Public Goods Delivery as a Determinant of Property Tax Revenue Generation in Local Governments in Malaysia

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Abstract
Provision of facilities and delivery of strategic services to improve the quality of life the people living in the sub-urban communities is an imperative issue to municipal councils. Similarly, Pasir Gudang Municipal Council (PGMC) is a local government in Malaysia. However, the PGMC property tax revenue generation has decline due to inadequate public goods delivery which tend to have an effect on the amount of property tax revenue generated. The aim of this research is to examine how public goods delivery affects property tax revenue generation at PGMC. The research methodology adopted is quantitative in nature. Questionnaires are administered to about 300 respondents (taxpayers) so as to establish the consequences of insufficient provision of facilities and services. The findings from the research show that where there is poor delivery of facilities and services which affects the revenue generation. The taxpayers are very observant, if there are no commensurate provisions of facilities and services they avoid paying the property tax with the believe that the revenue generated is not effectively utilized. Therefore, sufficient provision of public goods will motivate the taxpayers to settle their taxes, this will inevitably increase the property tax revenue generation and encourage regional development.

1.0 Introduction
Local governments serve as a link between the government and the people living in rural communities in terms of public goods delivery. Goods produced by the government are referred to as public goods; these goods can be used up by more than one person, it is produced for the benefit of the society [22]). Some public goods are excludable, while others are non-excludable ([22]). Excludable public goods are those that people can be able to exclude themselves from using them, like roads and schools. One can choose the roads to used or to avoid, school to take your children can also be selected buta person cannot avoid non-excludable public goods like services: environmental waste control, defense, waste management, landscaping. These are mostly strategic services offered by the public authorities using the revenue generated from property tax.

The revenue generated from property tax is used in the delivery of basic infrastructures like electricity, water supply, environmental waste management, pollution control among others. Thus, it is anticipated that local governments is to generate funds to foster growth and development to complement constitutional allocation (Kuye, 2002). Previous studies proved that, a crucial factor that affects the taxpayer’s compliance behavior is government policies towards utilization of resources [1]). However, if the generated revenue from property tax is not prudently utilized in providing efficient public goods, this tends to create tax resistance. [11] has summarized the reasons for resistance from tax payers as:

i) Taxpayers see few tangible benefits hence property tax perceived to be unfair.

ii) Poor development activities

iii) Absence of public service and enforcement increase tax resistance.

In a municipal area where tax payers are observant it is imperative for the local government to step-up their services and infrastructural provision to the community in order to create a tax friendly environment.

2.0 Equity and Fairness in Property Tax

In any country equity and fairness plays an important role. Equity and fairness are essential elements of property tax system. Wenzel, (2004) suggested three areas of fairness from the taxpayers’ point of view are social psychological in nature.

1) Distributive justice (viewed as the exchange of resources that is benefit and cost).

2) Procedural justice (viewed as the process of
resource distribution),
3) Retributive justice (viewed as the appropriateness of sanctions when norm-breaking occurs).

In distributive justice, an individual is concerned about the fairness of his actions, and wants to be treated in relation to his merits, efforts and needs [17]. If he feels that his tax burden is higher than other people within the same income group, his tax compliance probably decreases more widely at group levels; taxpayers want a fair treatment of their group relative to other income groups. If a specific group perceives that their tax liability is higher than other groups, then tax evasion might occur among the group members [25]. At the society level, tax compliance is less likely occur but if the perception is held that the tax system is unfair, wide scale tax evasion is likely to take place [2]; [4]. In contrast, if the society perceives that the tax system is equitable and fair, voluntary compliance is expected to increase.

### 2.1 Determinants of Tax Compliance

Theoretically, there is evidence suggesting tax compliance is influenced by numerous factors [6]. Scholars identified these factors as economic, social and psychological factors [13]; [9]; [3]; [6]; [16]; [8]. To tackle the challenge of tax noncompliance, it is necessary to understanding factors influencing individual’s decision to comply with provision of tax laws. The early researchers based their work on economic perspective of tax compliance and they identified tax rate, penalty and detection probability as factors influencing taxpayers’ behavior [2]. In the course of time, researchers realized that taxpayers’ compliance behavior is equally influenced by psychological and social issuesthis provide the basis for carrying out research in these areas [10] [5]; [29]; [21]; [12]. Similarly, taxpayer social background affects his thinking and conduct and invariably his compliance (Akilu et al. 2013). However, comprehensive review on tax compliance by [13] 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. This model consists of tax system structure (tax rate, penalty, and probability of detection, complexity of tax system); noncompliance opportunity (income level, income sources and occupation) and demographic factors (age, gender and education); attitude and perception (fairness, ethics, and peer influence).

