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A fundamental change in tax administration

Wendy Lim

THE proposed waiver of income tax for assessment year 1999 will mean a fundamental change in the tax administration and an extensive revision of the Income Tax Act 1967, an accountant says.

One aspect of the proposal that needs to be understood is the term "waiver" which is not provided for in the Act. Only the term "exemption" is defined, Malaysian Institute of Accountants council member Neo Chin Wah told Business Times.

There is a need to understand the proposal and the required changes to the Income Tax Act which will take at least two months to make, he said.

"Until then, we will only be guessing what it means."

The Malaysian Institute of Accountants earlier issued a statement to say it was not very clear about the proposed waiver in the 1999 Budget announced by Prime Minister Datuk Seri Dr Mahathir Mohamad on Friday.

Neo said the association will seek a meeting with the Inland Revenue Board (IRB) for more information.

Dr Mahathir, who is also First Finance Minister, has proposed a current-year basis tax administration, as opposed to the existing system where taxpayers are assessed for income derived for the preceding year.

The shift is to be effected in the year 2000 and will involve a tax waiver for income earned in 1999.

An IRB official said after the Budget is gazetted, probably in February next year, there will be an order for a revision of the Act.

Its public relations assistant director Rozina Merican said the switch to current-year tax administration will benefit taxpayers who started working after 1995.

"They are under the 'pay-as-you-earn' system of the PCB (potongan cukai bulanan or schedular tax deductions) implemented on January 1 1995. Their income in 1999 will not be deducted if the assessment year 1998's tax is fully paid.

For the rest of the taxpayers, meaning those who started working before 1995 where tax is paid on income earned the previous year, deductions will continue to be made in 1999 for the assessment year 1998.

By the year 2000, all taxpayers will "pay as you earn" for the current year assessment, as is already practised in Sabah and Sarawak, Rozina said in a statement.

The switch is therefore not expected to affect the Government's cash flow, as the number of taxpayers involved under the "waiver" is small. In 1997, about 150,000 new files were opened by IRB.

The income tax collection for this year is expected to be RM24 billion, compared to some RM31 billion from 2.5 million taxpayers in 1997.

In the first four months of 1998, the IRB collected RM10.3 billion, up from RM9.1 billion in the corresponding period last year.

On the introduction of a self-assessment regime, which is part of the proposal to revamp the country's tax administration, Neo said the industry welcomes the move.

"We have been talking about it for a few years... self-assessment basically transfers the responsibility to the taxpayer. This will improve the efficiency of the IRB whose staff can then be mobilised to enforce compliance," he said.

Self-assessment is the practice in Australia and several other Commonwealth countries, he noted.

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