Compliance as a determinant for Property Tax Revenue generation in Local Governments in Malaysia

Muhammad Akilu Umar, Rozilah Kasim & David Martin
Faculty of Technology Management and Business
Universiti Tun Hussein Onn Malaysia, 86400, Parit Raja, Batu Pahat, Darul Ta azim, Johor, Malaysia.
Akilumuhammad78@gmail.com, rozilah@uthm.edu.my, martin@uthm.edu.my

Property taxation is a system created to ameliorate the less privileged. This is achieved through levying properties for maintenance, provision of services and development of infrastructure, within the jurisdiction of a local authority. However, taxpayer’s compliance behavior significantly determines the success of property tax collection. Contemporarily, one of the major challenges facing the local authorities is the issue of property tax arrears, which is predominantly due to non-compliance behavior. The aim of this paper is to analyze through evaluation, how compliance behavior of a taxpayer affects property tax revenue generation at (PGMC) Pasir Gudang Municipal Council, Malaysia. The study discovered that compliance behavior of a taxpayer significantly affects the revenue mobilization capacity with respect to property taxation in local governments. The issue of non-compliance behavior resulted in accrued tax arrears and inevitably low-income generation. However, transparency, commitment to service delivery, development of infrastructure and mass mobilization sensitization may erase doubts in the minds of the taxpayers given room for a positive compliance. This research may provide option for improvement in revenue generation and positively more service delivery by the local governments.

KEYWORDS: Compliance, Property Tax Collection, Property Tax, Property Tax Arrears, Local Government

1. Introduction

Property tax administration is part of the statutory responsibility of local governments. Local governments were mandated to ensure the payments of these taxes. The payment of the tax by the taxpayers is termed as property tax compliance. The level of conformity of a taxpayer in observing the tax law is known as tax compliance (James & Alley 2004). Similarly, tax collection in local governments in Malaysia had been experiencing a decline in revenue generation owing to the increasing trend of non-compliance behavior exhibited by the taxpayers. Studies revealed that, the amount of revenue collected is decreasing due to the unpaid tax by homeowners (Pawi, et al, 2011; PGMC, 2012). The major existing problem of property tax collection at Pasir Gudang Municipal Council is non-compliance behavior exhibited by the taxpayers, which resulted in low property tax revenue generation. Non-compliance is because of tax evasion, which creates what is called tax gap. The tax gap is the difference between the real income collected and the expected amount to be collected assuming 100 per cent compliance; it may be used to determine the degree of non-compliance (James and Alley, 2004). The Compliance of a taxpayer is certainly a government issue; it involves recording and notifying the tax authorities of the taxpayer status, with respect to tax obligation (Ming Ling et al 2005). On the contrary, tax compliance entails adequate tax knowledge and ability to utilize this knowledge, timeframe, precision, a certain degree of honesty and adequate documentation of tax returns (Singh and Bhupalan, 2001).

Even though at times there are technical misinterpretation but legally, definitions often attempts to rationalize compliance behavior of a taxpayer. If the taxpayer is made to pay under constraints or duress, then it is not considered as compliance even if there is no tax gap. However, compliance simply means the willingness of a taxpayer to comply without necessarily facing threats of legal action or sanctions (James & Alley 2004). A different view posited that, even though the state and the taxpayers do not certainly share common view on tax compliance. However, tax compliance is
looked upon by the state as what is legally owned by the taxpayers. The taxpayer’s perspective may be different with the concept of tax laws, their compliance hinges upon their perceptions, which determined their willingness to conform to the tax authority. Nevertheless, a question to be asked is whether compliance signifies obligatory or voluntary behavior (Bergman 1998). However, the principal issue to the drive of self-assessment system introduction is to intensify the effectiveness of tax collection for the tax authority, nevertheless, significantly is the need to initiate this without having negative effect on the other key characteristics of a well-made tax system of justness and wider administrative efficiency (James & Alley, 2004).

