

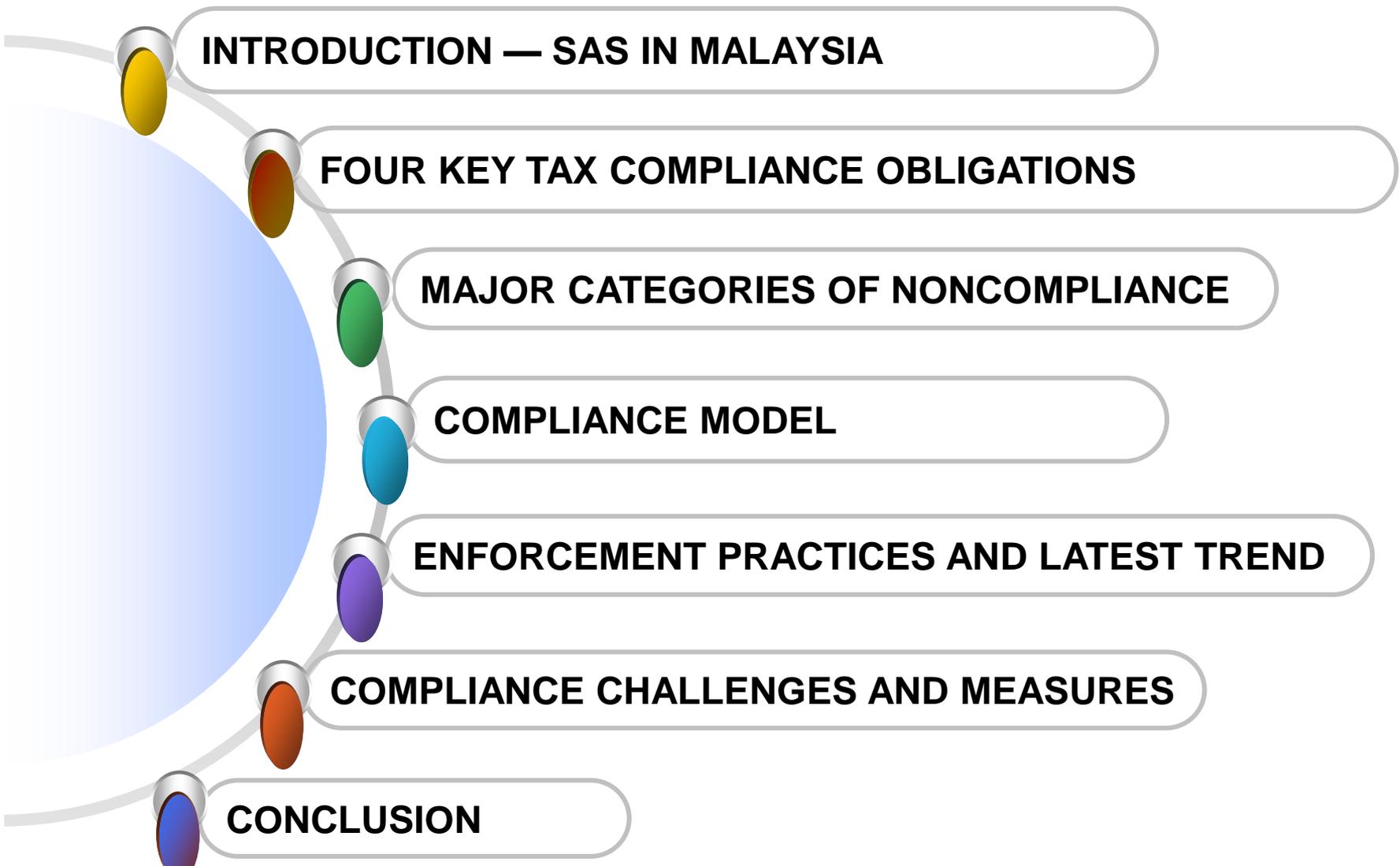


Enforcement Trend and Compliance Challenges: Malaysia's Experience

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SCOPE OF PRESENTATION



INTRODUCTION — SAS IN MALAYSIA

FOUR KEY TAX COMPLIANCE OBLIGATIONS

MAJOR CATEGORIES OF NONCOMPLIANCE

COMPLIANCE MODEL

ENFORCEMENT PRACTICES AND LATEST TREND

COMPLIANCE CHALLENGES AND MEASURES

CONCLUSION



INTRODUCTION

Inland Revenue Board Malaysia (IRBM) implemented Self-Assessment (SAS) in 2001 for companies and 2004 for individuals with the following objectives:

