

Paying Taxes Made Easy



POLICY PERSPECTIVE - BY DATUK CHUA TIA GUAN

Pemudah is working on an effective and efficient tax system to strengthen Malaysia's revenue collection and the public sector.

“IN Sweden, we pay taxes online. The corporate income tax, value-added tax, labour contributions and property tax are filed in a single form. Doesn't everyone do it that way?” This is a question raised by Mr Astrid, a business owner in Sweden where the tax system is highly simplified.

Back home, in Malaysia, what kind of tax system do we want? Have we ever asked ourselves, why can't we do away with individual tax filing for employees who don't have income other than salary since they are already under the Schedular Tax Deduction scheme?

How much more tax revenue needs to be collected from such filings vis-a-vis the additional administrative cost incurred?

Successful Tax Reforms

According to the World Bank, simple moderate taxes and fast, cheap administration mean less hassle for businesses – also more revenue collected and better public service. Since 2005, 90 reforms in 65 economies have pointed to the following four most successful tax reforms:

1. Introduce online filing

“A quarter of the world’s countries have electronic filing and payment of business taxes. That means no need for paper documents – and no need for personal interaction with tax officers. A third of the world’s countries now use electronic payment methods such as bank transfers – and half use payment by cheque.”

2. Combine taxes

“Almost 50% of countries have more than one labour tax or contribution, 27% more than one tax on profits and 41% more than one tax on property. If the base is the same (salaries, profits or property value), why not just combine them? Having multiple taxes increases the bureaucratic burden for both the taxpayer and tax administration.”

3. Simplify tax administration

“Making the tax rules for business complex is unlikely to bring about more revenue – quite the opposite in fact. Countries that do not require special books (i.e. separate book-keeping requirements for tax purposes only) have 10% more

revenue (as a percentage of GDP) on average than countries that do. And having a clear tax law increases tax revenue by 6% on average.”

Paying Taxes Indicator in World Bank's Doing Business 2010					
Country	Singapore	Hong Kong	Malaysia		
Year	2010	2010	2010	2009	2008
Ranking	5	3	24	21	60*
i. No. of payments	5	4	12	12	35
ii Time (hours)	84	80	145	145	160
iii. Total tax rate (% profit)	27.8%	24.2%	34.2%	34.5	36
- Profit tax (%)	7.9%	18.6%	16.5%	16.8	17.5
- Labour tax and contributions (%)	14.9%	5.3%	15.6%	15.6	15.6
- Other taxes	5.0%	0.3%	2.1%	2.1	3
* Ranking revised from 56th placing to 60th placing					

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4. Reduce tax rates and broaden the base

“High tax rates can force companies into the informal sector (i.e. businesses have a strong incentive to evade taxes). Such countries can increase tax revenue by lowering rates and persuading more businesses to comply with the new tax system.”

Focus Group on Paying Taxes

Based on the above successful tax reforms in other countries, the Pemudah's (Government's Special Task Force to Facilitate Business) Focus Group on Paying

Taxes addresses the taxes and mandatory contributions that a medium-sized company must pay or withhold in a given year, as well as measuring the administrative burden in paying taxes.

These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing and paying; and the percentage of profits they must pay in taxes. Malaysia's ranking in the World Bank's Paying Taxes Indicator is tabulated in the table above.

The Focus Group is working on three broad areas:

- Income taxes – corporate tax, individual tax, and stamp duty;
- Customs taxes – sales tax, service tax, excise duty, and goods and services tax;
- Other taxes – Employees Provident Fund (EPF), Social Security Organisation (Socso), Human Resource Development Fund (HRDF), road tax and quit rent.

Paying Taxes Made Easy

Paying taxes has been made easy with many improvements to the public delivery system in taxation made by the relevant ministries and Government agencies, some of which through the recommendations of the Focus Group on Paying Taxes.

