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# Revenue Mobilization Measures and Current Tax Issues

By

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## **FEDERAL GOVERNMENT REVENUE (RM BILLION) YEAR 1970, 2000 TO 2010**

Year	Direct Tax		Indirect Tax		Non Tax Revenue		Total Fed Govt Revenue	GDP
	(RM billion)	%	(RM billion)	%	(RM billion)	%	(RM billion)	(RM billion)
1970	0.6	27.3	1.1	50.0	0.5	22.7	2.2	11.8
2000	29.2	47.2	18.0	29.1	14.7	23.7	61.9	356.4
2001	42.1	52.9	19.4	24.4	18.1	22.7	79.6	352.6
2002	44.4	53.2	22.5	26.9	16.6	19.9	83.5	383.2
2003	43.0	46.4	21.9	23.7	27.7	29.9	92.6	418.8
2004	48.7	49.0	23.3	23.4	27.4	27.6	99.4	474.0
2005	53.5	50.3	27.1	25.5	25.7	24.2	106.3	522.4
2006	61.6	49.9	25.1	20.3	36.8	29.8	123.5	573.7
2007	69.4	49.6	25.8	18.4	44.7	32.0	139.9	641.9
2008	82.1	51.4	30.8	19.3	46.7	29.3	159.6	741.7
2009	78.4	49.4	28.1	17.7	52.1	32.8	158.6	679.7
2010	79.0	49.5	30.5	19.1	50.2	31.4	159.7	766.0
2011 (Preliminary Figure)	102.3	55.3	32.4	17.5	50.4	27.2	185.1	847.3

1USD=RM3.11

# ECONOMIC AND SOCIAL DEVELOPMENT OBJECTIVES

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- Driving towards high income economy
- Ensuring holistic and sustainable development
- Focusing on wellbeing and enhancing quality of life of the people
- Invigorating private investment
- Intensifying human capital development
- Strengthening public service delivery

# ROLE OF TAXATION IN ECONOMIC AND SOCIAL DEVELOPMENT

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## □ Objective Of Tax Policies And Measures:

- Obtaining revenue to finance sustainable economic and social development
- Promoting trade and investment by maintaining and enhancing competitiveness
- Distributing economic activities to rural area by providing tax concession
- Price control

# REVENUE COLLECTION TREND

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- Malaysia adopts open economic system
- Foreign direct investment is contributing significantly to the economic activities especially in manufacturing and services sector
- In 1970s, indirect tax contribution was about 50%, whereas direct tax about 27% from the total Federal Government revenue

# REVENUE COLLECTION TREND (CONT.)

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- In 2010, the contribution was reversed, where the contribution from indirect tax reduced to about 19%, whereas direct tax increased to about 50%
- Reduction in the indirect tax contribution was due to:
  - Import duty exemption and abolition on input, component and machine for manufacturing and services sector
  - Gradual import duty exemption and abolition in line with Malaysian commitments under ASEAN Free Trade Area, Bilateral Free Trade Area and World Trade Organisation

# WIDENING OF TAX BASE

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- ❑ Income tax contribution comes from:
  - About 30% of total registered companies
  - About 14% of total individuals in employment and business
- ❑ In ensuring government revenue is sufficient to finance development projects, the existing tax base has to be widen:
  - Plans to implement broad-based consumption tax such as goods and services tax (GST)
    - Replacing the existing sales tax and service tax
    - Inclusive awareness program for business community and general public

# WIDENING OF TAX BASE (CONT.)

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- Full understanding of the impact on prices and inflationary pressure is very important
  - Getting feedback from general public for suitable policy response
  - Costs of GST implementation to small and medium enterprises will be mitigated through some form of incentives
  - Most basic product and services to be exempted or zero rated
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# WIDENING OF TAX BASE (CONT.)

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- ❑ Studying new source of taxes
  - Some form of environmental taxes for purpose of environmental preservation to ensure sustainable economic development. (Currently, measures for environmental preservation are implemented by providing incentives in renewable energy and energy efficiency)
  - Some form of property taxes as high net worth individual increases

# ENHANCING TAX COLLECTION AND COMPLIANCE

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- ❑ Tax incentives are provided for certain promoted products and activities for stipulated periods
- ❑ Existing tax incentives are being reviewed to ensure their effectiveness in promoting economic activities
  - Incentives under The Promotion of Investment Act 1986.
  - Special treatment such as double deductions for R&D and training.
  - Ensuring all companies enjoying tax incentives are in full compliance to the conditions imposed
  - Importers and exporters in duty free islands and free commercial zones are in full compliance to the conditions imposed

# ENHANCING TAX COLLECTION AND COMPLIANCE (CONT.)

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- Improving efficiency in tax administration and compliance for direct and indirect taxes
  - Reengineering of desk audit process
  - Enhance skills in field audit and specialised audit (e.g: transfer pricing audit)
  - Enhancing the use of information technology (e.g: computer assisted audit techniques) and data warehousing to identify high-risk cases
  - Capacity building to enhance competency of all audit officers
  - Develop systematic and efficient debt management system

# CURRENT TAX ISSUES

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- ❑ High economic growth especially in China, India and Indonesia would increase bilateral trade as well as investment between Malaysia and those countries
- ❑ Local companies should seek opportunities to invest abroad in order to maximize income
- ❑ Continuous increase in international/cross-border transactions requires Malaysia to adopt Transfer Pricing Rules, Advance Pricing Arrangement, Advance Rulings and Mutual Agreement Procedures
- ❑ Those trends require high skills and wide knowledge in dealing with international taxation issues and more manpower in the fields of audit and investigation

# CURRENT TAX ISSUES (CONT.)

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- ❑ Corporate and individual tax rates must be competitive to promote investments and attracting high knowledge workers.
- ❑ Malaysia has good networking of treaties (i.e. 73 countries) in avoiding double taxation
- ❑ Existing treaties need to be reviewed to further enhance bilateral trade and investment flows
- ❑ Difficulty to rationalise tax incentives especially during slower economic growth

# CURRENT TAX ISSUES (CONT.)

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- Adapting tax system and rules to new global economic environment
  - Dealing with the international standards and framework
  - Dealing with intangibles/software transactions and services (e-commerce)
  - Dealing with issues on convergence between accounting treatment and tax treatment