

Tax probes to intensify

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IRB can channel resources to improve compliance and enforcement

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KUALA LUMPUR: Making the monthly tax deduction (MTD) for salaried employees the final tax as revealed by Prime Minister Datuk Seri Najib Razak in his Budget 2014 speech last Friday would mean the Inland Revenue Board (IRB) can

channel its resources to improve compliance and enforcement.

The proposed move, to take effect from the year of assessment 2014, will be treated as the final tax provided that employees are satisfied with their MTD.

"The move will lead to better allocation of resources within IRB as up to 70% of the staff are involved

in dealing with individual taxpayers who only contribute 30% of tax revenue," said a source familiar with the IRB.

By making the MTD the final tax for salaried employees, the administrative burden of IRB staff will be lightened. This will allow them to focus on the "bigger fishes", namely corporations and businesses.

With the better allocation of resources, the IRB can enhance its investigations into cases of tax evasion or fraud, the source said.

The IRB has 11,000 employees, according to media reports.

Of the four million individuals with files at the IRB, only one million are eligible taxpayers.

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'IRB can set up centres to help employers resolve issues that pop up'

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Of the 450,000 businesses that have files at the IRB, only 75,000 companies are classified as eligible taxpayers.

Deloitte Malaysia country tax leader Yee Wing Peng said the move will help reduce the IRB's administrative burden while for individual taxpayers, it removes the hassle of submitting their returns.

"It is good for both parties. However, MTD as the final tax will only apply to salaried workers. Those deriving rental income or other forms of income in addition to their employment income are unlikely to enjoy this privilege," he said.

According to Chartered Tax Institute of Malaysia president SM Thanneermalai, using MTD as the final tax is not new as it is practised in other countries.

"Employers will now have to take into account the deductions made available to their employees. The current schedule which is used to arrive at the monthly tax deduction amount only takes into account the main tax reliefs.

"So I think employers will have to collect more accurate information from their employees in order to make sure the taxes deducted are not grossly over or under the amount to be paid," he said.

Thanneermalai said with the new system, initial teething problems will be unavoidable as employers work out the process of collecting the necessary information.

"IRB can set up centres to help employers resolve issues that pop up. However, this should be ironed out after employers get into the routine of things," he said.

In Budget 2014, taxpayers see a reduction in their personal income tax by 1% to 3%.

The chargeable income band exceeding RM100,000, with the current maximum tax rate of 26%, has been revised to RM400,000 at a new rate of 25%.

This reduction in personal income tax will take effect from the year of assessment 2015, when the goods and services tax (GST) will be implemented at a rate of 6%.

The income tax reduction of 1% to 3% will give an individual with a yearly chargeable income of RM20,000 a tax savings of RM150, in which the rate is reduced from 2% currently to the proposed 1%.

"The 1% to 3% reduction is not enough to relieve the burden of taxpayers. I hope that personal income tax can be reduced further in the years to come after the GST has been implemented for a few years," said Yee.

Besides the personal income tax reduction, the prime minister also proposed a special tax relief of RM2,000 for resident taxpayers with salaries below RM8,000 per month. This is expected to provide tax savings of up to RM480 after taking into consideration all the deductions available presently.

Similarly, the corporate tax rate will be reduced by 1% to 24% with effect from year of assessment 2016. Yee said it can be brought down further.

"It will help enhance competitiveness. We expected the government to bring down the corporate tax to 20%, but it didn't happen. However, there will be more opportunities to bring down the corporate tax in the coming years," Yee said.