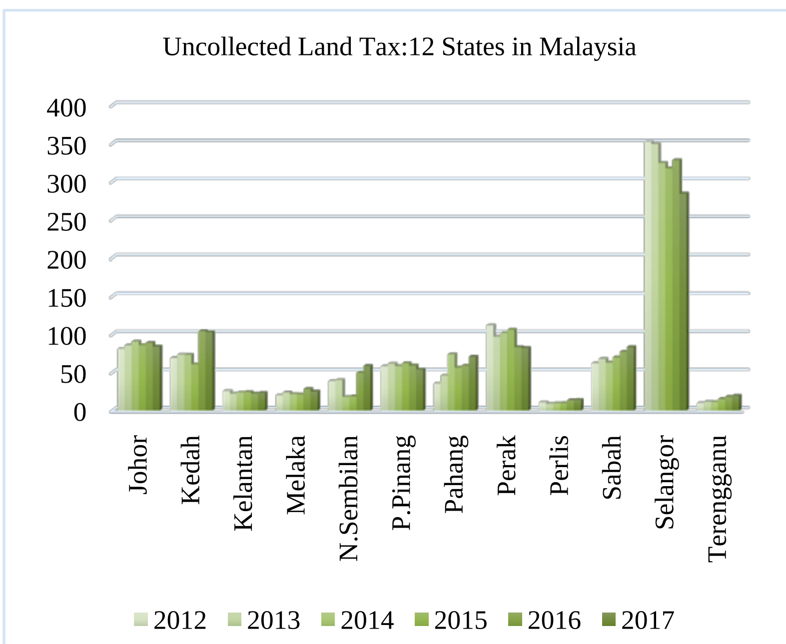

Figure 7: Trend uncollected land revenue in Malaysia (Adapted from Malaysia National Audit Report, 2018).

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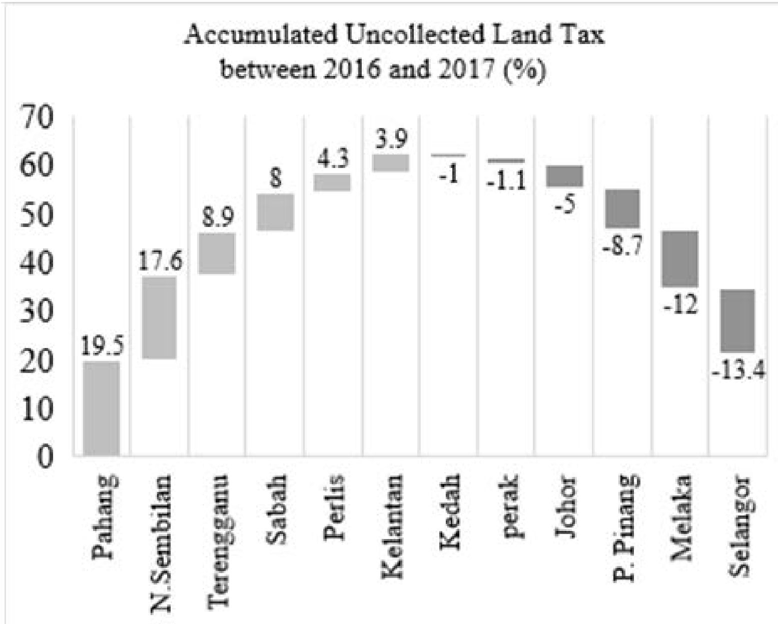

Figure 8: Trend percentage differences for land tax (Adapted from Malaysia National Audit Report, 2018)

The following section have highlighted varies performance on accumulated uncollected land tax for state authorities in respective state as showed in figure 8. The graph delineates data on the accumulated uncollected land tax for 2016 and 2017. The figures are presented in percentage. Overall, there are six states that have increased in the accumulated uncollected land tax, while other six states have decreased in the amount of accumulated uncollected land tax. It can be clearly seen that the highest increment in accumulated amount of uncollected tax is recorded by state authorities in Pahang with approximately 19.5% or RM11.5 million. The second highest increment in accumulated uncollected tax is recorded by state authorities in Negeri Sembilan with around 17.6% or RM8.8 million and followed by the third highest is recorded by state authorities in Terengganu approximately 8.9% or RM1.6 million. The above circumstances showed that six states have increased the accumulation uncollected land tax has failed to control and reduce the non-compliance in property tax. However, three out of six states have significantly reduced in accumulated amount of uncollected tax as recorded by state authorities in Selangor about 13.4% or RM43.8 million, followed by state authorities in Melaka about 12.0% or RM3.4 million and state authorities in Pulau Pinang about 8.7% or RM5.1 million respectively. Therefore, in conclusion, state authorities in Selangor, Melaka, Pulau Pinang, Johor and Perak had showed their impressive pattern in managing the non-compliance of property tax and have performed well in reducing the accumulated uncollected rates.

