

Types of Knowledge Involved in a Stamp Duty Valuation Process

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ABSTRACT

Generally, there are different kinds of knowledge that exist in stamp duty valuation which is sometimes taken for granted by some of the personnel involved. These knowledge contains useful information for the future. There are also people who do not know that they are an experts on a particular types of knowledge. This paper will explore the types of knowledge involved in stamp duty valuation process.

Keywords: Types of knowledge, stamp duty, valuation process.

I INTRODUCTION

Today, knowledge has become crucial which enable it to form the basis of power and prosperity as well as skills. Meanwhile, experience has become a very important asset and a prime matter to an organization (Razali & Juanil, 2010). Based on this fact, the success of an organization begins with the knowledge held by personnel of the organization, and has become the backbone of the explosion of knowledge and experience that can benefit and maximize the impact in the organization. Moreover, this ensures that the vision and mission of an organization can be achieved.

In this challenging era of globalization, it is clear that there is no choice, that is, to move forward with confidence or take the risks to be abandoned in this fierce global race (Abdul Razak, 2012). This has also led to various attempts that have been made by the Malaysian government to increase the knowledge and services, particularly in the public sector organizations in which various initiatives and activities have been undertaken to improve the level of knowledge of government personnel as well as their quality of service in public organizations. It is intended to enhance the ability of personnel to better handle the work, hence, to reflect Malaysia in the eyes of the world will be a mark of its credibility as a developed country towards Vision 2020.

According to previous researchers (Lee & Kim, 2001; Sher & Lee, 2004; Gray & Meister, 2006; Hooff & Huysman, 2009) knowledge can be considered as a source that cannot be seen (intangible) that is being used to achieve the advantages and benefits of sustainable competitiveness. This statement has been reinforced to indicate that knowledge is fantastic as it can change the world without being realized. It is evident that the backbone of success of an

organization in Malaysia is premised on knowledge as well as to promote the achievement level of services of personnel who are experts in a particular field.

In order to achieve the aim and objective of this paper, the researcher provided the illustration of the research process as Figure 1.

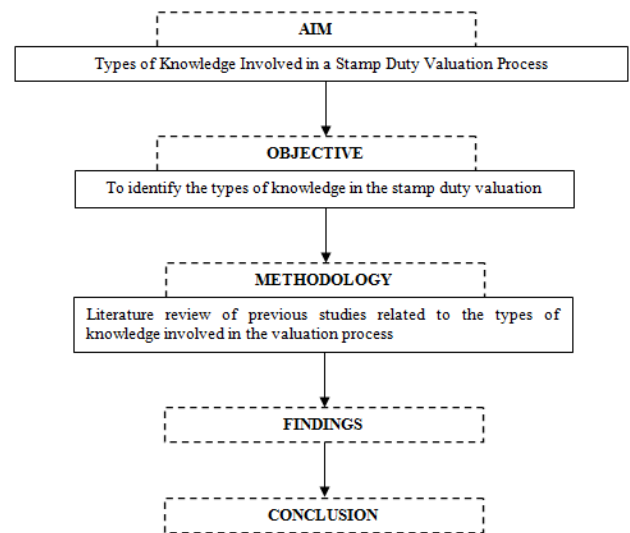


Figure 1. Research Process

II TYPES OF KNOWLEDGE IN GENERAL VIEW

Knowledge is the result of a combination of data and information after the combination of interpretation, reflection and context process (Filstad & Gottschalk, 2009). In general, it can be divided into tacit and explicit knowledge. However, Fong and Lee (2009) categories knowledge into three (3) which is including tacit, explicit and implicit.

Tacit knowledge is embedded in someone through the internalization process and highly personal. It can only be expressed through actions, skills, practice and experience. Meanwhile, explicit knowledge is a formal and written knowledge that can be shared through expression or communication (Yusof & Bakar, 2012). Tacit knowledge is automatic, requires little or no time or thought and helps determine how organizations make decisions and influence the collective behaviour of their members (Liebowitz & Beckman, 1998). The philosopher Polanyi (1967) also described tacit knowledge as knowing more than we can tell, or knowing how to do something without thinking about it. Tacit knowledge tends to be local. It

is not found in manuals, books, databases or files (Smith, 2001).

Implicit knowledge, on the other hand, is own by the experts and almost like tacit knowledge, it somehow can be extracted through a certain process (Fong & Lee, 2009). The combination of the above types of knowledge through implementation process will create an additional knowledge, which can be separated from functional knowledge and procedures knowledge (Chournazidis, 2013). Irrespective the types of knowledge, it has become a critical survival factor for an organization and an important production component (Martensson, 2000).