The following are the improvements made to date:

Income Taxes by the Inland Revenue Board (IRB)

- Reducing the period taken for refunding tax overpaid due to companies and individuals from one year to between 14 and 30 days in cases of submissions through e-Filing;
- Refunding tax overpaid for the current year of assessment without reference to the previous years of assessment;
- Years prior to 2006 assessment to be finalised later and further monies repayable/tax payable to be dealt with separately; and
- Refunding tax overpaid directly to taxpayers without the need for formal application.
- Reduce the number of procedures and the processing time taken in the assessment of stamp duty.
- Introduce e-registration for companies and individuals to register their tax files online.
- Companies can submit their estimates and revisions of corporate tax liability online.
- Issue guidelines to stipulate the conditions and circumstances that would allow overpayments to be set-off against tax instalments. This includes guidelines on when a group of companies could enjoy this set-off and the required documents.
- Issue guidelines to stipulate the circumstances in which lower tax estimates could be considered.
- Issue guidelines to stipulate circumstances in which penalties on late payment or under-estimation could be lowered or waived and the scale of penalties which would increase with the number of offences the companies committed.

- Individual employees are relieved of the burden of having to claim for deduction in their personal tax returns with the introduction of a list of common employment benefits.

This guide helps to clarify to the employers the activities that could be considered as expenditures incurred by the employees.

- A joint review of the Public Ruling on Entertainment Expenditure has helped to clearly outline the circumstances under which a company would be eligible for a full or partial deduction on entertainment expenses.
- Taxpayers and tax agents can submit their tax returns at any assessment branch in addition to the central processing centre. All that is required is that they provide the proof of submission by manual means.
- The IRB has also incorporated an English section on its website to ensure that non-residents and foreigners are able to access information pertaining to their tax returns.
- The IRB's Client Charter now stipulates the timelines for IRB staff to address taxpayers' appeals and objections. There is an internal mechanism to monitor their adherence to the charter.

Customs Taxes by the Royal Malaysian Customs

- Companies are now allowed to make payments at the nearest Customs office instead of only at controlled stations.

- Excise Forms 7 and 8 can now be downloaded from the website and forms can be submitted through diskette, CD or thumb drive.
- The new Sales Tax Composite Form CJP1 is now only needed to be submitted in three copies instead of the obligatory six copies previously.
- Eliminate the requirement to submit the Daily Sales Record (Attachment A of Form CP3) for Service Tax purposes as well as an attachment to the Sales Tax Form CJ10.

Other Taxes

- Encourage electronic submission of EPF, Socso and HRDF contributions by employers.
- Introduce MyCOID where companies require just one standard identification number (i.e. the Companies Commission of Malaysia (CCM) registration number) to interact with different Government agencies including CCM, IRB, HRDF, EPF, Socso and SME Corp.

Tax Reform

Tax reform is an important element of our Economic Transformation Programme (i.e. the New Economic Model). Effective and efficient tax system will strengthen our revenue collection and the public sector at large.

Continuous improvements to the tax system would ensure that we are globally competitive in attracting foreign direct investments and encourage domestic investments. The following are some of the proposals currently being pursued by the Focus Group on Paying Taxes:

- Currently, in relation to employment income, the Schedular Tax Deduction (STD) is made on the basis that tax reliefs are claimed on EPF, spouse and children only. As such, the STD may be over-deducted and resulted in a tax refund situation.
- It is proposed that taxpayers with only an employment income source who do not wish to claim the tax refund be exempted from annual tax filing.
- It is proposed that IRB makes an advance announcement that compensation for late refund for tax will be implemented, say in 2015. This will allow IRB to have sufficient time to make preparation for the execution.
- The six-year timeframe within which a tax audit can be carried out is too long and creates uncertainty for business. In Australia, the timeframe is four years and in the United Kingdom it is around two years. In line with global benchmark, it is proposed that time barred to be reduced from six years to four years.
- To consolidate the payments for EPF, Socso and HRDF into one payment.
- To standardise the definition of wages for the purpose of computing EPF, Socso and HRDF contributions.

Together, We Can Do It Better

Since the establishment of Pemudah, many improvements to the public delivery system as initiated by the task force have been made by the respective ministries and agencies.

These improvements are in the areas of starting a business, business licences, dealing with construction permits, immigration matters, tax administration, trading across borders, enforcing contracts, registering property and e-payment facilities.

Details can be found at Pemudah's website, www.pemudah.gov.my.

These improvements would not have been achieved without the hard work of the government ministries and agencies as well as the suggestions and feedback from the public. We strongly believe that together we can make Malaysia a good place to do business and a great place to live.

Datuk Chua Tia Guan is a member of Pemudah and chairman of Pemudah's Focus Group on Paying Taxes.