



UNIVERSITI PUTRA MALAYSIA

**IMPLEMENTATION OF ACT 171 OF 1976 ON PROPERTY ASSESSMENT
FOR RATING SYSTEMS IN PENINSULAR MALAYSIA**

HABIBU SANI MUHAMMAD

FPAS 2014 11



**IMPLEMENTATION OF ACT 171 OF 1976 ON PROPERTY ASSESSMENT
FOR RATING SYSTEMS IN PENINSULAR MALAYSIA**

By

HABIBU SANI MUHAMMAD

**Thesis Submitted to School Of Graduate Studies, Universiti Putra Malaysia,
in Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

August 2014

COPYRIGHT

All material contained within the thesis, including without limitation text, logos, icons, photographs and all other artwork, is a copyright material of Universiti Putra Malaysia unless otherwise stated. Use may be made of any material contained within the thesis for non-commercial purposes from the copyright holder. Commercial use of material may only be made with the express prior written permission on Universiti Putra Malaysia.

Copyright © Universiti Putra Malaysia



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Doctor of Philosophy

IMPLEMENTATION OF ACT 171 OF 1976 ON PROPERTY ASSESSMENT FOR RATING SYSTEMS IN PENINSULAR MALAYSIA

By

HABIBU SANI MUHAMMAD

August 2014

Chairperson: Mohd Bakri Ibn Ishak, PhD

Faculty: Environmental Studies

Property rating is a tax levy on landed properties adjudged rateable by rating authority (Local authorities) in order to raise revenue for providing certain public services and infrastructures as waste collection and disposal, drainage and street cleaning, neighbourhood parks, landscaping and neighbourhood fumigation. Act 171 of 1976 empowers all local authorities in Malaysia to levy property rates based on assessed value of properties (annual or improved value approach) vide sections 127, 129 and 130 respectively. Concurrent application of seemingly unequal approaches triggered a question on possibilities of achieving uniformity as required by the Act. The study was conceptualized to unveil emerging facts from implementation of Act 171 of 1976 on property assessment for rating purpose in peninsular Malaysia with particular reference to achieving uniformity. It was guided by a general research objective: To analyze specific content of the Act affecting property rating and application of international valuation standards in valuation of properties for rating purpose. While the specific objectives include: 1) To compare property classification/rate percentage charges among local authorities 2) To compare rate liabilities between local authorities on annual and improved value approach 3) To identify common reasons advanced in objection hearing sessions by rate payers as well as the processes involved in handling objections by local authorities. The research was conducted on qualitative case study design with interview as the main technique while document analysis, notes and observations were used for triangulation. Eight local authorities of city council status were chosen while respondents/participants were selected from among valuation officers of each local authorities at the inception based on which pilot study was conducted answer the questions thus restructured to only chief valuation officers who well experienced, vast with requisite authority to release documents needed to for triangulation.

Findings revealed that, Act 171 of 1976 is wholly applied on issues concerning property rating assessment by the local authorities with divergent practices. They

occur are as a result of conflicting provisions in the Act. Misapplication of valuation principles was also identified while failure to comply with provisions of the act in carrying out revaluation of properties is influenced by political reasons as powers to approve or otherwise is vested in the state governments. Property owners were found objecting rate for poor or absence of service provision though hardly considered relaying on past decisions on similar objections however unfair was the decision. The study identified a gap between constituent provisions and policy objective manifesting from the implementation. In order to address this gap, there the need to revisit constituent sections of the act as sections 127, 128, 129, 130, 137, 142, 143, and 144. While a unified implementation system could be achieved through an integrated model of operation designed from research findings.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**APLIKASI AKTA 171 PADA TAHUN 1976 MENGENAI PENILAIAN
HARTANAH UNTUK SISTEM PENGKADARAN DI SEMENANJUNG
MALAYSIA**

