4TH MALAYSIA TAX POLICY FORUM (MTPF)

"Bridging the Taxation Divide: Building a Sustainable Future for Malaysia"

11 June 2024 | The Everly Putrajaya

SUMMARY REPORT

OPENING REMARKS

YBhg Dato' Sri Dr. Mohd Nizom Sairi
Organising Chairman of 4th Malaysia Tax Policy Forum

Dato' Sri Dr. Mohd Nizom Sairi warmly welcomed attendees to the 4th Malaysia Tax Policy Forum, emphasizing the crucial role of tax policy in Malaysia's economic and social framework. He highlighted the integral function of the tax system in generating public revenue, redistributing wealth, and fostering economic development. Additionally, he underscored that tax policies reflect a country's values and commitment to social justice, making this forum an essential platform for stakeholders to explore and shape the future of tax policy in Malaysia.

A significant focus of his speech was on the digital transformation of the tax system, particularly the implementation of electronic invoicing (e-invoicing). This initiative, aligned with the Twelfth Malaysia Plan, aims to enhance the efficiency of tax administration by embracing digital services infrastructure. He emphasized that e-invoicing is a strategic move towards greater transparency and efficiency, aligning Malaysia with global best practices in financial transactions and supporting the growth of the digital economy. Furthermore, he addressed the upcoming change in the service tax rate on digital services, highlighting the necessity for businesses to adapt to new tax regulations in a rapidly evolving digital landscape.

Dato' Sri Dr. Nizom also delved into other pressing tax topics such as high-value tax, capital gains tax, and transfer pricing. He stressed the importance of creating a tax system that is fair, efficient, and competitive on a global scale. By examining these issues, the forum aims to develop a tax framework that supports sustainable development and meets the needs of all stakeholders in Malaysia. In closing, he expressed his hope for fruitful discussions and productive exchanges at the forum, emphasizing the collective effort needed to navigate the challenges and opportunities ahead, ensuring that tax policies support sustainable economic growth and development.

OPENING KEYNOTE ADDRESS

YB Puan Lim Hui Ying
Deputy Minister of Finance

YB Puan Lim Hui Ying commenced her speech by expressing heartfelt gratitude to the International Strategy Institute for organizing the event and acknowledging the presence of key stakeholders, esteemed government officials, industry leaders, and all participants. She emphasized the importance of their commitment and participation for the forum's success.

Current Economic Context: She highlighted Malaysia's robust economic performance in the first quarter of 2024, with a growth rate of 4.2%, driven by stronger private expenditure and a rebound in exports. Household spending, investment activities, and various sectors, including manufacturing and services, showed significant improvement. Looking forward, she anticipated continued economic growth supported by domestic expenditure, external demand, and increased investment activities, despite potential risks such as weaker external demand and geopolitical tensions.

Importance of Tax Policy: YB Puan Lim Hui Ying underscored the crucial role of effective tax policies in supporting public services, infrastructure development, and social programs. She acknowledged the challenges in developing efficient tax systems, such as informal employment, tax administration, and data reliability. Nonetheless, she stressed the importance of a well-designed and administered tax system for sustained economic growth and social stability.

Recent Tax Reforms and Digitalization: The speech detailed the significant 2024 budget introduced by the Prime Minister, which focused on economic reforms and empowering the people. This budget included strategic tax reforms aimed at bolstering growth, enhancing fiscal sustainability, and promoting social equity. She also discussed the impact of digitalization on tax administration, emphasizing the need for technological adoption to streamline operations and improve efficiency and transparency in the tax system.

Collaboration and Vision for the Future: She called for collaboration and stakeholder engagement in crafting effective tax policies, highlighting the benefits of diverse perspectives and feedback in creating comprehensive and equitable policies. Looking ahead, she envisioned Malaysia's economic growth driven by robust domestic spending, investment activities, and tourism. She acknowledged potential risks but remained optimistic about the positive outlook, emphasizing the importance of continued public service enhancement and productivity. Finally, she urged participants to actively engage in discussions and contribute their insights to shape effective tax policies and foster sustainable economic growth and social equity.