### 2.2 Attitudes and Perceptions

Major considerations on taxpayers’ attitudes and perceptions to tax compliance are the fairness of the tax system and peer influence, this is part of Fischer’s model. It is widely believed by tax administrators and the taxpayers that growing dissatisfaction with the fairness of tax system is the major causes for increasing tax noncompliance. However, [24] finds that taxpayers’ need and ability to pay are the most significant variables related to perceptions of fairness of the tax system. Thus, unfairness of the tax system may reflect taxpayer’s perceptions that they are overpaying taxes in relation to the value of the services provided by government or in relation to what other taxpayers pay. If the whole system is misconceived or negatively perceived, then there might be resistance in taxcompliance. However, in countries like Malaysia the taxpayer’s perceptions, differences in income, different levels of education and different ethnic groups regarding tax payment may cause variation in compliance behavior in different parts of the country. Chan and Leung (2009) observed that, Culture is considered to be a powerful environmental factor that affects the taxpayer’s compliance.

Consideration should be given to taxpayers because the resources generated by the local authority in the form of tax is derived from them, it’s argued that people are likely to be willing to pay
local taxes where the amount they contribute can relate more services received [20]& [30]. While [18] stated that, the local government is a public agency that provides urban services to its communities. It is therefore accountable to its stakeholders, the citizens as well as the state and federal governments that provide it with financial assistance or grants. However, [23] have long argued that the Council tax is not a sensible tax. This is factually untrue because from this tax a lot of infrastructural development and services is delivered to the community. The tax payer’s expectations according to Jeffry (2005) are:

Table 1: Taxpayers Expectation

<table>
<thead>
<tr>
<th>Taxpayers Expectation</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) There should be yearly or bi-annual publication of statement of account by the local authority (transparency) would know where their money is utilized.</td>
</tr>
<tr>
<td>ii) Strong financial management and accountability systems and procedures.</td>
</tr>
<tr>
<td>iii) Developing an appropriate expenditure from revenues generated.</td>
</tr>
<tr>
<td>iv) Efficient, democratic and accountable budget procedures.</td>
</tr>
<tr>
<td>v) Appropriate communication and good relationships between local governments and the community.</td>
</tr>
<tr>
<td>vi) An appropriate level of redistribution of services and infrastructures.</td>
</tr>
</tbody>
</table>

3.0 Methodology

Quantitative approach is used for this study. 300 Questionnaires were administered and 264 were returned. The purpose is to investigate how inadequate provision of public goods affects property tax revenue generation at PGMC. The respondents responded to the questions asked. These questions are what is the residents’ opinion on property tax revenue generated? What is the respondents’ opinion on fairness of property tax rate? What is the status of efficiency of the property tax revenue generation process? What is the respondents’ opinion on the efficiency of the billing system? Do the residents distance from places of payment affects the payment process? Are the services provided satisfactory? Do the residents understand the need to pay property tax? Residents opinion on punctuality on issuance of assessment bill? What is residents’ opinion on expectations on performance?

4.0 Discussion of Result

The results obtained was analyzed using means score and descriptive statistics in order to established how inadequate provision of public goods affects property tax revenue generation at PGMC.

4.1. Residents Opinion on Property Tax Revenue Generated

The variables used in this section intend to find out the residents opinion on property tax revenue generated which are connected to the non-compliance behavior exhibited by the residents (taxpayers).

Table 2: Residents Opinion on Property Tax Revenue Generated (Field Survey, 2012).

<table>
<thead>
<tr>
<th>S/n</th>
<th>Residents Opinion on Property Tax revenue Generated</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>Mean Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Respondents opinion on property tax rate</td>
<td>22(8)</td>
<td>49(19)</td>
<td>78(30)</td>
<td>30(11)</td>
<td>85(32)</td>
<td>3.41</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Efficiency of Property Tax Collection Process</td>
<td>23(9)</td>
<td>49(18)</td>
<td>80(30)</td>
<td>97(37)</td>
<td>15(6)</td>
<td>3.13</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Efficiency of billing services</td>
<td>14(5)</td>
<td>48(18)</td>
<td>115(44)</td>
<td>68(26)</td>
<td>19(7)</td>
<td>3.11</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Distance of payment points</td>
<td>16(6)</td>
<td>42(16)</td>
<td>92(35)</td>
<td>72(28)</td>
<td>38(15)</td>
<td>3.30</td>
<td>3</td>
</tr>
</tbody>
</table>
Table 3: continued

