

**RATES COLLECTION IN MANJUNG MUNICIPAL COUNCIL**

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## ABSTRACT

The aim of this study is to examine rates collection in Manjung Municipal Council. Local authorities in Malaysia have been given wide powers within the Local Government Act of 1976. The functions are not only mandatory functions but discretionary functions as well. Assessment rates is collected by the local authorities for the provision of services to the residents. Previous study shows that assessment rates have been the most lucrative source of revenue of local authority. However, the main income of local authority to provide services and development in the area is affected by the increase of rates arrears by house owners. In Manjung Municipal Council, the rates arrear at the end of year 2008 is RM 3.7 Million. Therefore a study is conducted to identify the problem of rates collection faced by Manjung Municipal Council. In the study, 100 questionnaires were distributed to respondents in Manjung council area. Besides, ways to improve the rates collection was indentified through interview with officer in Valuation Department in Manjung Municipal Council. As a conclusion, the objectives of this study have achieved which eight factors that influenced the rates collection and five ways to improve rates collection system and increase income of Manjung Municipal Council has been identified. From this study, the ways identified that can help local authority to overcome rates arrear problem and enhance the rates collection system are improve the way of rates collection, law enforcement, verify the address of owner of property, improve the services provided to public and improve the way to send bills and notices.

## ABSTRAK

Tujuan kajian ini adalah mengkaji kutipan cukai pintu di Majlis Perbandaran Manjung. Pihak berkuasa tempatan di Malaysia telah diberikan kuasa yang luas dalam Akta Kerajaan Tempatan 1976. Fungsi yang terlibat bukan hanya fungsi-fungsi mandatori tetapi juga fungsi-fungsi budi bicara. Cukai taksiran yang dikutip oleh pihak berkuasa tempatan adalah untuk peruntukan perkhidmatan bagi penduduk-penduduk tempatan. Kajian lepas menunjukkan cukai taksiran merupakan sumber hasil yang paling menguntungkan bagi sesebuah pihak berkuasa tempatan. Bagaimanapun, pendapatan utama bagi pihak berkuasa tempatan untuk menyediakan perkhidmatan dan pembangunan dalam kawasan tempatan terjejas kerana tunggakan cukai taksiran oleh pemilik rumah. Di Majlis Perbandaran Manjung, tunggakan cukai taksiran pada penghujung tahun 2008 adalah RM 3.7 Million. Oleh itu, kajian dijalankan untuk mengenal pasti masalah cukai taksiran yang dihadapi oleh Majlis Perbandaran Manjung. 100 soal selidik telah diedarkan kepada responden-responden dalam kawasan Manjung untuk dikenal pasti masalah-masalah cukai taksiran di kawasan berkenaan. Selain itu, cara-cara bagi meningkatkan kutipan cukai taksiran juga dikenal pasti melalui temu bual dengan pegawai dalam Jabatan Penilaian dalam Majlis Perbandaran Manjung. Sebagai kesimpulan, objektif-objektif bagi kajian ini telah dicapai dengan mengenal pasti lapan faktor yang mempengaruhi kutipan cukai taksiran dan lima cara bagi memperbaiki kutipan cukai taksiran untuk menambah pendapatan Majlis Perbandaran Manjung. Daripada kajian ini, cara-cara yang dikenal pasti boleh membantu pihak berkuasa tempatan untuk mengatasi masalah tunggakan cukai taksiran dan memperbaiki kutipan cukai taksiran adalah meningkatkan cara kutipan cukai taksiran, penguatkuasaan undang-undang, mengesahkan alamat pemilik rumah, memperbaiki perkhidmatan yang disediakan kepada orang ramai dan meningkatkan cara untuk menghantar bil dan notis.

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## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Background**

Taxes are reality of life and something which is required in order for a country and all its citizens to prosper. (The Malaysia Government's Official Portal, 2009) According to Wan Nor Azriyati Wan Abd Aziz *et al* (2007), property tax or assessment tax are generally levied on all types of properties such as residential, commercial, and industrial, as well as on vacant land. Assessment tax is levied on all holdings situated in the areas under the jurisdiction of local authority. (The Malaysia Government's Official Portal, 2009)

Local Government Act, 1976 (Act 171) define property tax or assessment tax is as rates. According to Wan Nor Azriyati Wan Abd Aziz *et al* (2007), rates is a form of tax levied on all property holdings for the services and facilities provided by the local authority in their jurisdiction areas. This property tax generates a significant proportion of revenue for local authority in many parts of the world.

Rates is collected by the local authorities for the provision of services to the residents. The aim to impose rates is to fund those services provided to residents or owner of property. (Wan Nor Azriyati Wan Abd Aziz *et al*, 2007)

The amount and classification of properties varies from one local authority to another. In most states, the amount of assessment tax a house-owner pays is calculated on the annual value of the property. The annual value of a property is the total value of rents if the house is rented out in the open market. (Colliers, Jordan Lee & Jaafar Sdn Bhd, 2006)

## **1.2 Problems Statement**

Assessment tax is collected by the local authorities for the provision of services to the residents. (Colliers, Jordan Lee & Jaafar Sdn Bhd, 2006) However, the main income of local authority to provide services and development in the area is affected due to the arrears of assessment rates of house owners.