PANEL DISCUSSION 1 - EMBRACING E-INVOICING: CATALYZING MALAYSIA'S DIGITAL TAX REVOLUTION

Mr. Vincent Lee
CEO of Wavelet

Vincent Lee shared concerns from medium and large businesses about the uncertainty surrounding the implementation of new e-invoicing systems. Many businesses are adopting a wait-and-see approach, leading to a relaxed attitude towards system upgrades. He suggested that the government should actively inform and alert businesses about the impending changes to ensure readiness and compliance.

Unlike the monthly reporting required by GST, e-invoicing involves continuous interaction between suppliers, customers, and businesses, including invoice cancellations, conversions, notifications, validations, and reconciliations. Vincent highlighted the increased complexity and the need for businesses to understand and manage these interactions effectively.

Vincent emphasized the gap in education and support for businesses regarding e-invoicing. He proposed that software vendors could play a significant role in helping businesses implement the new system and solve operational challenges. He also stressed the need for easy-to-use, integrated systems that connect e-commerce platforms, point of sales, and accounting software to streamline processes. He advocated for the importance of data hubs or middleware to facilitate integration across different systems, rather than relying on ERP or accounting software to serve this function. This approach would ensure more efficient data management and system connectivity, enhancing overall business operations.

Vincent mentioned that e-invoicing could offer businesses opportunities beyond compliance, such as enhancing customer relationship management (CRM) by driving customers to sign up for e-commerce accounts. He discussed the role of MDEC in getting software vendors to test and join the PEPPOL network, which allows for sharing invoice documents and other transactions like purchase orders and delivery orders. He highlighted the security requirements for becoming a PEPPOL accredited access point, including ISO certification and penetration testing.

Addressing security concerns, Vincent suggested exploring blockchain technology for its transparency and encryption capabilities, which prevent data modification and unauthorized access. He noted that blockchain's principles could be applied to ensure data integrity and security in the e-invoicing process. In summary, Vincent Lee emphasized the need for proactive government communication, enhanced business education, and robust integration and security systems to successfully implement e-invoicing and support Malaysia's digital tax revolution.

Mr. Shaharrudy Bin Othman
Deputy CEO (Tax Operations), Inland Revenue Board of Malaysia

Mr. Shaharrudy emphasized that e-invoicing will be mandatory for all businesses starting from July 2025. He acknowledged the short timeline from the announcement in mid-2022 to the implementation, and encouraged businesses to embrace the change. Recognizing the challenges businesses face in adapting to e-invoicing, he assured that support is available through various engagements and resources, including an e-invoice microsite. Businesses are encouraged to reach out for assistance.

The initial phase focused on larger businesses, but the current phase is dedicated to helping micro, small, and medium-sized enterprises (MSMEs). He appreciated the support from software providers in aiding MSMEs, noting the different challenges they face compared to larger businesses. Shaharrudy linked the e-invoicing initiative to broader economic growth and the need to capture tax revenues from all segments, including the shadow economy. He stressed the importance of everyone paying their fair share of taxes to benefit the country and economy.

He described the transition from Tax Admin 1.0 (manual, paper-based systems) to Tax Admin 2.0 (e-filing and self-assessment) and now to Tax Admin 3.0, which emphasizes real-time compliance and the use of technology. E-invoicing is a key part of this evolution, enabling compliance by design from the start. E-invoicing serves as a deterrent against internal fraud within businesses by requiring transaction validation with a third party (IRBM). This ensures transparency and control, particularly in larger companies. He acknowledged that many SMEs already have a digital front-end (e.g., accepting payments via QR codes). E-invoicing would integrate the back-end processes, creating a seamless digital workflow.