<table>
<thead>
<tr>
<th></th>
<th>from the residents</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Residents opinion on satisfaction on services provided</td>
<td>31(12)</td>
<td>130(49)</td>
<td>42(16)</td>
<td>41(15)</td>
<td>20(8)</td>
<td>2.58</td>
</tr>
<tr>
<td>6</td>
<td>The residents understanding on the need to pay property tax</td>
<td>33(12)</td>
<td>135(51)</td>
<td>42(16)</td>
<td>41(16)</td>
<td>13(5)</td>
<td>2.49</td>
</tr>
<tr>
<td>7</td>
<td>Residents opinion on punctuality on issuance of assessment bill</td>
<td>17(6)</td>
<td>85(32)</td>
<td>77(29)</td>
<td>60(23)</td>
<td>25(10)</td>
<td>2.97</td>
</tr>
<tr>
<td>8</td>
<td>Residents’ opinion on expectations on performance</td>
<td>18(7)</td>
<td>30(11)</td>
<td>49(19)</td>
<td>96(36)</td>
<td>71(27)</td>
<td>3.65</td>
</tr>
</tbody>
</table>

Key: SA (Strongly Agree) = 5  A (Agree) = 4  N (Neutral) = 3  D (Disagree) = 2  SD (Strongly Disagree) = 1

Note: In the table above the respondent’s reaction to property tax rate is illustrated in the following format under the first column 22 respondents strongly agree and (8) is the percentage of the respondents.

Table 5.17 depicts different responses from the respondent on the issue of whether property tax rate is high. From the table mean score is value is 3.41 which is second in ranking according to the taxpayers. 8% strongly agree, 30% are neutral responses while 32% strongly disagree that property tax rate imposed is excessive. However, the greater number of the respondents which is 32% opined that the current 0.25% percent of the improved value payable on the property is acceptable and affordable to them at this rate. Since majority of the taxpayers did not object on the rates, it can be concluded that the property tax rate fixed, does not affect the tax payment.

On the issue of whether the process of tax collection is inefficient. The mean score value is 3.13 which is 4th in ranking. 9% of the respondents strongly agreed that the process of tax collection is inefficient, which signifies that they believe there is a problem with the system. On the other hand, 30% of the respondents have neutral opinion. This may imply that, this group felt that nothing is wrong with the process of collecting property tax, otherwise they might have objected. It suffices to conclude that according to the larger number of the people surveyed believed that the process is good enough. The last group is about 9% who strongly disagree that the system is inefficient.

Efficiency of the billing services at PGMC with regards to computation of property rates based on the improved value of the properties.

The mean score value is 3.11 and 5% of the respondents strongly agree that the billing service is inefficient and need to be improved. But the larger percentage of the surveyed participants expressed a neutral opinion which represents about 44% which indicate that the system is fairly good. While 7% strongly disagree about the inefficiency of the system of billing. Due to it is sensitive nature, most of the respondent opined that the system does not have a problem. From the above result, it clearly shows that the billing system is not a problem in the study area.

Distance of payment point to the respondents. The mean score value is 3.30 and 6% of the respondents strongly agree that the payment points are too far in terms of property tax payment. But, those that convictions are neutral to the issue and are the majority of the respondents. 15% of the respondents strongly disagree that the distance to be covered to make payment is not a problem, which is why it is not an issue.

Services provided is not satisfactory shows the status of acceptability of the services or otherwise. The mean value is 2.58 and 12% of the respondents strongly agree that the services provided by the local government are inefficient. 16% have neutral opinion. While 8% of the respondents strongly disagree that the services provided is not satisfactory. The findings revealed that, the communities at PGMC are not satisfied with the services rendered by the local government. It suffices to conclude that this incidence is a contributing factor to tax noncompliance behavior. Studies have linked the effect of inefficiency in public goods delivery and compliance in taxation. [28] found a positive
relationship between government performance and compliance. Therefore, beyond reasonable doubts the study discovered that, this is part of the reasons for the increase in debts on property tax. Conclusively, the residents felt that the services rendered did not meet their expectation. Therefore, they are not obliged to pay property tax.

Understanding of the need to pay property tax, on this issue the mean value is 2.49. 12% of the respondents (taxpayers) strongly agree that they do not understand the need to pay property tax. The percentage of respondents who responses are neutral is 16%. Also 5% strongly agree that there is a rationale behind the property tax system. This demonstrates lower level of understanding of the taxpayers on the issue of property tax. The study had already proved that majority of the taxpayers are secondary school certificate holders or diploma. This establishes the background of problem; this is the basic reason why the taxpayers in the study area fail to see the significance of property tax. It can be concluded that majority of the taxpayers are not well educated. This calls for taxpayer education as the only solution.