Studies have proven that there are different factors that affect compliance behavior (Alm, 1999; Brook, 2001). Scholars identified these factors as social, psychological and economic, factors (Alm, 1999; Brook, 2001; Devos, 2008; Fischer, 1993; Wartick & Mark, 1992; Jackson & Millron, 1986; Kirchler, 2007). However, Braithwaite (2003) opined differently, he maintained that industrial, business, social, psychological and economic, factors affects the taxpayer. On the contrary, the scholars missed a single variable that form the backbone within the paradigm of factors which affects the taxpayer’s compliance behavior; it is the most crucial this factor is government policy. The influence of the government on a taxpayer should not over emphasize, it can encourage or discourage the taxpayer through different ways. Some of these ways are; the imposition of tax base, tax rate, coverage ratio, assessments, determination of rateable holdings, who is to be tax, the process of taxation, exemption and rebates, enforcement, service delivery and provision of infrastructure facilities. These areas mentioned, is associated with the provisions made by the public authority, which directly affects the taxpayers. In order to handle the issue of tax non-compliance, it is necessary to understand the factors impelling one’s decision to observe the provision made by the tax laws. The first scholars established their work on the economic viewpoint of tax compliance; they concluded that, penalty tax rate, penalty and detection probability as factors influencing taxpayers’ behavior (Allingham & Sandmo, 1972).

Studies discovered that, taxpayer compliance behavior is subjective to social and psychological factors as a result, extended studies to cover these factors (Bobek, 1997; Fischer, 1993; Fischer et al., 1992; Jabbar, 2009; Jackson & Millron, 1986; Manaf, 2004; Wenzel, 2004). In the first major comprehensive review of literature of tax compliance, Jackson and Millron (1986) identified 14 key factors influencing tax compliance. Fischer et al. (1992) categorized these key determinants into four group constructs and it became known as Fischer’s Model of tax compliance. The model comprises of attitude and perception (fairness, ethics, and peer influence); noncompliance opportunity (income level, income sources and occupation) and demographic factors (age, gender and education) and tax system structure (tax rate, penalty, and probability of detection, complexity of tax system).

2. Background of the Study Area.

Pasir Gudang is a name, which originated from the existence of sand mine at Kampung Ulu. It is an industrial town located 35 km east of Johor Bahru in Malaysia. It is located at the eastern end of the Johor Bahru metropolitan area (MPPG, 2012). The population is around 100,000. The main industries are transportation and logistics, shipbuilding, petrochemicals and other heavy industries, and oil palm storage and distribution. It is the site of one of two major power stations in the state of Johor, the sultan Iskandar power station (IRDA, 2008).
Pasir Gudang is administered by the Pasir Gudang Local Authority. Pasir Gudang is a subsidiary of Johor Corporation. It is the first local authority in Malaysia that was privatized, although Johor Corporation is the investment arm of the Johor State Government. Pasir Gudang Local Authority receives no financial support from either the state or federal government. On 1 July 2007, this agency was granted municipal status and changed its name to (MPPG) or Pasir Gudang Municipal Council. Pasir Gudang is a Local Government, which is resolute to provide quality and professional services as well as implementing continuous improvements and ensuring effectiveness of the management system in achieving quality objectives (PGMC, 2012). These objectives are; ensuring the society inherits benefit through activities and development projects. Another objective emphasizes on holistic development based on the allocation of Local Government Act and parallel with government policies. Moreover, the municipal council gives priority to Malaysians who have the potential of being successful entrepreneurs. It also targeted to improve employee knowledge and skills through continuous training. More so, it also aimed at improving the cooperation with the society in strengthening the community.

The functions of the municipal council according to (PGMC, 2012) includes; to plan, organize, and control development of cities, as well as the construction and maintenance of public amenities and infrastructure. Provision of municipal services, food quality control, vector diseases control management and environmental effectiveness is also part of it is functions. Pasir Gudang Municipal Council is also responsible for building control body and ensuring that legislative, policies, and requirements guideline are adhered to. It also evaluates, assess and collect property taxes.

2.1 Compliance

Tax compliance is a drawing international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue. Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though ‘tax laws are not always precise’ (James and Alley 2004). Kirchler (2007) defined compliance as preparedness of taxpayers to settle their taxes. Song and Yarbrough (1978) tax compliance simply means taxpayers’ capacity and readiness to obey to tax laws, which determined environmental laws, principles, and prevailing circumstances within a certain society.

