



VEERINDERJEET SINGH

Enhancing tax administration

Comment

AN income tax system is based on the willingness of taxpayers to pay their taxes voluntarily. This requires the tax agency to promote voluntary compliance through outreach and education programmes.

One also needs to understand the psychology of taxpayers in complying or failing to comply with taxation laws so that steps can be taken to reduce non-compliant behaviour.

It is also important to understand the behaviour of different taxpayer groups (based on income level, occupational groupings, ethnicity, etc.) so that remedial steps and new strategies can be devised to overcome negative perceptions.

Studies on taxpayer behaviour suggest that improving services which facilitate reporting, filing and paying taxes, or that impart education or information about taxpayers' obligations under the taxation laws may be more effective in securing compliance than measures designed to counter non-compliance.

Such services include clarifying legal ambiguities, communicating clearly and providing assistance to lower taxpayers' compliance costs. There is much to be gained from viewing taxpayers as clients than would-be defaulters.

Effective data management in the tax agencies (Inland Revenue Board/Customs) must be instilled together with linkages with other agencies.

Data analytics (including predictive software to measure cost/revenue impact) is the way to go, but we must ensure we have the right talent. We must improve the way tax audits are carried out and enhance investigative capabilities with effective technology deployment.

We need to review how we determine

Run-up to



taxability and deductibility without being stuck in an old-school mentality. It is suggested that we try and align accounting/financial reporting rules with the tax rules and concepts to the extent possible.

We should review the recognition of income for income tax purposes as it should be closely aligned to accounting standards.

Similarly, it is time to review the deductibility of expenses for tax purposes such that this is also aligned to accounting standards.

In addition, we need to make it easier to determine tax deductibility for such things as entertainment expenditure, interest restriction, etc.

All corporate governance expenditure is essential and as such, this has to be clearly designated as being tax deductible and not otherwise. The whole objective is to make the law simpler/easier to compute a person's tax liability.

Personal income tax rates and reliefs have to be reviewed and the chargeable income bands should be widened, and we must set suitable tax rates in line with global developments.

The appeal process (especially for the first stage of appeal at the Special Commissioners of Income Tax) should be simplified and we must appoint more Special Commissioners and not limit these to civil servants as there are many distinguished lawyers/tax practitioners who can also serve as Special Commissioners.

We should review the recognition of income for income tax purposes as it should be closely aligned to accounting standards.

Why not consider Tax Courts as an alternative to the Special Commissioners?

The key is that we must make it easy for taxpayers to discharge their obligations and at the same time, taxpayer rights must be monitored effectively.

Tax compliance

We need to focus on making tax compliance a way of life and a national duty. Continuous education cannot be limited to media advertisements by the tax agencies. Some suggestions include the following:

> We need to have a tax file number allocated to all persons irrespective of the tax status of a person.

> We need to widen the scope of withholding taxes to cover all payments among residents and exempting such withholding only if a tax file number is disclosed to the payer.

> We need knowledge and access to information through well-developed information sharing mechanisms.

> Focus on the educational role so as to be able to disseminate tax information including using the website effectively which includes listing all tax case law

decisions, etc as the public needs to know it all in the self-assessment world.

> Collect what is due and penalise intentional non-compliance quickly. Attempt to avoid arrears and avoid chasing for collection of tax liabilities years after these have been established.

> Carry out tax audits and tax investigations in a professional manner and tax officers must not look at a tax revenue target as a starting point.

> Introduce an effective human resource policy so that technical capabilities are enhanced, ie, get the right personnel.

Outsource certain aspects, for example the research into a highly technical area which may be the subject of an advance ruling so that there is an effective understanding of the specific issue and the industry.

> Train officers of the tax authorities by getting contributions from the private sector so that we develop staff with a broader mindset and greater business knowledge rather than what we are currently experiencing.

> Utilise technology effectively to provide services to taxpayers, to assist staff to respond on a timely basis and to collect taxes quickly. We must use technology in a holistic manner and not in a piecemeal manner so that systems are integrated effectively.

> Enhance and protect taxpayers' rights by improving and monitoring the Taxpayer's/Client Charter which must exist in all tax agencies. Perhaps, the Auditor-General's Office should monitor the effectiveness of the charter.

> To assist in making compliance easier, there should be a general convergence between accounting profits and taxable profits.

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Government should look at a phased reduction in income tax rates

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With an enhanced image of the tax agencies being fair and responsible agencies, which are professional in their outlook and service delivery, the compliance levels should increase and that will enable a revision in the income tax rates.

With a growing tax base, the government should look at committing itself to a phased reduction in income tax rates to continue to enhance Malaysia's attractiveness as an investment destination and to encourage citizens to work hard.

Regional voice

The Finance Ministry needs to be aware of improvements in the tax legislation in the region and other parts of the world.

It should also look into proactive suggestions to reform and enhance the current structure so that we are in step with worldwide developments.

The Base Erosion and Profit Shifting (BEPS) initiative of the Organisation for

Economic Co-operation and Development or OECD is the most significant international tax reform we have seen so far, including the current Pillar 1 and Pillar 2 developments but the ministry lacks adequate resource capability in this area.

Greater collaboration with the private sector is essential so that we are aware of the latest international tax developments quickly.

It is time that Asean drives tax policy developments for the region and speak with one voice.

This brings to mind the recent United Nations (UN) resolution to work towards an effective international Tax Framework that would balance the views of the developing and developed nations.

An Asean voice may be worthwhile pursuing, especially since it is Malaysia's turn to chair the Asean forum.

In addition, it is the UN Tax Committee which is going to carry out the work related to the international Tax Framework.

It is suggested that Malaysia pushes for representation on the UN Tax Committee

and a suitable tax expert aware of international developments be appointed by the ministry to represent Malaysia.

Conclusion

It would be good if the government could be sending a message to outline its longer-term approach towards building a more sustainable tax system and setting some general targets that it aspires to achieve in the future.

It is about time that the Finance Ministry is more transparent in its outlook in this area as it no longer can be "business as usual" anymore.

So, all in, a one-year plan can only take us so far.

We need a five-to-seven-year plan at least to outline the fiscal policy direction for the nation and we need to be bold in our outlook.

This includes changing the mindset of the citizens, having consistent application of rules across the nation as well as enforcing and monitoring effectively.

One cannot take a populist approach in everything.

At times, we have to bite the bullet and endure some pain so that our resilience and ability to respond is up to the mark.

Overall, Malaysia needs at least a five-year plan or roadmap to outline its fiscal policy direction for the nation and be bold in its outlook.

It is thus timely that Malaysia announces a comprehensive fiscal reform which is wide-based and wide-ranging and puts into place a long-term plan to mould a world-class taxation system that will be comparable to that of leading developed nations.

It is time to let go of the ad-hoc approach of tinkering with the taxation system.

Dr Veerinderjeet Singh is senior adviser on tax policy at KPMG in Malaysia, and a past president of CTIM, MIA and Micpa. The views expressed here are the writer's own. Note: This is the final of a two-part series, of which the first part had appeared on Sept 17.