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FACTORS CAUSING FAILURE IN COMPLETING REASSESSMENT WORK AMONG APPOINTED VALUATION FIRMS

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Abstract

Property tax is a main source of local authority and contributes to nation's development. Local Government Act 1976 (Act 171) has authorized local authority as the responsible party in levying property tax. Based on pilot study, there is an urgency in conducting property tax reassessment due to the lack of manpower in valuation department. Besides, it was found that the outsource solution by appointing private valuation firm also failed to complete the reassessment within dateline. Hence, this study is conducted to scrutinize the most significant factors that cause failure in completing reassessment work among private valuation firm appointed by local authority. Questionnaires were distributed among local authority within Iskandar region to rank the most important factors that cause the failure. The results shows that workload increase, and time constraint is the most prominent factors that cause failure in completing the reassessment work. This paper is significant for local authority in handling the problem regarding reassessment work among appointed valuation firm.

Keywords: Local authority, tax reassessment, valuation firm, failure

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INTRODUCTION

The IAAO (2013) defines property tax assessment as property valuation officially for the taxation purposes. Property tax assessment value is defined as the market value of property on the date based on tone of the list which could derive from the basis of annual value or improved value (Ibrahim, 2009). Property tax assessment can also be referred to as tax collected by local authorities to cover expenses for services and development (Ariffian and Hasmah, 2014). The property tax assessment that was collected from the taxpayer and has become the major source of income for local authorities (Pawi et al., 2011). According to Local Government Act 1976 (Act 171), property tax reassessment must be conducted once every five years and valuation list must be prepared before conducting reassessment work. Valuation list is a complete record that consist of information related to the holding such as the location of the property, district, file number, lot number, house number, name of the owner, owner address, basis of property tax assessment (annual value or improved value) and date of valuation list. The valuation list is important to local authority as before it is gazette, it must be advertised in two local newspaper and at least one of it is in national language based on Local Government Act 1976 (Act 171). The purpose of the advertisement is to ensure owner aware on the tax rate that are imposed on their holding property. During the reassessment work, thousands of properties need to be inspected and assessed by the local authority. However, property tax reassessment work must be completed within 5 years to avoid issues in collecting tax. Private valuation firm are then appointed to conduct the reassessment work under local authority observations. However, several issues arise regarding reassessment work in preparing valuation list which are limited space provided, lack of manpower and expertise (Ariffian and Hasmah, 2014). Therefore, this study is conducted to determine the cause of failure in completing reassessment work among appointed valuation firm.

PROPERTY TAX

Tax revenue is used to finance government expenditure for providing services to public in defense, healthcare, education, law and internal or external effects on the market (Ariffian and Hasmah, 2014). Taxation can be one of ways to reallocate income for national growth and offset social benefits with production costs. Every tax system has certain characteristics or criteria in order for it be imposed efficiently.

The Great Recession during late 2000s and early 2010s certainly affected the national economy and funds. Authority funds are affected in terms of income and spending, monetary and spending, budgeting and public worker benefits and recompense (Chernick, Langley and Reschovsky, 2011; Conant, 2010; Levine and Scorsone, 2011). According to Alm, Buschman and Sjoquist

(2011) and Lutz, Molloy and Shan (2011), Great Recession causes the local authority to depend on the assessment.

Property Tax Assessment

The purpose of enacting property tax is to accommodate local authority expenses such as cost to manage drainage maintenance, roads, public utilities, management, and other expenses. Tax assessment is considered to be the largest contributor to local authorities fund to manage public finances and resources for urban management and border development administration (Pawi et. al., 2011; Lim et. al., 2017). Factors that determine property tax are type of holding usage, land size, building size, type of construction materials and other influential factors and is evaluated based on the market value.