2.2 Determinants of Tax Compliance

Braithwaite (2003) opined that psychological, industry, business and sociological factors effect taxpayer’s attitude. He argued that, the fundamental application of the compliance model is deeply rooted in the knowledge of taxpayers’ behaviors and attitudes. The BISEP model is adopted to examine the motive of the taxpayers and why they behave in a particular way. The factors that affect taxpayer’s behavior represent the acronym BISEP that is Business, Industry, Sociological, Economic,
and Psychology. The first step in applying the compliance model is to identify those factors that influence a taxpayer’s attitude in relation to compliance behavior.

Figure 3. Tax Compliance Model (BISEP)

Chau and Leung, (2009) posited that the BISEP model addresses the different attitudes to compliance. It shows that there are ranges of attitudes, and they often differ depending on the situation. There may be different reasons behind the taxpayers compliance or otherwise and the BISEP model simply aids to understanding the phenomenon.

- It cannot be concluded that because a taxpayer does not pay the tax, that he is living a luxurious life.
- Taxpayers should not be characterized as always possessing identical behavior

i) Sociological background of the taxpayer; these involved social issues, like the position of the taxpayer in the society, the norms of the groups they belong to, their age, gender, ethnicity, Education level and personal relationships

ii) Business capacity of the taxpayer: The type of business that is run by the taxpayer, location and focus of the business local, national or international business, sociological norms of the business groups they belong to. There are other things like how and where the customer fits into society, size and how their business is structured sole trader, partnership and how long the business has been trading, personal relationships and education level of the taxpayer.

iii) The Taxpayer Psychology: Taxpayers psychology has to do with things that make people conform, what they fear most, which they trust and how willing are they to take risks. What they perceived as fair and equitable, previous interactions or experiences with Inland Revenue (compliance history) how they have reacted to previous responses from Inland Revenue.

iv) Economic capacity of the taxpayer: The economic capacity of a taxpayer involves, inflationary trend existing where the taxpayer is residing, the interest rates chargeable on loans, the property tax rate imposed, the structure of the tax system and government policies

v) Industrial capacity of the taxpayer; This has to do with things that is unique or significant to the industry, such as competition, seasonal factors, profit margins, degree of regulation and infrastructural provisions.

The attitudes of a taxpayer is guided by the itemized factors. However, from a different view a taxpayer fits into one these classes, which determine the overall behavior in tax compliance. Tax compliance is most important in self-assessment system because the revenue generated significantly relies on the commitment of the taxpayer’s compliance behavior (Singh and Bhupalan, Somasundram
2003, 2005). However, infallible; the constraint of such definitions is that they cannot accurately
determine the conviction relating to the magnitude of tax compliance. To improve the compliance
behavior of taxpayer awareness need to be created, sensitization workshops targeted at educating the
taxpayers should also be organized, concurrently with service delivery. This might significantly
indulge the taxpayers to willfully settle their obligations. The main reason for revenue generation
through taxation is for public service delivery. On this note, compliance is supposed to be exercised
willingly, but if it can only be achieved under threats of severe penalties and enforcement action. Then
the mind of the taxpayers needs to be indoctrinated with the basis and benefits of property tax.

3.0 Methodology

The research method employed in this study for data collection is using an interview survey. The data
collected was analyzed and interpreted using thematic network analysis

3.1 Interview survey

A structured and un-structured interview was conducted with the staff of Pasir Gudang municipal
council and some of the residents of Pasir Gudang. The interview carried out involves three relevant
departments, and two staff was selected to represent the interviewee from each relevant selected
department. The departments include; property management and valuation department, the finance
department and the legal department. The justification for selecting these three departments is because
they are the most relevant department in the area of property tax. The interview employed is to
determine the level of compliance behavior of taxpayers and how it affects the revenue generation of
the local government.

The property management and valuation department is responsible for the administration of
property tax, assessment of properties and production of assessment bills, distribution of bills and
collection of the property tax are part of the responsibility of the department. The questions posed to
the property and valuation department are; on the process of tax collection (valuation department)
when is the assessment bill made? In addition, when is the bill distributed? Where are the designated
places for the payment of property tax? What are the processes involved in property tax collection?
What are the problems that affect property tax collection? What is the estimated number of residential,
commercial and industrial buildings?