Oleh

HABIBU SANI MUHAMMAD

Ogos 2014

Pengerusi: Mohd Bakri Ibn Ishak, PhD

Fakulti: Pengajian Alam Sekitar

Penilaian harta adalah satu levi cukai ke atas hartanah dikenakan oleh pihak berkuasa Penilaian (Pihak berkuasa tempatan) bagi meningkatkan pendapatan untuk menyediakan perkhidmatan awam tertentu dan infrastruktur kutipan dan pelupusan sampah, perparitan dan pembersihan jalan, taman kejiranan, landskap dan kejiranan pengasapan. Akta 171 tahun 1976 memberi kuasa kepada semua pihak berkuasa tempatan di Malaysia untuk mengenakan harga hartanah berdasarkan nilai ditaksirkan hartanah (tahunan atau pendekatan nilai baik) melalui seksyen masing-masing 127, 129 dan 130. Permohonan serentak bagi pendekatan yang tidak sama rata seolah-olah mencetuskan pertanyaan mengenai kemungkinan mencapai keseragaman seperti yang dikehendaki oleh Akta. Kajian ini mengkonsepsikan untuk mendedahkan fakta-fakta yang muncul dari pelaksanaan Akta 171 tahun 1976 kepada penilaian harta bagi tujuan Penilaian di Semenanjung Malaysia dengan rujukan khusus untuk mencapai keseragaman. Ia berpandukan objektif penyelidikan umum: Menganalisis kandungan tertentu Akta yang memberi kesan kepada Penilaian harta dan aplikasi standard penilaian antarabangsa / prinsip dalam penilaian hartanah untuk tujuan penilaian. Manakala objektif khusus termasuk: 1) Membandingkan caj peratusan klasifikasi hartanah / kadar antara pihak berkuasa tempatan 2) Membandingkan kadar liabiliti antara pihak berkuasa tempatan pada tahunan dan lebih baik pendekatan nilai 3) Mengenalpasti sebab-sebab yang sama maju dalam sesi pendengaran bantahan oleh pembayar cukai dan juga proses-proses yang terlibat dalam pengendalian bantahan oleh pihak berkuasa tempatan. Kajian ini dijalankan ke atas reka bentuk kualitatif kajian kes dengan temubual sebagai teknik utama manakala analisis dokumen, nota dan pemerhatian digunakan untuk triangulasi. Lapan pihak berkuasa tempatan berstatus Majlis Perbandaran telah dipilih manakala responden / peserta pula dipilih dari kalangan pegawai penilaian setiap pihak berkuasa tempatan berdasarkan kajian perintis yang dijalankan dengan keperluan menjawab soalan-soalan yang telah disusun semula khusus untuk ketua pegawai

penilaian yang berpengalaman luas dengan syarat kuasa untuk melepaskan dokumen yang diperlukan untuk penyegitigaan.

Hasil kajian menunjukkan bahawa, Akta 171 tahun 1976 keseluruhannya digunakan pada isu-isu berkaitan penilaian harta oleh pihak berkuasa tempatan dengan amalan yang berbeza. Ianya berlaku akibat peruntukan yang bercanggah dalam Akta. Menyalahgunakan prinsip penilaian juga dikenalpasti manakala kegagalan untuk mematuhi peruntukan akta dalam menjalankan penilaian semula hartanah dipengaruhi oleh sebab-sebab politik sebagai kuasa untuk meluluskan atau sebaliknya adalah terletak pada hak kerajaan negeri. Pemilik harta didapati membantah setiap kelemahan atau ketiadaan peruntukan dalam perkhidmatan ini kerana ianya tidak dianggap menyampaikan keputusan bantahan yang lepas dan dilihat sebagai keputusan tidak adil. Kajian ini mengenal pasti jurang antara peruntukan konstituen dan objektif dasar manifesting daripada pelaksanaan. Dalam usaha untuk menangani jurang ini, terdapat keperluan untuk melihat semula bahagian-bahagian konstituen perbuatan itu sebagai bahagian 127, 128, 129, 130, 137, 142, 143, dan 144. Walaubagaimanpun sistem pelaksanaan bersatu boleh dicapai melalui model bersepadu operasi direka dari hasil penyelidikan.