“Their houses are beautifully renovated and they have one or more cars. Many of them have Astro dishes. Obviously, they are not poor. Yet, many of these house owners have unsettled rentals, maintenance fees, water and electric bills and assessment bills. These house owners could afford more than one car and yet they just do not want to pay up.” The Kuala Lumpur City Hall’s (DBKL) Housing Management Department director Abdul Samad Lope Pihie states this with accordance to the problems of arrears of assessment rates by public. (The Star, May 23, 2008)

The revenue from rates is often an important source of finance for a local government. The extent to which those governments have control over property taxes or rates is thus often an important determinant of the extent to which they are able to make autonomous expenditure decisions. In many countries, the level, design, and control of property taxation are critical elements in effective decentralization policy. (Bird and Slack, 2002)

If the property tax is not paid within a specified time period after the due date, then interest and a late fee are generally charged. According to Bird and Slack (2002), other enforcement measures are usually taken eventually leading to the sale of the property to satisfy the tax obligation in cases of long term delinquency. In most countries, property transfers are not permitted unless property taxes are paid.

In short, tax arrears reduced the revenues generated from the property tax or rates. Tax arrears tend to be higher in countries that do not have sufficient resources or expertise to administer the property tax and where enforcement is weak. (Richard and Enid, 2002)

So, the arrear of rates always is the issue of local authority every year. In Manjung Municipal Council, the arrear of rates at the end of year 2008 is RM 3.7 Million. This is a huge amount since the aim to impose rates is to fund those services provided by local authority. In short, the issue of arrear in rates has influenced the income of the Manjung Municipal Council. Therefore, this study will focus on indentifying the roots of this problem and ways to overcome the problem.

From the statement above, the questions arise are:

- I. What are the reasons for the increase in rates arrears?
- II. Why the people or residents refuse to pay rates?

### **1.3 Objectives of Study**

The aim of this research is to study rates collection system of Manjung Municipal Council. The objectives of this study are:

- I. To indentify the problems of rates collection faced by Manjung Municipal Council.
- II. To identify ways to improve the rates collection and overcome the huge amount of rates arrear.

### **1.4 Scope of Study**

In this study writer scope only is focused to the problems faced by Manjung Municipal Council in rates collection system and steps or ways that was taken.

### **1.5 Significance of Study**

Local authorities in Malaysia have been given wide powers within the Local Government Act of 1976. The functions not only include mandatory functions but discretionary functions as well. The mandatory functions include all critical functions such as refuse collection, street lighting and activities pertaining to public health. Discretionary functions include all development functions such as providing amenities, recreational parks, housing and commercial activities. (Mohd Yahya, 1987)

It is imperative that local authorities upgrade their revenue generating capacity to meet the fiscal needs as represented by the expenditures required to meet the multifarious. It is very important for local authorities to provide effective and efficient services. Theoretically, a local government derives its income from three main sources: rents and fees for services, grants/subsidies given by the central or state government and local taxation. (Mohd. Zin Mohamed, 1998)

According to Mohd. Zin Mohamed (1998), assessment rates have been the most lucrative source of revenue. The Ministry of Housing and Local Government classifies the sources of income for the local authorities into six groups, namely:

- a) Assessment rates (inclusive of contribution in-lieu-of rates)
- b) Licenses
- c) Rentals
- d) Government grants (inclusive of road grants)
- e) Car parking charges, planning fees, compounds, fines and interests
- f) Loans (from government and/ or financial institutions)

This study could also give guidance of ways should taken to overcome the problem. Hopefully this study can help local authority overcome arrears problem in rates collection system and further implement more effective rates collection system.

## 1.6 Research methodology

This research is done by many methods to achieve the two objectives research as mentioned above. This research will be categories to five stages to ease the process of collection data and information. The stages of research are as follow:

### i) Literature research

- Determine the topic and study field.
- Literature research about the rates collection system by local authority.
- Get the information about the rates collection system from books, journals, articles, and websites.
- Obtain the problem statement of problem related to this research.
- Identify the scope and objective of research.
- Discussion with supervisor to get opinion from him to prepare this research.

### ii) Data collection

#### a) Secondary Data

- To get the information related to this research, many references are used. All the references used are from books, journals, articles and websites.

b) Primary Data

- Interview with officer in local authority.
- Questionnaires will be distributed to rates payer.