The legal department is responsible for ensuring of compliance from property taxpayers
through enforcement, penalties prosecution of all tax related offences or noncompliance. The questions
answered by this department are; how can you rate the compliance behavior of the taxpayers in
percentage for the past five years (2008-2011) based on records? What is the process of enforcement
for non-compliance? What is the penalty for non-compliance? The finance department oversees the
overall affairs of the income generated in the local government. The questions asked were; what is the
amount generated annually for the past five years (2008-2011)? What are the arrears that have accrued
for the last five years (2008-2011)? Answers are given to these questions to obtain a realistic data
based on the record of the local government for interpretations in this research on how compliance
behavior affects property tax revenue generation in the study area.

3.3 The Thematic Network Analysis

Thematic network analysis is a qualitative research method of analysis that involves the practice of
developing themes from word-based data and presenting the information in an illustrative form.
Thematic network analysis embroils the classification and analysis of related themes and patterns
(Braun & Clark, 2006). The Thematic analysis goes beyond the textual data, it redesign the related key
issues and group them under certain identified classes, which is referred to as themes which are
represented in an organized web-like network. The network represents the rationalization and
interpretation of key issues as they unveil which is applicable to both inductive and deductive research.
The process of thematic networks does not aim or pretend to discover the beginning of arguments or the end of rationalizations; it simply provides a technique for breaking up text, and finding within it explicit rationalizations and their implicit signification (Attride-stirling, 2001).

The three classifications of themes are highlighted below:

- **Basic Theme**: The most rudimentary lowest-order of theme is classified as the basic theme and it originated from word-based data. It is a foundation of which connects and define the super-ordinate theme. The basic themes are a domain of the data, their definition of text group is myopic as such is does not really convey much except if it is linked with the organizing theme.

- **Organizing Theme**: This is mediating themes (middle-order theme) which systematically arrange the basic themes into groups of related issues. They are groups of connotations that review the principal assumptions of a group of basic themes, they disclose more on what is happening within the textual-data. However, they perform a function of a converging point to the basic themes as such gives more meaning to the global theme.

- **Global Theme**: Global Themes are a central theme (super-ordinate themes) that includes all the data facets. A global theme forms the key issue in a certain area of investigation comprising of the entire variables involved in determining the true situation of the event in question. Organizing themes put forward an argument from a certain point of view and tried to link-up with reality.

### 3.4 The Structure of Thematic Network Analysis Employed in the study

The Figure 4 below shows the three different classes of themes.

![Figure 4: The structure of thematic network analysis](image)

The steps involved in the analysis employed in the research

**ANALYSIS STAGE A: REDUCTION OR BREAKDOWN OF TEXT**

*Step 1. Code Material*
*Step 2. Identify Themes*
*Step 3. Construct Thematic Networks*
*Step 4. Describe and Explore Thematic Networks*
*Step 5. Summarize Thematic Networks*
*Step 6. Interpret Patterns*


### 4.0 Findings of the Research

The findings of this research established the effect of property tax compliance as it affects property tax revenue generation.
4.1 The Effect of Property Tax Compliance on Revenue Generation at Pasir Gudang Municipal Council

This section investigates whether or not compliance behavior of a taxpayer affects residential property tax in the selected case study area. The thematic network analysis represents the effect of compliance behavior on property tax collection as below in Figure 4.8. The themes were coded and analyzed individually based on the interview survey conducted with the interviewees which involves: the staff of pasir gudang municipal council from the legal department and property management/valuation department.

The important themes measured are: taxpayers compliance behavior, taxpayers non-compliance, enforcement for non-compliance. This section is meant to support the achievement of research objective three and at the same time to support answering research question three. The research objective which this section is to answer is: to evaluate the barriers that attribute to the low property tax generated by the selected local government. While at the same time to support in answering: why do the selected local governments not successfully generate the property tax revenue generation.

![Figure 5. Structure of Thematic Network Analysis Depicting the Effect of Property Tax Compliance on Revenue Generation in Pasir Gudang (Interview Survey, 2012)](image)