Despite the fact, the taxes levied and collected at the local government level as unyielding as compared to those accessed by the central government[33]. This situation has limited the ability of the local government to mobilized adequate revenue for development. Therefore, the actual amount of revenues flowing into the hands of any government depends on the efficiency and effectiveness of the tax administration[9]. Weaknesses in revenue collections lead to inadequate tax collections. Not only do developing countries face difficult challenges to bring individuals and businesses into the taxation process but governments face inadequate administrative staff with low skills, high level of illiteracy among taxpayers, lack of logistics and lack of reliable data[3],[46].Thus, based on the reviews of literature, several factors were identified to explain the factors that directly impact on performance of tax revenues. Efficiency and effectiveness have an impact on the overall performance of a tax administration [47]. An efficient and effective tax administration is a key determinant of investment climate, which it helps to attract more investment, reduce poverty and increase growth. Besides, it also enables the government to raise revenue with lower tax rates [48]. The main role of a tax administration is to collect tax revenue. The efficiency of a tax administration is best evaluated by looking at its tax collection process as noted by [49].

The findings by reference [50] conducted a comprehensive study on tax administration operations in developing countries and revealed there are various factors that impact in the tax collection process which are cover poor management practices, taxpayer registration, enforcement, operating procedure, taxpayer education, employee training, information technology and performance evaluation and control. Finding from case studies in Tanzania by reference [51] described weakness in tax administration operations in Kerala Region which cover intentional tax evasion from taxpayer, lack of staff in revenue action, corruption practice by officials, political pressure, high compliance cost, poor financial records and poor knowledge on potentiality of various sources of revenue. Reference [52] in his study of the Nigerian tax system pointed out that most of the tax offices do not have the internal control system to perform the supervisory roles. This has resulted in the lack of monitoring and effective control of the revenue collected and administration operation. He claimed that the success or failure of the tax system especially in tax policy implementation is dependent significantly on the efficiency and effectiveness of these tax administrators. In Libya, according to the Libyan Audit Bureau Report issued by Libyan Audit Bureau as cited in reference [53], there are numerous internal and external factors for inefficient and ineffective tax administration and collection such lack of power in tax department, poor leadership style, lack of modernization in use of ICT and inadequate training for employees.

Reference [54] figured out that lack of motivation and training as key factors affecting the tax administration and collection. Reference [55] argued that the efficiency in tax administration hugely relies on motivation, ICT, training and leadership. In case of Malaysia, the findings by reference[36] conducted structuration theory on sources of tax arrears in the case study in Perak and found weakness that impact on efficiency and effectiveness of tax administration performance which cover two main aspect such aspect of resources (lack quality of human resources, lack of tax information, absence of administrative will, defects in ICT system, lack of leadership, insufficient human resources and inadequate financial resources), aspect of rule (inappropriate laws of land attributes and outdated provision of formal rules) and other factor include the attitudes. Similarly, researchers such as[33],[56], [57] and[58] the inefficiency was due to factors such as lack of personnel, inadequate qualified staff, attitude of ignoring the presence of legal tools, outdated records and the general economic situation.

Lack of transparency by taxpayer is one of the key factors that cause inefficiency in tax administration and tax collection which ultimately leads to tax evasion or avoidance. Tax evasion is defined as failure to pay taxes imposed on individuals or businesses by public authorities. Tax evasion is the use of legal methods to enable in changing the tax system utilization to reduce current or future liabilities. It involves imposing artificial transactions to benefit from taxes [59].

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Corruption is another factor influencing inefficiency in tax administration and collection and is practiced in different forms such as services that should be free are charged or to help taxpayers with complicated procedures the tax officials charge them or to get tax exemption qualification the tax officials charge the tax payers, failing to assess the non- registered businesses , smuggling of goods into the country, overstating values, under assessing tax to importers and tax payers and loosing files [60]. According to reference [60] corrupt practices in tax administration involves tax officers, taxpayers, importers and customs clearing agents.