ACKNOWLEDGEMENTS

My foremost appreciation goes to ALLAH who granted me the will and health to undergo the rigorous process of successfully completing the programme. There is no doubt that the success would not have been possible without the untiring and firm supervision of my supervisory committee. I therefore sincerely thank my supervisor Assoc. Prof. Dr. Mohd Bakri Ibn Ishak for his continuous support and input from the conception stage of this research when he granted me the opportunity to be his Doctoral Research student. You made your self readily available for me with short notices, this has made the work lot easier and faster thus worthy of mention to all. I also sincerely thank my supervisory committee members; Dr. Normala Halimoon and Prof. Dr. Abdul-hadi Bin Nawawi for their invaluable input and modifications.

My profound appreciations goes to Mr Burhannuddeen Maamor and Haj Ahmad Kamal of Ipoh Local Authority, Mr Roslan bin Musa of Shah Alam local Authority, Mr Azmi bin Haj Miswan of Johor Bahru local Authority, Miss Azreen Hanim bte Zakaria and Mr Mohan of Melaka local Authority, Haj Idrisu and Puan Alice of Penang local Authority, Mr Mohammad Leffi and Mr Razihar Ramli of Alor Star local Authority, Mr Kamarulzzaman bin Mat Saleh of DBKL and Mr Muthu Khumar of Petaling jaya local Authority for their expertise contribution, audience and documentary evidences used in this research. They have been of great support to me from inception to conclusion of the research.

I thank my friends and family in Nigeria and Malaysia for assisting me in different ways during this study.

I certify that a Thesis Examination Committee has met on 15 August 2014 to conduct the final examination of Habibu Sani Muhammad on his thesis entitled "Implementation of Act 171 of 1976 on Property Assessment for Rating Systems in Peninsular Malaysia" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

Members of the Thesis Examination Committee were as follows:

Mohamad Pauzi bin Zakaria, PhD

Professor
Faculty of Environmental Studies
Universiti Putra Malaysia
(Chairman)

Azimi bin Hj Hamzah, PhD

Professor
Faculty of Educational Studies
Universiti Putra Malaysia
(Internal Examiner)

Mohd Rusli bin Yacob, PhD

Associate Professor
Faculty of Environmental Studies
Universiti Putra Malaysia
(Internal Examiner)

Du Gangjian

Professor
Hunan University
China
(External Examiner)



NORITAH OMAR, PhD

Associate Professor and Deputy Dean
School of Graduate Studies
Universiti Putra Malaysia

Date: 19 September 2014

This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

Mohd Bakri Ibn Ishak, PhD

Associate Professor
Faculty of Environmental Studies
Universiti Putra Malaysia
(Chairman)

Normala Halimoon, PhD

Senior Lecturer
Faculty of Environmental Studies
Universiti Putra Malaysia
(Member)

Abdul-hadi Nawawi, PhD

Professor
Fakulti Senibina
Perancangan & Ukur
Universiti Teknologi Mara Malaysia

BUJANG BIN KIM HUAT, PhD

Professor and Dean
School of Graduate Studies
Universiti Putra Malaysia

Date:

DECLARATION

Declaration by Graduate Student

I hereby confirm that:

- This thesis is my original work;
- Except for quotations and citations which have been duly referenced.
- The thesis has not been submitted previously or concurrently for any other degree at any other institution;
- Intellectual property for this thesis and copyright of thesis are fully owned by Universiti Putra Malaysia, as according to the Universiti Putra Malaysia (Research) Rules 2012;
- Written permission must be owned from supervisor and deputy vice chancellor (Research and Innovation) before thesis is published (in the form of written, printed or in electronic form) including books, journals, modules, proceedings, popular writings, seminar papers, manuscripts, posters, reports, lecture notes, learning modules or any other material as stated in the Universiti Putra Malaysia (Research) Rules 2012;
- There is no plagiarism or data falsification/fabrication in the thesis and scholarly integrity was upheld as according to Rule 59 in Rules 2003 (Revision 2012-2013). The thesis has undergone plagiarism detection software.