4.2 Taxpayer Moral Development (Non-Compliance Behavior) at Pasir Gudang Municipal Council

The respondents were asked on the how can they rate the compliance behavior of taxpayers in the case study area. The interviewees responded, that the compliance behavior of the taxpayers in pasir gudang can be rated as not very successful. They mentioned that, initially the focus of the Pasir Gudang municipal council is truly not on the residential properties but basically on industrial properties. It was first established under johor corporation. The corporation has been running the organisation for a long time but in 2008 the government stepped in and took over it, and made a municipal council. Then changes in policies and approach started taking place. But since the inception of the council the taxpayers compliance around 50%, with lots of arrears according to a respondent. The document reviewed indicated a significant relationship on the issue of arrears, it stated about 46.59% is the debt for the current year 2012.. the respondent further stated that, they have been trying to educate the taxpayers on the essence of property tax. “But so far, the response was just average” He lamented that “the reason for tax non compliance is a mental” according to another respondent. In the same perspective a researcher Kirchler (2007) suggested that social factors should be viewed in a broader sense; this includes the psychology of the taxpayers. This means that a taxpayer social background affects his thinking and conduct and invariably his compliance.

![Diagram](image)
Another perspective is that tax evasion/avoidance is often a by-product of administrative system. At a societal level, tax compliance can easily be replicated if the perception is held that the tax system is unfair; wide scale tax evasion is likely to occur (Allingham and Sandmo, 1972; Barjoyai, 1987). This kind of persistent behavior give rise to tax overdue at pasir gudang. This year from January –October 2012 the amount of tax sum unpaid is RM 4, 616, 063. This is as a result of noncompliance. This study discovered that non-compliance seriously affects the level of income generation at pasir gudang municipal council.

4.3 Tax System (Enforcement for Non-Compliance Behavior) at Pasir Gudang Municipal Council

The respondent who is a barrister from the legal department were asked on the enforcement process for non-compliance behavior in the study area. The response is that those who fail to pay the tax, the following steps are taken. “The first step - which is a reminder notice, is sent to them, second step, the PGMC appoints a panel with instruction to proceed with the process of enforcement. The third step is the issuance of a demand notice, the fourth step if they fail, the PGMC move in for auction of movable property but we never go to court on a residential case but only on industrial properties, we had a court case”. We never auction a property because it is not fair for a debt of RM2000 to auction a property worth RM100, 000 the court would not even allow that, but we have intention to move on the auction” according to a respondent.

The department charges the penalty for non-compliance and the charge is RM50 for failure to pay within the stipulated time. Nevertheless, a more through penalty was adopted, according to another respondent, property worth RM 3000.01-5000 there is a charge of RM 50+ the amount of tax due for payment. Property worth RM 5000.01-10,000 there is a charge of 70+ the amount of tax due for payment. Property worth RM 10,000.01-Above there is a charge of RM 90+ the amount of tax due for payment. These are the charges for the offences. However, the enforcement and penalty is not yielding result hence the accrual of tax overdue.

4.4 Public Goods Delivery at Pasir Gudang Municipal Council

The respondents were interviewed on public goods delivery, on how does the municipal council spends the income generated, the response was “on services and infrastructure” . However, this point was discussed elaborately in figure 4.56. However, on the issue of compliance there is a relationship between the taxpayer and the government. Spicer and Lundstedt (1976) find that taxpayers will refuse to pay their taxes if they feel that the government is wasting their taxes. Webley et al. (1991) found a positive relationship between government performance and compliance. Cowell and Gordon (1988) link the two sides of the government budget, income and expenditure, by introducing public goods. In this way they want to link the performance of the government with the satisfaction of the taxpayers. this research discovered that the taxpayers at pasir gudang are not satisfied with the services renderrd to them by the PGMC. Hence the non-compliance and tax arrears which resulted in low income generation at pasir gudang.

4.5 Level Education at Pasir Gudang Municipal Council

The respondents was asked on the problems of property tax the selected local government. He said one of the issues raised by the taxpayers is that why must they pay property tax. There is lack of awareness as responded by the interviewee. The benefits of the property tax is not known to the locals, so they defy paying the tax with various excuses. Nevertheless, this problem is from the PGMC. They are suppose to embark on massive publicity campaign to educate and sensitize the people. Programs are supposed to be organized by the municipal council to establish a tax friendly environment. Commissioning of projects need to be aired. Radio, television and all the media outlets should be utilized to promote the PGMC based on work in progress and those executed and proposed projects
should be disseminated to the public. This would surely bring positive results. But due to its absence the whole organisation is looked upon as a pool for amassing income without justification.