III DEFINITION OF THE VALUATION PROCESS

The valuation process requires a Valuer to conduct adequate and relevant research, to perform competent analyses, and to draw informed and supportable judgements. In this process, Valuers do not accept data without question but should consider all pertinent market evidence, trends, comparable transactions, and other information. Where market data are limited, or essentially non-existent (as for example with certain specialized properties), the Valuer must make proper disclosure of the situation and must state whether the estimate is in any way limited by the inadequacy of data (Malaysian Valuation Standard, 2011).

All valuations require exercise of a Valuer's judgement, but reports should disclose whether the Valuer bases the Market Value estimate on market evidence, or whether the estimate is more heavily based upon the Valuer's judgement because of the nature of the property and lack of comparable market data. A Valuer must not make unrealistic assumptions about the market conditions nor assume a level of market value above that which is reasonably obtainable (Malaysian Valuation Standard, 2011).

Fischer (2002) emphasized the valuation process on three (3) main questions that need to be answered; a straight forward exercise which three (3) questions must be answered; a What?, a How? and finally a How Much?. From the various statements regarding the valuation process that has been discussed, this study has set three (3) most important processes that should be given priority included the inspection, comparable analysis and an opinion of value. This process is considered as the key variables of answering the question of what, how and how much that has been stated by Fisher (2002).

IV DEFINITION OF STAMP DUTY

Stamp duty valuation is defined as computation of stamp duty for transfer of real estate (JPPH, 2016) which is one of the main sources of government revenue. This provision/definition is stipulated under the Stamp Act 1949 (Act 378) which has been

reviewed and revised with effect as of January 2, 1990. When a property is transferred, the transferee is required to pay stamp duty. Stamp duty is based on the consideration of monetary value or the market value of the property, whichever is higher. Tax rates effective from January 1, 2001 are as follows:

- 1 % for the first RM100,000;
- 2 % for the next RM400,000; and
- 3% of the balance

The valuation date for stamp duty is the date when the Agreement is executed. If there is no agreement involved, the valuation date is the date of the instrument of transfer executed.

A. Stamp Duty Valuation from Malaysia Perspective

Definition of stamp duty from Malaysia perspective, in the context of property transactions, is a tax that is shaped and controlled by the Stamp Act 1949. It is not a tax levied on each individual transaction, it involves only the instruments used for the transfer. The tax basis is as provided under the First Schedule of the Stamp Act, 1949, in which it is based on the consideration of the value of money or real estate market value, whichever is higher. Valuation date used is based on the date of the Sale and Purchase Agreement being executed. If there is no agreement, the valuation date is the date of the instrument of transfer executed. Section 32 (a) of the First Schedule of the Stamp Duty Act 1949, states that the sale of any property other than stock, shares, securities, acknowledgment of receipt or book debts, in Paragraph C, stamp duty will be payable based on the price of the property or market value, whichever is higher.

Hence, JPPH is given full trust to do the work of property valuation for the entire country. Property valuation process involves various methods of valuation to ensure that every valuation is made to achieve accuracy on the actual value of the present time according to the current market.

Thus, ensuring valuation of stamp duty levied on property buyers can be as fair as possible with the valuation imposed. On the other hand, Inland Revenue Board (LHDN) is an important body that will report cases for valuation of stamp duty to the JPPH for immediate action to evaluate the properties that will be subject to stamp duty. After the valuation process is completed, the JPPH valuation will send information to the LHDN for the next process of informing the stamp duty payable to the purchaser of the property involved.

It is the responsibility of Valuation Officer and Assistant Valuation Officer to conduct the valuation of

the value of the property involved in the transaction to ensure it is rationally and professionally based on the current market.

Berger (2007) has described three (3) valuation methods used to assess the property for tax purposes. The first method being discussed is Purchase Comparative Method in which this method is the most popular, mainstream and best used to assess the property, particularly residential property (Grant & McTear, 1992; Husin, 1993; Abdul Hamid, 1993). Ahmad (1994) also states that this method is widely used in Malaysia. This method compares the property to the property's current market. If there is a difference, then there is adjustment for the differences in assessed property and this real comparison should be adjusted. These factors include location, size and others. Three requirements must be met in order to ensure the purchase is valid based on data comparison (Husin, 1993).

First, purchase must be comparable in terms of location, size and other considered factors with the property being valued. Second, the purchase must be performed at market price and must not involve the buyers and sellers who have a relationship (e.g. father and son). Third, the date of the sale and purchase transactions must be close to the date of valuation of property assessed (Ahmad, 1994).