To maintain and ensure the efficiency in tax administration and collection revenue, both need sufficient time, efforts, human and financial resources. Reference [61] indicated that skill level, numbers, experience, commitment and morale of the revenue administration members determine the success of the organization. Similarly, reference [62] stated that the land offices lack human resource in terms of numbers. He concluded that the situation was further worsened when the existing human resource is neither knowledgeable nor experience in tax laws. As a result, those efforts for improvements will lose momentum and incur delays. Lack of resources poses serious administrative difficulties and has made the measurement of efficient tax bases not possible in certain cases. Financial resources in terms of budget allocation must be made sufficiently available to allow further improvement in other areas such as in the development and upgrading of ICT, human resources, physical facilities and so on. At the end of the day, failure to provide appropriate resources equate with targeted tax not being collected and the increase of the uncollected tax revenues.

A tax exemption is granted by the government of a country and it is one of the core factors which lead to inefficiency in tax administration and collection. Tax exemptions involve large sums of money. The amount of money which is involved raise question about the purpose incentives are serving and whether the amounts being spent on them are accounted. Large firms often make use of this tax incentive mechanism to avoid paying taxes. Developing countries are eager to attract investment in their countries thus they grant exemptions to large firms as an incentive to boost investment while other large firms see this as a loophole to avoid paying taxes [63].

Reference [64] assert that complication of enforcement of collection of tax is seen when businesses transact transactions through cash. Businesses which are involved in cash transactions have the loophole of not being recognized by tax authority hence thus resulting to inefficiency in tax administration and collection [64].

According to reference [65] and [66]opined that lack of education on tax responsibility is another factors influencing inefficiency in tax system. As with all taxes, attention should also be given to educate the taxpayer on the rationale, procedures, obligations and responsibilities related to the business licenses and property tax. Having the ability to link revenue collections to improved service delivery, and a better-educated taxpayer population will enhance compliance. Mobilizing the community through enhanced participatory budgeting and civic participation will engage the citizens and also facilitate enhanced revenue collection.

Additionally, the others factors that cause inefficiency in tax administration and collection performance can be elaborated in term of administration weakness, taxpayer problems and ICT problems. These factors are discussed as follow:

According to reference [67] opined that land administration staffs all over the world are not efficient in the way they organize their business due to improper planning. They lacked the skills in strategy development, ICT policy, information management and consequently not contributing to good management such as keeping registers and maps up-to-date. In support of that, reference [68] in his study on land policy reform in Chia revealed that land use taxes were difficult and costly to collect because of the lack of trained staff in land registration. As such revenue generated from land use taxes has not met expectations. Reference [58] in his analysis on the reform programmed of Malawi's local government indicated that adequate capacity and new administrative skill are required for the local authorities to discharge their responsibilities effectively. These rely upon the available infrastructure, the quality and the quantity of human resources and financial resources. The performance of the Malawi local government institution declined due to inadequate and inappropriate trained personnel. However, [69] found that major challenge for the government was to effectively use the expertise of the existing staff. They also argued that the main reason for the failure of the government development programmed, projects and routine operations is due to lack of competent civil servants. Therefore, the effective utilization of the trained staff could enable the civil service to function effectively.

Reference [70] expressed the opinion that the issue of non-compliance is deteriorating in developing countries. They also assert that this is mainly due to public attitude towards government institutions, structure of tax rates, laws and public perception towards the provision of quality public services. Reference [71] argues that taxpayers in the least developed countries do not trust the credibility of the government management of finance and taxation systems and therefore reluctant to pay taxes. For tax authority to enjoy public confidence, it needs to be seen as credible and committed. Very serious efforts are needed to identify critical compliance risks as well as to develop effective compliance strategies in order to ensure non-compliance by taxpayers is reduce.

Generally, ICT is used to enhance performance in revenue administrations by reducing human error and processing times, providing a readily accessible data for tax officers, promoting voluntary compliance thereby minimizing tax evasion and facilitating better decision making by tax authorities. Based on these reviews, it is found that the ICT problem includes new technologies was not supported by state/district because of the cost, new technologies implemented were complex, installation and maintenance of new technologies challenge, employees perception towards the technologies were negative and users were not well trained to use the technologies [72],[73],[74].

4.3 Some of the techniques to improve revenue performance are discussed as follows;

4.3.1 Taxpayer Education

Reference [75] studied the determinants of tax compliance in Malaysia and were found that there is a significant relationship between tax knowledge and compliance. Similarly, reference [76] examined tax administration efficiency and performance indicator in Thailand and found that awareness and attitude of tax official have a positive relationship with revenue collection and productivity of the administration as observed by [77] tax awareness is directly linked to compliance, they further stated that better understanding of the tax system increases the taxpayers' morale and attitude, leading to increased revenue generation. Therefore, improving public or citizen education in order to raise the compliance rate with positively influence the taxpayers than to provide them with

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knowledge on how taxpayers' money is utilized. Should be extended to having consultative sessions with society or other influential individuals not only to taxpayers. This can help to influence the whole society through these influential persons who have acceptance in their respective groups. Increased awareness of tax responsibilities in schools means students should be educated early in their career about tax responsibilities.