Signature: Date

Name and Matric No. : Habibu Sani Muhammad, Gs31704

Declaration by Members of Supervisory committee

This is to confirm that:

- The research conducted and the writing of this thesis was under our supervision,
- Supervision responsibilities as slated in Rule 41 in Rule 2003 (Revision 2012-2013) were adhered to.

Signature		Signature	
Name of	Prof. Madya Dr. Mohd. Bakri Ishak	Name of	DR. NORMALA BT. HALIMOON
Chairman of	Profesor Madya	Member of	Pensyarah
Supervisory	Jabatan Pengurusan Alam Sekitar	Supervisory	Jabatan Sains Alam Sekitar
Committee:	Fakulti Pengajian Alam Sekitar	Committee:	Fakulti Pengajian Alam Sekitar
	Universiti Putra Malaysia		Universiti Putra Malaysia
	43400 UPM SERDANG		43400 UPM Serdang


Signature	
Name of	Prof. Dr. Abdul Haziq Mawawi
Member of	Pakar Penulisan, Perancangan
Supervisory	dan Ujian,
Committee:	Universiti Teknologi Mara,
	Malaysia.

TABLE OF CONTENTS

	Page
ABSTRACT	i
ABSTRAK	iii
ACKNOWLEDGEMENT	v
APPROVAL	vi
DECLARATION	viii
LIST OF TABLES	xiv
LIST OF FIGURES	xv
LIST OF ABBREVIATIONS	xvi

CHAPTER

1	INTRODUCTION	1
	1.1 Introduction	1
	1.2 Act 171 of 1976	3
	1.3 Property Rating System in Malaysia	4
	1.3.1 Federal Government	5
	1.3.2 National Council for Local Government	5
	1.3.3 State Government	5
	1.3.4 Local Authority	6
	1.3.5 The Rate Payer	6
	1.4 Statement of the Problem	7
	1.5 General Objective	9
	1.6 Objectives of the Research	9
	1.7 Research Questions	9
	1.8 Scope of Study	9
	1.9 Significance of Study	9
	1.10 Limitations of the Study	10
	1.11 Definition of terms	10
	1.11.1 Act 171 of 1976	10
	1.11.2 Value	10
	1.11.3 Valuation/Property Assessment	10
	1.11.4 Rating	11
	1.11.5 Holding	11
	1.11.6 Hereditament	11
	1.11.7 Rate	11
	1.11.8 Rate liability	11
	1.12 Organisation of the thesis	11
2	LITERATURE REVIEW	
	2.1 Introduction	12
	2.2 Characteristics of a Good Tax System	12
	2.3 Principles of Taxation	13
	2.3.1 Principles of fairness (benefits enjoyed from the authority)	13