- To accelerate the rate of collection
- To minimize cost of collections
- To increase voluntary compliance



FOUR KEY TAX COMPLIANCE OBLIGATIONS

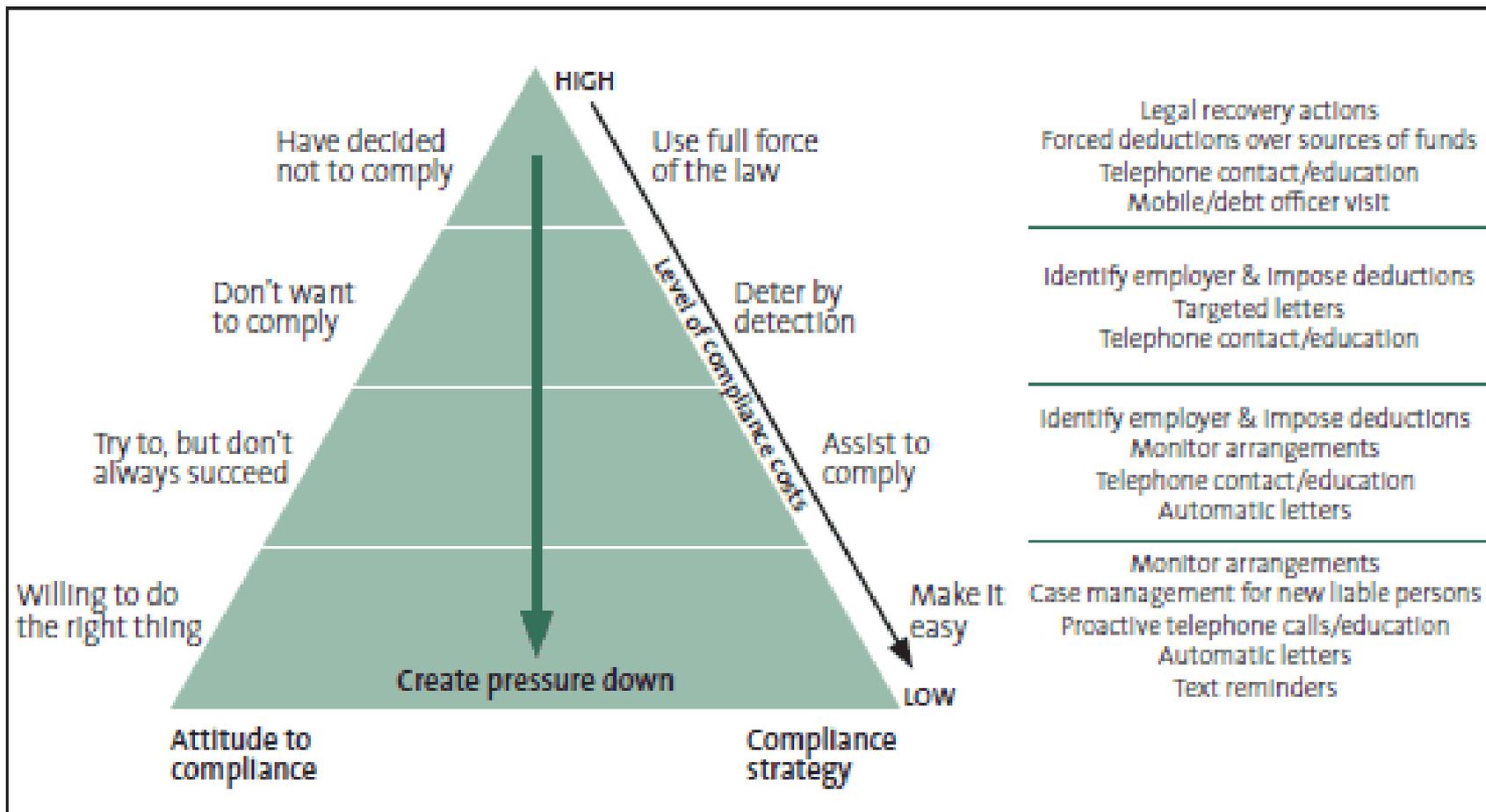
1. To register as a taxpayer when fulfilling/meeting certain criteria
2. To submit tax returns by or before the due date
3. To pay tax liability by or before the due date or other advance arrangement schedules
4. To report tax liability correctly: correct declaration of income, expenditure, and tax relief/tax deduction



MAJOR AREAS OF NONCOMPLIANCE

- Failure to register with tax authority by any potential taxpayer
- Non-submission of tax return after the due date
- Nonpayment/partial payment of tax liability after the due date
- Incorrect declaration/assessment of tax liability in the submitted tax return

COMPLIANCE MODEL





TAX ENFORCEMENT — MAIN CATEGORIES

DETECTION

AUDITS

INVESTIGATIONS

COLLECTIONS

PENALTY AND SANCTIONS



ENFORCEMENT PROGRAMS PRACTICED BY IRBM

DETECTIONS

- Business surveys and surveillance
- Identify new taxpayers
- Potential audit cases

AUDITS – DESK AND FIELD

- Selection of cases using risk analysis
- Prioritize high-risk cases
- Monthly Tax Deduction (MTD) audits on employers





ENFORCEMENT PRACTICES BY IRBM

TAX INVESTIGATION (CIVIL & CRIMINAL)

- Tax evasion
- Internal intelligence & risk analysis
- Informers



COLLECTIONS

- Civil actions on defaulters with tax arrears
- Stoppage from leaving the country
- Caveats on real property
- Bankruptcy proceedings on individuals
- Winding-up action on companies



ENFORCEMENT PRACTICES BY IRBM

PENALTIES AND SANCTIONS

- Criminal prosecution against non-filers of tax returns
- Penalties for late submission
- Penalties for underreporting
- Penalties for late payment



ENFORCEMENT TRENDS IN IRBM

CHANGES AND REFORMS

LEGAL

- Strengthening of investigation measures, cross border transactions and information exchange

SEGMENTATION

- Segmentation of taxpayers, industries with high impact to tax collection, function based structures

PROCESS

- Reengineering of audits and investigation work



ENFORCEMENT TRENDS IN IRBM

CHANGES AND REFORMS

ORGANIZATION

- Structure-based, joint efforts/cooperation with third party

MANAGING IT SYSTEMS

- Process reengineering, automation, data gathering and management, electronic services for voluntary compliance

RISK-BASED APPROACHES

- Selection of audits and investigation

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
1.	Improve voluntary compliance	<p><u>Registration</u></p> <ul style="list-style-type: none">➤ Leverage detection exercise into national wide-scale operations to create “Revenue Presence”➤ Electronic means to facilitate easy registration

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
	Improve voluntary compliance	<p data-bbox="875 432 1537 489"><u>Tax Return Submission</u></p> <ul data-bbox="875 511 1821 1096" style="list-style-type: none"><li data-bbox="875 511 1647 639">➤ Electronic filing for easy submission<li data-bbox="875 661 1663 789">➤ Call-in centers to handle inquiries<li data-bbox="875 811 1821 939">➤ Automated compound notices to non-filers<li data-bbox="875 961 1702 1096">➤ Automated estimated assessments to non-filers



COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
	<p>Improve voluntary compliance</p>	<p><u>Business Process Redesign</u></p> <ul style="list-style-type: none"> ➤ More coverage of audits ➤ Change field audit approach from comprehensive to “focus audit”(to reduce time) ➤ Change audit working norms to increase efficiency (smaller groups)

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
	<p>Improve voluntary compliance</p>	<p><u>Audits</u></p> <ul style="list-style-type: none"> ➤ Priority on high-impact sectors like petroleum, transfer pricing, and “high-yield individuals“ with significant risk of underreporting (comprehensive audits) ➤ Reengineering in audit processes—change from manual to electronic audit working papers (better monitoring) ➤ Proposed joint audits with Customs Department

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
	<p>Improve voluntary compliance</p>	<p><u>Audits Selection</u></p> <ul style="list-style-type: none"> ➤ Tax compliance risk analysis in selection of cases ➤ Disclosure in tax returns for risk analysis ➤ Related party transactions, incentives, expenditure, losses, group reliefs, and CA ➤ Industry/activity benchmarks

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
2.	Tax evasion and frauds	<p><u>Investigation</u></p> <ul style="list-style-type: none"> ➤ Reengineering in investigation work processes towards criminal investigation ➤ Joint operations with other government agencies under the Anti-Money Laundering Act (AMLA) ➤ Under-declaration and non-declaration for tax purpose are offenses under the AMLA

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
3.	<ul style="list-style-type: none"> • Cross-border transactions • e-commerce • Aggressive tax planning 	<ul style="list-style-type: none"> • Formulated TP rules • Strengthen Multinational Department with more officers • Enhance tax auditors knowledge and expertise • Continuous cooperation with international organizations like the OECD, IMF, and IBFD • ‘Exchange of information’ (EOI)

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
4.	Limited human resources and enhancing skills of audit officers	<ul style="list-style-type: none">• Redeployment strategies of officers from desk audits to field audits• Engagement of contract officers• Mentoring program to generate capable auditors in specialized industries—petroleum, banking, and TP cases

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
5.	Underground economy/cash economy	<ul style="list-style-type: none"> • “Revenue presence” through large-scale joint operations in detection exercises by several branches • Data warehouse and data mining/data matching <ul style="list-style-type: none"> ➤ Vehicles (insurance companies) ➤ Property (IRBM Stamp Units) ➤ Government contracts from Government Procurement Information System • Data for Enterprise Taxpayer’s Profile (ETP)

No.	Compliance Challenges	IRBM Measures
6.	Incomplete recordkeeping among SME and sole proprietor	<ul style="list-style-type: none">• Issue guidelines on proper recordkeeping• Business Support Unit• Post-audit notifications to keep up business records prior to subsequent audit• Create industry/activity benchmark for standard reliable reference

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
7.	High tax arrears every year	<ul style="list-style-type: none">• Tax arrears notification through post and hand delivery• Increase civil prosecutions• Increase stoppages from leaving the country• Freeze bank account on noncompliant taxpayer (investigated cases under AMLA)

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
	High tax arrears every year	<ul style="list-style-type: none">• Reschedule payment arrangements• Appoint more collection agents: banks and post offices• Call-out centers to remind about outstanding balances• Online payment through IRBM website or banks' Internet banking portals

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
8	Provide continuous improvement in service delivery to ease compliance: enhance e-Services	<ul style="list-style-type: none">• e-registration (to register tax file online)• e-update (taxpayer address)• e-ledgers (to check tax position online)• e-Filing (to file tax return)• e-payment (to pay online)• Call-in centers

COMPLIANCE CHALLENGES AND IRBM MEASURES

No.	Compliance Challenges	IRBM Measures
9.	IFRS: Adoption of IFRS in financial statement preparation	<ul style="list-style-type: none">• Need to study to provide tax treatment and necessary adjustments• Create joint committee involving MOF, IRBM, and professional bodies



OTHER MEASURES TO IMPROVE TAX COMPLIANCE

- Closer cooperation with professional bodies (e.g., tax agents) through dialogues and seminars to leverage voluntary compliance
- Propose greater autonomy for the IRBM to function as a tax authority to implement compliance programs effectively and speedily
- Reducing the tax rate 



OECD 'WORKING SMARTER' SOLUTIONS TO STRUCTURE COMPLIANCE ACTIVITIES

- More rigorously applying modern compliance risk management principles and strategies;
- Shifting compliance activities upstream and address compliance risks earlier in the sequence of events potentially leading to compliance failures; and
- Facilitate compliance through electronic services with continuous improvement of these services and by increasing their take-up



SERVICE TAGLINE

IRBM SERVICE TAGLINE

Specific IRBM service tagline to encourage wider compliance in the public

2011 'Be With Us'

2012 'You're The Nation's Hero'

2013 'IRBM: Your Feel-Good Partner'



CONCLUSION

- Tax compliance will continue to be the main focus of all revenue administrators
- Tax compliance challenges will become more complex with globalization
- Concerted efforts to ensure the compliance level of the community are enhanced through better service delivery



THANK YOU

どうもありがとうございます

DOMO ARIGATO GOZAIMASU

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AUDIT STATISTICS

YEAR	CASES AUDITED*	SETTLEMENT (RM million)
2010	1,065,469	4,140.66
2011	1,224,796	3,767.89
2012	1,935,078	3,323.44

* Desk and Field Audits





INVESTIGATION STATISTICS

YEAR	CASES INVESTIGATED	SETTLEMENT (RM million)
2010	769	1,170.90
2011	1,151	811.78
2012	764	695.67





E-FILING STATISTICS

YEAR	SUBMISSION BY E-FILING	% OF TOTAL SUBMISSION
2010	1,825,743	56.31
2011	2,261,656	67.68
2012	2,717,656	71.83



TAX RATE REDUCTION

TAXPAYER	YEAR	TAX RATE REDUCTION	TAX INCREASE
INDIVIDUAL	YA 1993 YA 2000 YA 2009 YA 2010	2–34% with 11 tax brackets 0–30% with 10 tax brackets 0–27% with 8 tax brackets 0–26 % with 8 tax brackets	+ 226.65% from 2000 to 2012
CORPORATE	1989–2009	40% reduced to 25% (SME: 20% for the first RM500,000)	+ 323.89% from 2000 to 2012