The second method discussed is the Cost Method. This method is used if the purchase has no data and income method cannot be used. The cost method for assessing property is based on the cost to replace or rebuild the property at present time. This method of valuation is typically used in evaluating new building and also on the property that is rarely transferable. This method is suitable for assessing building such as hotel, resort and motel. There are four main steps in assessing the property using the cost method. First, it is to get the value of the land through the data comparison and purchase. Second, it is to estimate the cost of new construction by way of replacement cost or the cost of reconstructing the building. Third, depreciation must be deducted from the cost of construction. Finally, it is to add the value of the land and the building which has been deducted the depreciation to get the total value of the property being evaluated (Berger, 2007).

The third method is Revenue Method. This method is usually used to evaluate commercial property such as offices, shopping complexes, industrial property, including factories and many others. This method refers to the rented property or when income data are available to evaluate a property. This method is to evaluate capital net income earned by the property, being assessed to obtain the capital value of the property. In conclusion, to determine the market value of a property, the valuer must consider each use of the

methods above and select the most appropriate method to use in making the valuation of the property market value (Berger, 2007).

Tretton (2007) has discusses the processes involved in property valuation. There are three (3) stages in the valuation; process of data, analysis and valuation. At the first stage, the data is gathered through the collection and recording of data comparison. This is the basis of the valuation stage. The second stage is analysis. At this stage, the data collected will be reviewed for compliance. It involves the provision of data which cannot be used as data purchase involving parties in these transactions (father and son). Having acquired the comparable data, it is then analyzed if necessary to factors that differ between the appraised property with the comparison of lot. The next is the final stage of valuation. At this stage, the data that have been analyzed are to be used to make an assessment of the value of the lot. The valuation obtained will be used as the market value. It may be noted here that the valuation process described Tretton (2007) has emphasized on these three (3) important process that must be taken into account during the valuation.

V DEFINITION OF THE TYPES OF KNOWLEDGE INVOLVED IN A STAMP DUTY VALUATION PROCESS

In this study, it will elaborate academically literature through review method to identify types of knowledge involved in the process of stamp duty valuation. It involves three (3) levels, namely inspection, comparable analysis and opinion of value (Brookfield, 2013). Several types of knowledge have been identified that are involved in the process of stamp duty valuation.

A. Building Technology Knowledge

Knowledge related to building involves a valuer who is highly expertised on all aspects that are concerned with building technologies such as system design services, the material used in the construction of buildings and others concerned. Often this building technological knowledge is one that is relevant to building materials and technologies as well as knowledge of health and safety aspects of the building (INSPEN, 2014).

Matters to be covered in this kind of knowledge is scenarios and evolution of building technology in Malaysia, a key component of building, building materials and building finishes, building technology and the health and safety of the building (INSPEN, 2014). However, O'Sullivan (2013) has stated that the building technology knowledge is the knowledge focuses of the technical processes and methods of assembling buildings.

B. Contextual Knowledge

Brazillon and Pomerol (1999) has defined the contextual knowledge as all the knowledge that is relevant and can be mobilized to understand a given situated decision problem. Contextual knowledge can also be categorized as local knowledge which is one pertaining to focus on more of a context or problem (Nawawi, 2005). For example, valuer who is to make a valuation in the Klang area should understand the context in Klang area beforehand. According to Goldkuhl (2001), contextual knowledge means knowledge in the context of understanding how it is located in an organizational context. Contextual knowledge is to explore the different organizational situations in which knowledge is created, transmitted and used. The approach to the analysis of contextual knowledge includes:

- A distinction between the creation, transfer and application of knowledge;
- Model the generic use of knowledge in organizational situations;
- The difference between knowledge and situation transsituational;
- Type of action orientation knowledge (what, how, why, and people); and
- The degree of knowledge in general different.

C. Legal Knowledge

This knowledge is related to legislation (Nawawi, 2005). As an example, the valuer refer as well make the Stamp Duty Act 1949 as the basis for carrying out valuation work of stamp duty. State regulatory system or the society recognizes as regulating the actions of its members and that it can be enforced by imposing penalties (Oxford Dictionary, 2014).

D. Macro-economic Knowledge

Knowledge is closely linked to the development of the world economy nowadays, such as through gaining insight into the activities of the Malaysian economy, for example, the current interest rate charged by Bank Negara, the latest policy and others related.

Macro-economics examines the economy as a whole; it looks at the aggregate results of all consumer decisions, firms and governments that make the economy. By contrast macro-economics is aggregate variable, for example, the overall level of output, consumption, employment and prices as well as how they move over time and between countries.

Macro-economics (from the Greek prefix “macro” means “large” and the economy) is a branch of economics that deals with the performance, structure, behaviour, and economic decision-making as a whole,

rather than individual markets. These include economic, regional and global. Blanchard, Olivier (2000; 2011), states that the macro-economics is one of the most important aspects in economic sphere.