4.6 The Effect of Compliance Behaviour on Revenue Generation at Pasir Gudang Municipal Council

This section is focused to support the achievement of research objective two and at the same time to answer research question two. Furthermore, this section is meant to support the achievement of research objective two, it is design to ascertain the viability of the current existing practice of property tax collection, it is: to study the existing practice involved in property tax collection in the selected local government. In the same respect to answer the research question that this section meant to answer, which is: How would the property tax collection be generated by the selected Local Governments. The details of how the research objective is to be achieved is given under the Figure below.

Figure 6. The Structure of Thematic Network Analysis Depicting the Outcome of Existing Practice of Property Tax Collection in the Selected Local Government (Interview Survey, 2012)

4.7 Expected Income (2008-2012) at Pasir Gudang Municipal Council

The respondents disclosed during the interview that there are issues emanating from property tax collection in the selected local government. As part of the people monitoring the collection exercise, he buttress that tax collection is facing a lot of challenges which resulted in decrease of income generation and give room for arrears to accrued. The income projected/expected to be generated by PGMC from residential property tax collection is about RM 45, 906, 865.39 (million) this is obtained through documents issued to the researcher by the respondents. This stated amount is never realised owing to issues of arrears facing the municipal council on property tax collection.

In inevitably the practice has it is lapses, because the research discovered that thre is no strong enforcement and penalty process. Collection process is good but another area that requires attention is the distribution process need to be reviewed such that the bill distribution should for atleast one month to ensure effective disribution not only two weeks as presently practiced all these directly affects the revenue generated in the selected area. However, Sour Laura (2004) the combination of enforcement, penalties, prices, income, and institutions limits the set of possibilities of individuals in the economy. North (1990) defines institutions as “humanly devised constraints that shape human interaction”. Institutions can be formal like constitutions, statute law, and regulations or informal like self-enforced codes of behavior, norms, and conventions in society. If there is no enforcement people would behave the way they want irrespective of what is in the provision of the law. Therefore, this encourages tax
evasion or defaulting in payment of tax and give room for more of this attitude which brings about accumulation of property tax arrears.

### 4.8 Actual Income Generated from (2008-2012) at Pasir Gudang Municipal Council

The interviewees responded on the issue of income generated in the last five years in the municipal council. The property tax collection in the last five years have made an effort to improve the income generation on residential properties but without making much success. While the collection from industrial properties is almost 100%, the income generated on residential properties still remain in a dilemma. The income generated within the last five years amounted to RM 26,564,228.91 as against what is expected to be generated RM 45,906,865.39 (million). There are so many strategies which are suggested by scholars, which prompts the taxpayer to pay his or/her tax. These strategies are not practiced in the selected local government, that is why the system needs reform. Example, the process of being audited carries various social risks, such as loss of reputation among family members, friends, and colleagues. In an extreme case, an audit can put the taxpayer’s job at risk. People commonly discuss issues related to their taxes among family members and at their jobs. Grasmick and Bursik (1990) found that feelings of shame and loss of respect when people evade taxes are self-imposed costs that decrease the likelihood of noncompliance. They differentiate between shame and embarrassment. The former is something that the individual feels personally; it does not depend on others, while embarrassment includes peer pressure, family and significant others. If these can be implemented and action to be taken against people found wanting, it may tend to reduce the level of tax evasion/tax noncompliance in the selected local government.

### 4.9 Arrears from (2008-2012) at Pasir Gudang Municipal Council

The respondents were interviewed on the arrears accrued within the stated period of five years, they disclosed that the amount that accrued is due to the tax non-compliance in the selected local government. The research discovered that there is a sharp rise in the arrears accruing on property tax in 2008 the percentage arrears was 46.46%, in 2009 it became 37.30%, but in 2010 it start increasing to 37.87%, it further increases to 41.91% in 2011, while in the current year 2012 it is 46.59%. Currently, PGMC is loosing a lot, almost 50% of revenue that is expected to be generated automatically falls into tax overdue, because there is high level of non-challant attitude towards tax obligation, tax avoidance, tax evasion, tax non-compliance, all these are methods employed by people in order not to pay their taxes. Even though there are reasons that promote these practices, but irrespective of other reasons a taxpayer should settle his/her tax dues.