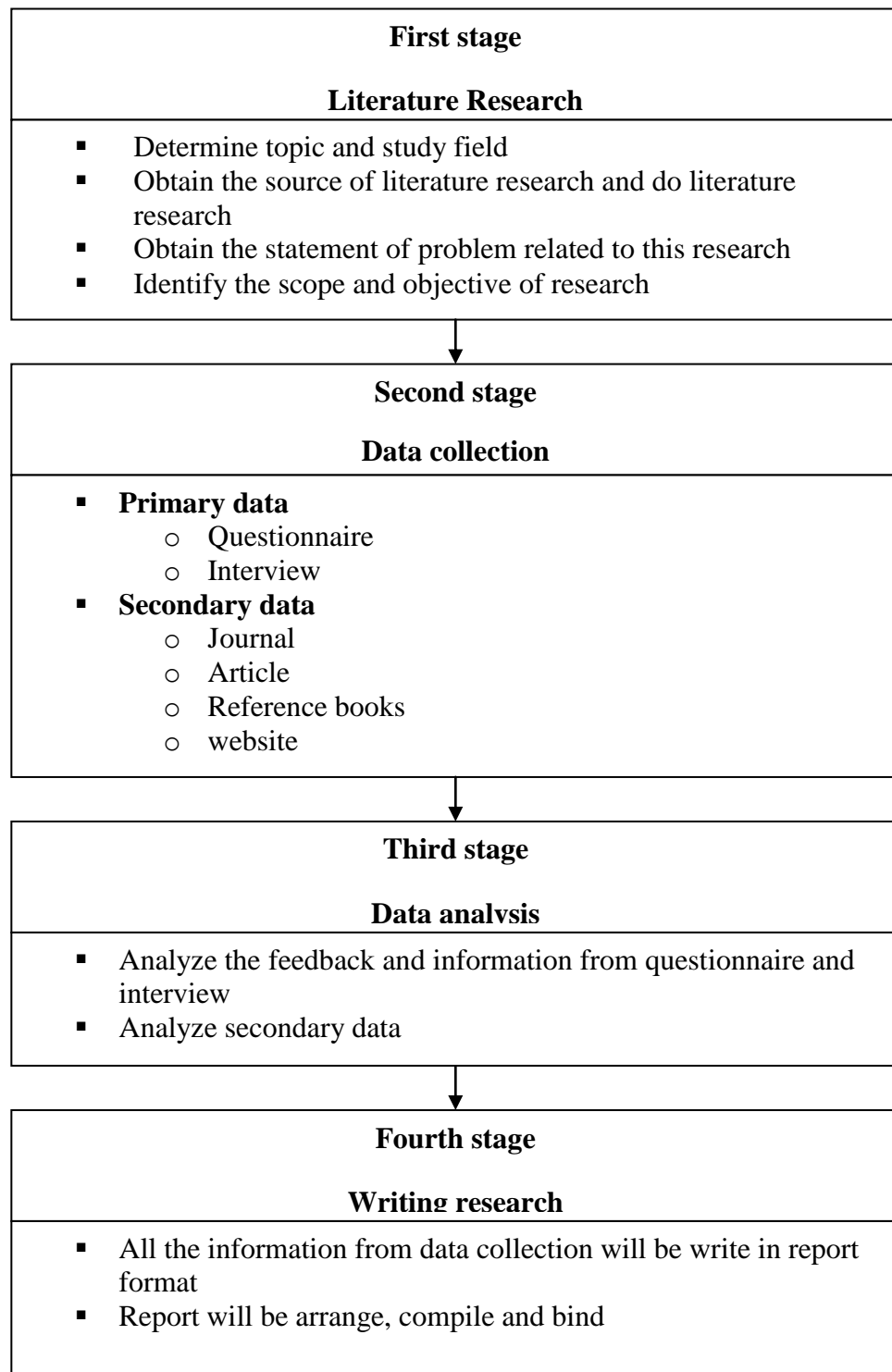
iii) Data analysis

All the information and data get from research will be analysis in detail. The first objective will be achieved based on questionnaires by rates payer in Manjung Municipal Council. For second objective, data will be collected from interview then analyze. Respondent of this research will be selected are rates payer in Manjung Municipal Council area.

iv) Writing research report

Writing research is a very important stage in this research. This research report will be compiling in document.

## v) Research outline





## 1.7 Chapters Sequence

The write-up of this study is divided into 6 chapters. The first two chapters cover the theoretical part of the study while the 4 remaining chapters cover the practical aspects of the study. The chapters are as follows:

Chapter 1: Consist the introduction part of the study. This chapter discusses the problems statement, aim and objectives, scope of study, significance of study, research methodology and chapters.

Chapter 2: Chapter 2 mainly discusses rates collection system by local authority. It comprises the definition and concept of rates, criteria of local taxation, objectives to impose rates, significance of rating, procedure of rates collection system and the problems of rates arrear.

Chapter 3: This chapter is the procedure of this study. It discusses the procedure to collect data to achieve the two objectives of this study. Size of sampling and methods used to analyze data will also been discussed.

Chapter 4: This chapter looks into the details of rates collection system in Manjung Municipal Council. It covers the background of Manjung Municipal Council and rates collection system in Manjung Municipal Council.

Chapter 5: This chapter discusses the analysis based on data collected from interview and questionnaires. The data collected are converted into more meaningful, useful and informative formats. This is done to achieve the two objectives stated in Chapter 1.

Chapter 6: This chapter is the final part of the study. It provides the summation and conclusion of the study. It also discusses possibilities for future improvements in undertaking projects of somewhat similar nature to this research.

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