Macroeconomists reviewing aggregate indicators such as Gross Domestic Product (GDP), unemployment rates, and price indices to understand how the whole economy functions. Macroeconomists develop a model describing the relationship between factors such as national income, output, consumption, unemployment, inflation, savings, investment, international trade and finance. In contrast, microeconomics, particularly focusing on the actions of individual agents, such as firms and consumers, and how their behaviour determines prices and quantities in specific markets.

E. Market Forecasting Knowledge

Makridakis and Wheelwright (1977) explains that there are various forecasting techniques that try to show how the situation with regard to marketing. This knowledge imagine thousands of different conditions. For example, one can examine the predictive judgments of distance sales are expected to market a new product with some data, where the intention is to assess the impact on shareholders. As in such a situation, then one can consider various forecasting methods (Armstrong, 1987). This study emphasizes the knowledge associated with the property market and forecasts for the future. According to Nawawi (2005), within the valuation, an element of forecasting is necessary, especially when there is a significant gap between sales evidence dates and the date of valuation. Market knowledge of private valuers, who are generally more in touch with the market, could provide assistance to the valuers in making the forecast.

F. Operational Knowledge

Adanza (1995) and Sevilla, Jesus, Twila, Bela and Gabriel (1992) state that the definition of operational knowledge is the result of the process of handling and is used to specify a variable, term, or objects in terms of process or set of validation tests that are needed to determine the existence, duration and quantity.

Due to the operation level that can vary itself, it can create more or less the definition of operation (Shoemaker, Pamela J. et al., 2004). With regards to valuation process, it is inclined towards knowledge related to the skills that are following procedures step-by-step in doing a good assessment task.

G. Personal Knowledge

That kind of knowledge belongs to individual users, is tightly linked to their practice, and constantly evolves along the activity (Champin et al., 2005). Personal knowledge is the foundation of every individual to be able to contribute his best to the company. Individuals who share knowledge will form a team that is reliable and has a high similarity. Therefore, between individual tools for communication work and impact on individual job flexibility, it can ultimately provide improved performance (Hope et al., 2012). In the context of valuation process, this type of individual knowledge is one that is related to individual knowledge in the stamp duty valuation.

H. Spatial Knowledge

Knowledge is with regard to location, access, neighbourhood or locational divisions (Nawawi, 2005). Spatial knowledge is useful as the human navigation in the world or can be regarded as knowledge of the area and can be obtained through a map and description of the space (Kasai et al., 2013). The use of spatial knowledge is to understand the history and politics, to make decisions about where to live and visit, and to make sense of the natural world around us like the weather, stars, rock, rivers, plants and animals, which are all distributed to the space in the world.

Therefore, information about the world of space we need to encode and remember, needs the general and variety enough to serve the purposes of both known and unknown. Spatial knowledge is diverse, complex, and multi-modal, as is the situation in which it is used.

I. Technical Knowledge

Knowledge and abilities are required in order to achieve an understanding of mathematics, engineering, scientific or computer-related tasks, as well as other certain tasks. Those who have the technical skill that is often referred to as a “technician” in their chosen fields, namely audio technicians, electronics technicians, engineering technicians, and others (Investopedia, 2015).

In valuation process, technical knowledge focuses on the aspects of the operation of task on stamp duty valuation; for example, technical skills in conducting the valuation process of the necessary technical skills during inspection activities, comparable analysis and opinion of value. Technical skills can also refer to a person’s ability to use technical analysis for the purpose of developing and creating trend chart to view historical market prices. Technical skills in this

context would be a phrase that means a person who is skilled in the technical analysis.

According to Khamis et al. (2011), technical skills means the ability or skills possessed by individuals in certain occupations which are technical in nature. Talent is trained to do things with efficiency, smoothly and smartly.

J. Theoretical Knowledge

Theoretical knowledge is concerned with that of stamp duty valuation. A proper definition of theories or concepts are to be given meaning to the words related to a certain theoretical discipline. This type of definition considers both theoretical knowledge and acceptance that it depends on. In order to determine the theoretical construct, it is to create the hypotheses. Control methods should not be confused with operating specifically.

An example of theoretical definition is “Stamp Duty” in the valuation, which actually puts forth the entire theory of stamp duty involving property transferred where the transferee is required to pay stamp duty as stated by Hurley (2007).

Theoretical knowledge of the subject is knowledge of the principles and ideas of the subject, instead of how the principles are put into practice. The knowledge is gained from books on the subject, and not know about how it can be used or is being used.

VI CONCLUSION

Herewith, it can be concluded that this study will involve detailed investigation on the types of knowledge involved in a stamp duty valuation process in which there are outstanding issues that have to be refined in a systematic manner. This helps to produce useful results of study that can be made a benchmark for the future in ensuring thriving knowledge without boundaries.

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