Fairness is another social factor that can explain tax compliance. There are two factors in the perception of fairness. The first one is related to the tax burden of the taxpayer compared to the burden of other individuals. Spicer and Becker (1980) in experimental research found that the amount of taxes evaded increase when people are told that their tax burden is higher than the rest of the group. Nevertheless, there is no agreement on the empirical evidence about this point. Webley et al. (1991) found that there is no relation between the perceived inequalities and the compliance of the taxpayer.

The second factor is the perception about the rate of compliance among people: the more other people pay their taxes, the more people will think that it is fair for them to pay theirs. Geeroms and Wilmots (1985) show a mutual dependence between evasion and the percentage of the population who is evading. Cowell (1990) provides evidence of the relation between perceptions and attitudes of individuals with tax compliance. Myles and Naylor (1996) modify the expected utility model to introduce a social custom source of utility. In this way, the individual gains utility when he complies honestly with the tax law.

The interview conducted was to have a clear view on the income generated from residential property tax at the selected local government. The respondents disclosed the amount generated from 2008-2012. This theme is important to the study because it used to determine the trend of income generated over a period of five years. The analysis of the income flow would indicate whether the system practiced at the selected local government is effective or it needs to be reformed. The income trend is based on documents reviewed (Performance Collection Assessment 2012). In 2008, RM 4,337,662.73 was collected, while in 2009, the amount of RM 5,534,915.05 is the revenue from residential properties. In 2010, RM 5,801,862.05 was collected, and in 2011, RM 5,557,195.38 is collected. In this fiscal year 2012, the amount of RM 5,291,882.89 is the revenue generated from residential property tax. By critically analyzing the income flow, the study discovered that the revenue generated from property tax collection is decreasing according to the figures given by the respondents. If the trend should continue, then very soon the PGMC would lose its capacity to generate revenue on residential properties.

4.11 Trend of Arrears due to Non-compliance from (2008-2012) at Pasir Gudang Municipal Council

The respondents are quite familiar with the external factors that actually contributed to the accumulation of the arrears in residential property tax. The interviewees disclose that most of the problems have to do with the taxpayer, which are mentioned earlier under the problems of tax collection. Nevertheless, the study discovered other contributing factors that are internal to the local government. These problems range from lack of public awareness of the benefits of paying property tax this contributed to the accrual of arrears on residential property tax. The trend of the arrears can assist in analyzing the trend whether it is positive or negative. The data retrieved from the document revealed the arrears accrued in 2008 amounted to RM 3,800,197.35 million. While in 2009 is RM 3,291,998.39. In the year 2010, the figure increase to RM 3,535,692.61, in 2011 the arrears still increases to RM 4,008,594.83. In the current year 2012, the arrears still increases the more to RM 4,616,063.30. The increase in arrears is a clear indication, that the trend of arrears is increasing, meaning that lesser revenue is generated each year residential property tax collection. Consequently, this will lead to unvaryingly lower services, less infrastructural development, fewer community development projects, low of maintenance of infrastructure, and less asset acquisition (investments). It is disclosed by the respondents from the property and valuation department, that property tax accounts for about 70% of the total income generated by the PGMC. This means that any fall in the revenue generated is directly going to affects the budget of the local government, except to divert other sources of income to support those programs, which are funded by the resources generated from the property tax.

5. Conclusion and Recommendation

The findings of this research have established that non-compliance behavior of a taxpayer affects property tax revenue collection in Pasir Gudang municipal council. This occurrence leads low property tax revenue generation and high rate of arrears. The resultant effect is inadequate provision of infrastructural facilities and services, low social welfare provision, and provisions of basic amenities, other areas that may also be affected by this are schools under the local government in term of provision of education materials teachers’ welfare and other related areas. The revenue generated highly substantiates the grant from the government for efficient delivery of these basic amenities. The sustainability of residential property tax would become very difficult in the study area except this problem is handled quickly and efficiently. However, this be achieved through sensitization and public awareness (taxpayer education), improved provision of facilities and services, enforcement of property tax laws, efficient distribution of assessment bills and also encouraging community participation in
local government projects. If this could be done, it would improve voluntary compliance of taxpayers. It is therefore an advantage if compliance can be achieved willingly and on a genuine and voluntary basis, which will definitely enhance the revenue mobilization capacity of the local government. The resources can also be used to improve the quality of life within the jurisdiction of the PGMC, through efficient delivery of facilities, utilities and provision of effective strategic services.

REFERENCE