4.3.2 Computerized Operations

Many tax administration reforms developed in the past ten years have given a strong focus to computerization. Many have believed that automation alone would be the key to modernizing operations. However, this is not the case. The automation of obsolete and inefficient processes has been particularly disastrous in tax administration. There is widespread acceptanceof the notion that a comprehensive review and redesign if necessary, of business processes (usually to eliminate, reduce, and simplify) must take place before automation is undertaken. In fact, such activities are a pre-requisite to the development of Information Technology (IT) strategies. The scope of electronic interaction with taxpayers to boost staff productivity and taxpayer service. The main initiatives to achieve these objectives include; modernizing and integrating IT systems and tools, implementing IT standards and procedures in accordance with IT best practices, implementing IT and information security programmes, developing disaster recovery and business continuity plans, re-engineer business processes to provide more efficient services.

4.3.3 Flexible Tax Regime

With a modern system of revenue collection, government can mobilize additional revenue by increasing collection efficiency as well as by expanding its revenue base. With increased reach and fiscal depth, the many challenges facing government can be addressed in some measures by simply having access to more financial resources. As such, the primary aim of computerized revenue collection must be to increase cash receipts in order to effectively sustain the utility and generate an acceptable return on investment related to the system. Leakages that occur because of untimely collection, fraud and under collection could be reduced by streamlining and automating the revenue collection process. Penalties may be automatically applied to late payments. Daily reporting of cash receipts and due payments to be collected should be automatically generated by the system.

4.3.4 Staff Qualification, Experience and Training

Staffs are the key implementers of the change management programmes at tax department and therefore they ought to be equipped with the necessary skills. Staff training is mainly concerned with the development of strategies for the provision of learning, development and training opportunities in order to improve individual, team and organizational performance. It is development that arises from a clear vision about people's abilities and potential and operates within a business framework. It takes the long-term view on how human resource development policies and practices can benefit the business plans or strategies. Changes in staff behaviour do not occur automatically these may include workshops, training sessions, peer reviews and joint planning and implementation, as well as celebrations. The training is usually driven by the organization's future business strategy (explicit or implicit) and the corresponding staff requirements [78]. As reference[78]noted the training is geared more to increasing the human capital of the staff member, the training increases the employee's, skills but the new skills may be only generally applicable to current or future assignments at the workplace. To create and maintain a training program, the organization must make adequate provision for the expense of training in its annual budget and develop a training plan [78].

Traditionally, the role of local governments were to provide infrastructures, goods and services needed by the society at local levels. Inability of local governments to provide adequate goods and services could be due to lack of adequate revenue. From property owner or as a taxpayer point of view, this can be seen as an unfair term of trade. Since, for most local government large proportion of their revenue comes from property tax, namely rates and land tax, failure to collect it efficiently may result in revenue shortage. Thus, inability to collect property tax effectively makes local governments more dependent on grants provided by the States and Federal authorities. In this review also to conclude that the imposition of any tax such as property tax by the authorities is to achieve certain objectives. Although at national level, the importance of property tax as a revenue source is becoming less important to local and state authorities, property tax is still a major source of revenue. Property tax can be used not only to raise revenue but also as an instrument to redistribute wealth and maintain price stability. However, the effectiveness of property tax as sources revenue to finance the activities of local government depends on the ability of revenue collection. The mechanism to adapt for collection property tax or rates and land tax as it is known in Malaysia, in theory, should meet criteria of a good tax system. This includes ensuring equity and certainty in its imposition and economical in its administration. In addition, the tax imposed should take into consideration the ability to pay and making it convenient for property owners or taxpayer to pay. In devising the mechanism to ensure better productivity of the tax administration, an understanding of the attitude of the owners towards the payment of tax is also important. For a variety of reasons, a property tax is a good tax. There is no uniform of property tax base or assessment method that applied by every country. In some countries, the tax base is land only. In a few countries have adapted for both land and building are tax. The basis for valuation is also wide-ranging. One uniform assessment system needs to establish a tax base that is fair, transparent and accountable. Uniformity most likely achieved if a few practices are planned. In conclusion the efficiency of local governments in performing their role is largely dependent on their ability for effective revenue collection from all sources available particularly property tax.

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