The bill delivery system is 2.97 which is the mean value and among the respondents 6% strongly agreed that the bill delivery system is faulty due to inefficiency. 29% of the respondents are neutral to the phenomenon. 10% strongly disagree that the bill delivery system is inefficient.

The respondents responses on the performance of the municipal council show the mean value is 3.65, the residents clearly show how they rate the local government’s performance, 7% strongly agree that they are performing well. 19% are neutral. However, 27% of the respondents disagree that the local government is doing a great a job. At this point it can be established that the performance of the local government is poor in terms of provision of social amenities. Conclusively, the local government has not been performing very well. This calls for more delivery of social amenities to improve the living condition of the people in the study area.

4.2 Residents Main Expectations on the Revenue Generated by PGMC

The Table below emphatically reveals the residents expectations on property tax generated by the local government. Their expectations were used as the variables to determine their needs and aspirations. Similarly, all their expectations were grouped under the same headings based on similarities in meaning. Some of the respondents opined that, they need efficient services, facilities, facilities and services, landscaping and improve quality of life.

<table>
<thead>
<tr>
<th>Options</th>
<th>Responses from Respondents</th>
<th>Percentage Responses (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities</td>
<td>45</td>
<td>17</td>
</tr>
<tr>
<td>Efficient Services</td>
<td>65</td>
<td>25</td>
</tr>
<tr>
<td>Facilities and Services</td>
<td>101</td>
<td>38</td>
</tr>
<tr>
<td>Improve quality of life</td>
<td>25</td>
<td>9</td>
</tr>
<tr>
<td>Improve landscape</td>
<td>28</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>264</td>
<td>100</td>
</tr>
</tbody>
</table>
The residents’ opinions are expressed thus, 17% indicated the need for provision of facilities, 25% opined that they need efficient services. Other respondents which are about 9% indicated that they need improved quality of life, while 11% believe that they need improved landscaping and quality environment. However, the majority of the population of the respondents about 38% reveals that facilities and services is what they need most. It suffices to conclude that the first groups emphasized on provision of facilities while the second group said they need services and the third group requires facilities and services. But all these three groups are aspiring to have common things, which are facilities and services. This is the taxpayers’ expectations of the residents of PGMC. It can be concluded that there is a great need for the provision of services and facilities at PGMC. They need adequate provisions of facilities and services.

Table 4. Summary of findings on determinants of property tax revenue generation

<table>
<thead>
<tr>
<th>s/n</th>
<th>Summary of Findings</th>
<th>Mean score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Residents’ expectations on facilities and service delivery</td>
<td>3.65</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Respondents reaction to property tax rate</td>
<td>3.41</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Distance of payment points from the residents</td>
<td>3.30</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Efficiency of Property Tax Collection Process</td>
<td>3.13</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Efficiency of billing services</td>
<td>3.11</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Late issuance of assessment bill</td>
<td>2.97</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Services provided is satisfactory</td>
<td>2.58</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>Not understand the need to pay property tax</td>
<td>2.49</td>
<td>8</td>
</tr>
</tbody>
</table>

The findings revealed that residents’ of PGMC expects more provision of facilities and services, that is why it have the highest mean score 3.65 which is 1st in ranking. This implies that because there is no adequate delivery of facilities and services, this affects the revenue generation. This is supported by [1], the major existing problem of property tax collection at (PGMC) is non-compliance behavior exhibited by the taxpayers, which resulted in low property tax revenue generation. Similarly, Studies have linked the effect of inefficiency in public goods delivery and
compliance in taxation. [28] found a positive relationship between government performance and compliance in tax payments. [25] find that taxpayers will refuse to pay their taxes if they feel that the government is wasting their taxes.

5.0 Conclusion
The study concluded that the residents are in dire need for more provision of facilities and services in the case study area. Therefore policies should be tilted towards adequate delivery such facilities and services aspired by the residents of the area. In the facilities and services delivery process the local community should be incorporated so as to create awareness on project under execution and further strengthen the relationship between the people and the local authority. Similarly, Community-based skills are an addition to the professional skills key requirement for organizational success [15]. Taxpayer education is also essential in the study area. However, the limitation of this research is that the type of facilities and services required by the residents in the study area is not determined, this provide an area for future research.

REFERENCE:


