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TOWARDS EFFECTIVE SYSTEM

Thoughts on tax and reforms in 2019 Budget

THE 2019 Budget is all-encompassing covering many sectors and categories and its tabling was also one of the longest budget speeches presented in recent years.

The three focus areas are certainly appropriate involving institutional reforms, economic well-being of the people and fostering an entrepreneurial economy.

The overall budget was larger than expected and thus mildly expansionary. The fiscal deficit has increased and the government set out a declining trend in the deficit over the next three years.

From a fiscal accountability perspective, the following initiatives should be noted:

□ A Fiscal Responsibility Act to be enacted by 2021 which will assist in avoiding reckless spending in the public sector.

□ The introduction of a Government Procurement Act in 2019. The public sector will finally implement accrual accounting to replace the cash-based accounting system from 2021

□ A Debt Management Office will be created to look into and manage the government's debts and liabilities

The budget puts in place the start of a process towards reforming the tax system.

The Tax Reform Committee was set up in September to identify and propose improvements and additional measures to create a more progressive and effective tax system.

There will also be a review of

existing reliefs and incentives to make them more relevant and reduce leakages.

Also significant is the time limits placed on the carrying forward of unutilised business losses, capital allowances, reinvestment allowance, investment tax allowance and pioneer losses.

Limiting this to seven years is a step forward in trying to prevent tax leakages in the system. As the Tax Reform Committee just started its work in mid-September, there would likely be more changes to the tax system, which may be implemented by the government in future budgets.

In the budget, the government will study more than 130 types of schemes for fiscal investment undertaken by 32 agencies involved in encouraging investments to ensure that the tax incentives are relevant and there is no overlapping.

The tax collection agencies — the Inland Revenue Department and Royal Customs Department — will need to up their game and enhance their enforcement capabilities while exercising professionalism.

How do we educate the public on their tax responsibilities so that the people do what is right?

It is hoped that the government and its agencies focus on this aspect as there is a need to build the confidence among the people so that tax compliance becomes a way of life.

Malaysia thus needs to:

□ Introduce a strategic plan on the direction forward in respect

of developing and improving the sources of tax revenue, especially amid dwindling oil reserves.

□ Keep tabs on improvements in the tax legislation in the region and other parts of the world.

□ Make proactive suggestions to reform and enhance the current structure so that we are in step with global developments.

We need to focus on making tax compliance a way of life and a national duty.

Some suggestions:

Have a tax file number allocated to all persons irrespective of the tax status of a person.

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 effective consultation with all stakeholders and not just hold meetings for the sake of being seen as being inclusive and courteous.

There is a need for an explicit ethical framework that should apply to all participants in the tax consultation process.

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

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

Introduce an effective human resource policy so that technical capabilities are enhanced — get

the right personnel.

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

Train officers of the tax authorities by getting contributions from even the private sector so that we develop staff with a broader mindset and greater business knowledge.

Use technology effectively to provide services to taxpayers, assist staff to respond on a timely basis and collect taxes quickly.

Enhance and protect taxpayers' rights by improving and monitoring the Taxpayer's/Client Charter.

Once we have initiated these measures and see the results in terms of improved tax buoyancy in the growth of the tax revenue, then the process of reducing the income and corporate tax rates would be essential.

In fact, one area I was looking forward to in the 2019 Budget was a commitment by the government to reduce income tax rates (provided certain targets and growth rates are met)... but alas, there was none... maybe in the next budget!

Overall, it is a good budget for the new government given the short time it has been in power.

The writer is the chairman of Axcelasia Group, a past president of the Chartered Tax Institute of Malaysian and vice-president of the Malaysian Institute of Certified Public Accountants

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