2.3.2 Vertical Equity	14
2.3.3 Horizontal Equity	15
2.3.4 Principle of fairness based on ability to pay	15
2.3.5 Principles of Neutrality	16
2.3.6 Principles of Accountability	16
2.3.7 Principles of Economy	17
2.4 The Need for Taxation on Real Property	18
2.5 Real Property Tax Practices in some selected countries	20
2.6 Bases of Property Taxation	23
2.7 Tax Rate	25
2.8 Procedure in Property Rating Administration	26
2.8.1 Area identification/delineation	26
2.8.2 Property identification and enumeration	26
2.8.3 Physical property inspection/assessment	28
2.8.4 Actual Property Valuation	28
2.8.5 Publication of Rate liabilities and call for Objections	30
2.8.6 Distribution of demand note	30
2.8.7 Determination of Objections	31
2.8.8 Rate Collection	31
2.8.9 Enforcement on Defaulters	32
2.8.10 Updating Valuation list	32
2.9 Exemption from Property Rates Payment in some selected Countries	33
2.10 Criteria for Evaluating Property Rating System	36
2.11 Operational Requirement of a Rating System	39
2.11.1 Strategic Planning	39
2.11.2 Budget and Determination of Resources Requirement	39
2.11.3 Human Resources and work Management	40
2.11.4 Quality Assurance	40
2.12 Theories of Rating	41
2.12.1 Ability to pay theory	41
2.12.2 Benefit Theory	41
2.13 Principles of Rating Assessment	42
2.13.1 Rebus Sic Stantibus	42
2.13.2 Rental Consideration/Evidence	42
2.13.3 Vacant and Ready to Let	43
2.13.4 Comparative Assessment	43
2.13.5 Rateable Unit	43
2.14 Method of Property Assessment for Rating Purpose	44
2.14.1 Indirect Rental Valuation Method	44
2.14.2 Direct Rental Valuation Method	45
2.14.3 Profit and Trade Earnings/Account Method	47
2.14.4 Depreciated Replacement Cost/Contractors Method	49
2.15 Summary on Taxation	51
2.16 Theoretical Bases and Focus of the Study	52
2.16.1 Game Theory	53

3	RESEARCH METHODOLOGY	
	3.1 Introduction	55
	3.2 Research Design	55
	3.3 Legal Methodology	62
	3.3.1 The Literal Rule	62
	3.3.2 The Golden Rule	63
	3.3.3 Purposive Approach	63
	3.3.4 Integrated Approach	63
	3.3.5 Doctrine of Stare Decisis	63
	3.4 Qualitative Case Study	64
	3.5 Site Selection/Selection of Respondents	65
	3.6 Researcher as the Research Instrument	67
	3.7 Data Collection	68
	3.7.1 Semi Structured Interview	69
	3.7.2 Document Analysis	70
	3.7.3 Field Notes	71
	3.7.4 Direct Observation	71
	3.8 Data Analysis	72
	3.8.1 Analyzing Observation from the hearing session	74
	3.8.2 Analyzing Data from Interview	74
	3.8.3 Analyzing Data from Documents	76
	3.9 Validity and Reliability	77
	3.10 Pilot Study	79
	3.11 Ethics	80
	3.12 Validation of Model	80
4	RESULTS AND DISCUSSIONS	
	4.1 Introduction	82
	4.2 Property Rating Assessment In Peninsular Malaysia	82
	4.2.1 Valuation/Revaluation Assessment	87
	4.2.2 Method of Property Assessment used by Valuation Officers	89
	4.2.3 Tone of the List	89
	4.2.4 Rateable Properties/Exemptions	89
	4.3 Application of International Valuation Standards/Principles	94
	4.3.1 Depreciated Replacement Cost Method	96
	4.3.2 Indirect Rental Comparison Method	96
	4.3.3 Profit/Account Method	98
	4.4 Revenue Generation Capacity of local authorities from Property Rates	100
	4.5 Objective 1	103
	4.5.1 Compare property classification/ rate percentage charges among local authorities	103
	4.5.2 Classification of Holdings for Rating Purposes	103
	4.5.3 Comparing Rate Percentage Charges Across the Local Authorities	105
	Objective 2	106

4.6 Comparison of Rate liabilities Across the Local Authorities on both annual and improved value approaches	106
Objective 3	108
4.7 Common Reasons for Objection by property owners	108
4.7.1 Objections and Appeals	109
4.7.2 Procedure involved in Objection hearing	109
4.7.3 Efficiency in Objection/Appeal Determination	114
5	
SUMMARY, CONCLUSION, DISCUSSION, IMPLICATIONS AND RECOMENDATIONS	
5.1 Introduction	116
5.2 Summary	116
5.3 Significance of Findings, conclusions and Discussion	117
5.4 Implication and Recommendations	120
REFERENCES	123
APPENDICES	137
BIODATA OF STUDENT	149
LIST OF PUBLICATIONS	150