There are four types of property that are subjected to assessment tax which are building residential, commercial buildings, industrial buildings, agricultural land including vacant land or undeveloped land. The amount of assessment tax is based on the percentage rate on the value added which is determined by the Valuation and Property Management Department (JPPH). Property tax reassessment are performed every five years to update valuation list of holding property. The purpose of reassessment is to marks any changes on the building such as renovation or extension upon the land which will affect the market value of holding property.

Basis of Property Tax Assessment

The basis of assessment is important as it is fundamentally used in taxation process. Section 2 of Local Government Act 1976 states that there are two basis in determining property tax assessment which are annual value and improved value. Improved value is used as the basis in tax assessment in Johor and Melaka state while annual value is used in the remaining states in Malaysia.

Annual Value

The annual value can be defined as a reasonable amount of gross rental value of a holding without any implication of forced, restrictions or control over the rent (Jaafar & Ismail, 2017). Annual value is the estimated gross annual rent that is available or expected from year to year through such holding where the holding owner shall pay expenses for repairs, insurance, maintenance, and public taxes.

Improved Value

Improved value is used as the basis of tax assessment in state of Johor. Section 2 of Act 171 defines improved value as: 'The price that an owner willing, and not obliged to sell might reasonably expect to obtain from a willing purchaser with whom he was bargaining, for sale and purchase of the holding.' In accordance with the provisions under section 130 of Act 171, assessment tax may be levied

on the improved value of such property, but this principle is less practiced in Malaysia. Section 130 (3) of the Act has provided the rate of property tax assessment based on improved value which are 5 percent as a general rate, 1 percent as drainage rate, and 1 percent as removal and cleaning rate (Michaely, Vila & Wang, 1996).

OUTSOURCING VALUATION WORK

In recent years, authority has often looked to outsourcing and contracting out as means of addressing talent shortfalls and driving efficiencies. Such measures have encountered resistance from unions, which represent over half of all public sector workers. As a result, local authority has opted to involves the adoption of insourcing. Agencies are now focused on defining which functions are better performed by authority and which are better performed by insourced contracted talent.

However, insourcing is no better than outsourcing in the impending employment crisis. Insourcing depends on recruitment of for-hire external expertise and relies on a management model which directly involve authority as much as outsourcing does.

PILOT STUDY

A pilot study has been conducted to verify major issues faces by local authority in conducting reassessment work. The pilot study has been conducted within several local authority including Iskandar Malaysia Region which are Iskandar Puteri City Council, Johor Bahru City Council, Pasir Gudang Municipal Council, Kulai Municipal Council and Pontian District Council. The result of pilot study showed that there is an urgency in conducting the reassessment work which is lack of manpower in local authority valuation department.

To address this issue, local authorities have privatized the reassessment work to the private valuation firm. According to the pilot study, there is an issue in appointing private valuation firm which is failing to fulfil reassessment work within given period of time. If private valuation firm failed to carry out their responsibilities in reassessment work, it will cause a problem to the local authority in collecting assessment tax from owner of the holding property. Table 1 and 2 shows the issues faced by local authority and valuation firm in completing property tax reassessment.

Table 1: Issues in Local Authority

No.	Issues in local authority
1	Lack of manpower
2	Lack of expertise
3	Limited building spaces
4	Time constraint

5	Lack of an efficient data
6	Monetary saving
7	Political issue

Table 2: Issues among appointed valuation firm

No.	Issues among appointed valuation firm
1	Slow resolution times
2	Slow response time
3	Giving rise to quality problem
4	Time constraint
5	Loss of control featured a dominant reason
6	Fail to resolve conflict and any dispute
7	Fail to achieve objective (completing work)

FACTORS THAT CAUSE FAILURE IN COMPLETING REASSESSMENT WORK AMONG APPOINTED VALUATION FIRM

Factors cause failing in reassessment work are identified from content analysis in literature studies. Past research has investigated the impediment factors in property tax revaluation found that there are four impediments factors which are lack of knowledge, lack of workforce, cost constraints, and time constraints in property tax revaluation (Atilola et. al., 2019; Abd Rahman et. al., 2021). These factors are used in forming questionnaires to determine the rank for failure factor. The findings from literature review are tabulated in Table 3.

Table 3: Failing Factor in Reassessment Work

Finding	Author
Lack of top management	Abdullah et. al. (2012), Mamat et. al. (2012)
Lack of training and education	Mohsen (2012), Abdullah et. al. (2012),
Difficulty in allocation of personnel responsibilities	Mzni (2011), Abdullah et. al. (2012),
Lack of cooperation among internal departments	Amirtash et al., (2012)
Resistance to change	Osman et. al. (2014)
Lack of leadership	Bente (2014)
Lack of qualified personnel	Bujang & Zarin (2014), Abdullah et. al. (2012)
Lack of human resources	Bujang & Zarin (2014), Dock (2009)

Lack of involvement, cooperation and commitment from employees	Harvey Brown (1999) and Roth (1997)
Lack of motivation	Magne Jorgensen (2014),
Workload increase	Amar & Mohd. Zain (2002), Chirantan Basu (2005)
Time constraint	Chirantan Basu (2005)
Difficulty in preparing documentation (inspection)	Amar & Mohd. Zain (2002), Chirantan Basu (2005)
Lack of related information	Bénézech et al., (2001), Abdullah et. al. (2012)
Improper control of documents and data	Allen & Chandrashekar (2000), Hartshorne (2015)
Building spaces	Bujang & Zarin (2014), Abdullah et. al. (2012)
Lack of efficient data system	Bénézech et al., (2001), Abdullah et. al. (2012)
Data system interruption	Marc J. S. et, al. (2015), Gill (2013)
Financial	Gill (2013), Grimshaw et al. (2015), Diaz-Mora & Triguero-Cano, (2012)
Communication	Sonfield (2014), Sutter & Kieser (2015)

DISCUSSION AND ANALYSIS

55 questionnaires have been distributed to appointed valuation firm within Iskandar Malaysia Region. The questionnaires are divided into to sections which are section A and section B. Section A consists of respondents' profile including gender, job position and years of experience. Meanwhile, in section B consists of consist six categories of factors that cause failure in completing tax reassessment which are time, resources, human factor, financial, and communications. The questionnaires were distributed among registered valuer, valuer, trainee, and contract staff which have experience in handling tax reassessment work from local authority. Majority of the respondents have 2-10 years of experience in property tax assessment.

Table 4 shows the mean value for each failure factor in reassessment work arrange according to the six categories. The results shows that workload increase in time category has the highest mean value by 3.40. Besides, time category has a higher average mean value compared to other categories. Factor that received lowest mean value is lack of qualified personnel and lack of involvement, cooperation, and commitment from employees with 2.55, each.

Table 4: Failure Factor in Reassessment Work

Category	Factors	Mean
Time	Workload increase	3.40
	Time constraint	3.33
	Difficulty in preparing documentations (inspection)	3.05
Resources	Limited building spaces to put all files	3.09
	Lack of related information	3.04
	Data system interruption	2.93
	Lack of an efficient data system	2.85
	Improper control of documents and data	2.73
Human Factor	Lack of human resources	2.95
	Lack of motivation	2.89
	Lack of leadership	2.62
	Lack of qualified personnel	2.55
	Lack of involvement, cooperation, and commitment from employees	2.55
Financial	Lack of financial	2.67
Management	Resistance to change	2.85
	Lack of cooperation among internal departments	2.75
	Lack of top management and commitment	2.56
	Difficulty in allocation of personnel responsibilities and authority	2.56
	Lack of training and education	2.47
Communication	Lack of communication	2.64

Table 5: Average Mean Value based on Category of Failure Factors in Reassessment Work

Category	Average Mean Value	Rank
Time	3.26	1
Resources	2.93	2
Human Factor	2.71	3
Financial	2.67	4
Management	2.64	5
Communication	2.64	6

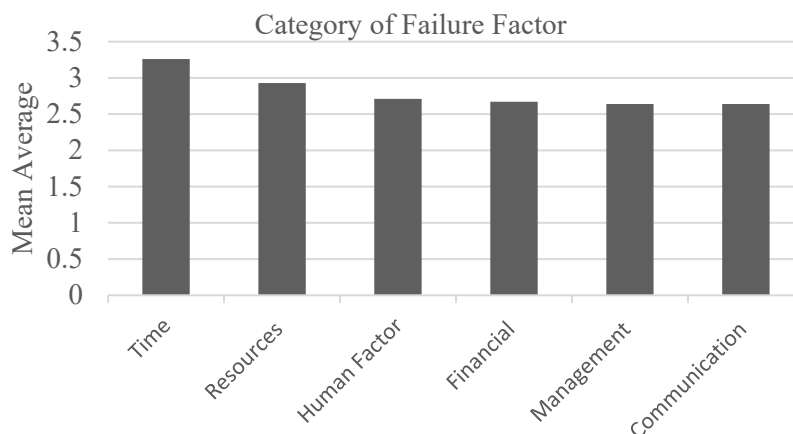


Figure 1: Average Mean Value based on Category of Failure Factors in Reassessment Work

Table 5 and Figure 1 illustrates the average mean value based on category of failure factors in reassessment work. The category of failure factors is ranked based on the average mean value. Based on the charts, time category has the highest average mean value and considered the most prominent category of failure factors in completing property tax reassessment work.

Table 6: Mean Value Rank Failure Factor in Reassessment Work

Index Scale	Index Range	Factors	Mean	Rank
Strongly Agree	3.27 - 3.46	Workload increase	3.40	1
		Time constraint	3.33	2
Agree	3.07 - 3.26	Limited building spaces to put all files	3.09	3
Neutral	2.87 - 3.06	Difficulty in preparing documentations (inspection)	3.05	4
		Lack of related information	3.04	5
		Lack of human resources	2.95	6
		Data system interruption	2.93	7
Disagree	2.67 - 2.86	Lack of an efficient data system	2.89	8
		Resistance to change	2.85	9
		Lack of motivation	2.85	10
		Improper control of documents and data	2.75	11
		Lack of cooperation among internal departments	2.73	12

		Lack of financial	2.67	13
Strongly Disagree	2.47 - 2.66	Lack of communication	2.64	14
		Difficulty in allocation of personnel responsibilities and authority	2.62	15
		Lack of leadership	2.56	16
		Lack of qualified personnel	2.56	17
		Lack of involvement, cooperation and commitment from employees	2.55	18
		Lack of top management and commitment	2.55	19
		Lack of training and education	2.47	20

Table 6 describes the summary of the final findings of this study. The respondents strongly agree that workload increase, and time constraints is the most prominent factors that cause failure in completing property tax reassessment with mean value of 3.40 and 3.33, respectively. Besides, the respondents also agree that limitation in building spaces to put all files contributes to failing to complete the reassessment work. Moreover, factors such as difficulty in preparing documentations (inspection), lack of related information, lack of human resources, and data system interruption has no effect on completing the reassessment work. However, the respondents mostly disagree that the remaining factors cause failure in completing property tax reassessment with mean value ranged from 2.47 to 2.89.

CONCLUSION

To conclude, time factor is rank 1 as the failure factor in tax reassessment work faced by the appointed valuation firm. Time factor, specifically workload increase, and time constraints are the major issues faced by the appointed valuer to complete the tax assessment work. Tax assessment is important to local authority because they are responsible to ensure the facilities and services were provided to the public and satisfied their needed under local authority jurisdiction. Hence, the reassessment work must be carried out to ensure the facilities and services provided in the best standard. Working environment must be enhance because to make sure the result of the work is in the best result. Thus, the failure factor in reassessment work will be decrease and prevent.

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