E-invoicing provides valuable data that can aid government decision-making and targeting aid, as demonstrated by countries like Brazil during the pandemic. The data from e-invoicing can help in economic planning and policy formulation. The ultimate goal is to streamline tax compliance, making it as simple as reviewing and signing off tax returns, as seen in countries like Hungary. While complete elimination of tax evasion is unlikely, e-invoicing makes it significantly harder to evade taxes.

He assured that stringent security measures are in place, including multiple layers of protection, authentication, data encryption, and compliance with industry standards and government guidelines. Collaboration with the National Cyber Security Agency (NACSA) ensures the system's robustness. Mr. Shaharrudy concluded by emphasizing the necessity of e-invoicing for enhancing tax compliance and supporting economic growth, encouraging businesses to adopt the system and take advantage of the available support and resources.

Mr. Bryan Cheong
Founder of Syntax Technologies Sdn. Bhd.

Initially, LHDN was supposed to notify suppliers and customers about e-invoice validations, but this feature has been removed. Now, businesses need to rely on their system to know if an e-invoice is validated. Bryan suggested asking service providers how the system will inform users about the validation status—whether it requires checking each invoice individually or if there will be a reporting or filtering system.

Handling B2C transactions is challenging because customers may request an invoice later in the month. Businesses need to track original cash sales or receipts and convert them to normal e-invoices within the same month. Bryan advised asking service providers how their system will manage this process and ensure consolidated e-invoices are submitted within the required timeframe.

With cloud-based accounting systems, if a subscription ends, access to past data may be lost. Bryan recommended asking service providers about data backup and export options. Specifically, how can businesses retain useful, accessible records even if they stop using the service? He highlighted the problem of raw data formats not being useful for accounting purposes. Bryan urged the media to include Q&A sections to help MSMEs with practical application of e-invoicing in their daily operations. He noted that despite available resources, many businesses still have questions. He uses platforms like TikTok and Facebook to address these queries, receiving over 100 questions daily from SMEs.

E-invoicing affects everyone, not just businesses. For example, it can prevent misuse of receipts for personal tax relief claims, as each transaction will be tracked uniquely. He acknowledged the difficulties for micro businesses, like market vendors, in implementing e-invoicing on the spot. He suggested that integrating e-wallet transactions into the e-invoicing system could simplify the process, making it easier for small vendors to comply.

E-invoicing can help reduce fraud and scams. For example, consumers can ensure they receive an e-invoice before making a payment, which can be verified through LHDN's system. This practice could significantly reduce fraudulent transactions. Bryan expressed confidence in LHDN's security preparations, encryption, and backend management. He reassured consumers and taxpayers that the challenges foreseen with e-invoicing will be effectively addressed by LHDN and their technical team.

Bryan emphasized the importance of understanding and preparing for e-invoicing. He highlighted practical steps businesses should take to ensure a smooth transition and the broader benefits for compliance, fraud prevention, and efficient tax collection. He also stressed the need for continuous support and education for MSMEs to successfully navigate the new system.

PANEL DISCUSSION 2 - TAX TRANSPARENCY: FACILITATING ACCESSIBILITY AND OPENNESS OF INFORMATION ON TAX POLICIES, OBLIGATIONS, AND PRACTICES IN MALAYSIA

Mr. Thenesh Kannaa
Executive Director of TRATAX Sdn Bhd

Mr. Thenesh Kannaa emphasized the increasing importance of tax transparency on a global scale, particularly with the advent of public Country-by-Country Reporting (CBCR). Starting from the financial year 2025, multinational corporations (MNCs) with global turnovers exceeding 750 million euros will be required to disclose details about their operations in each country they operate in. This includes data on revenue, profits, taxes paid, and employee headcounts, which will be made publicly available on their websites. This transparency aims to allow consumers and journalists to scrutinize these corporations, potentially leading to consumer boycotts if companies are perceived as not paying their fair share of taxes.

He also highlighted the evolution of government-to-government (G-to-G) tax information exchange, moving away from the old "no fishing expedition" rule to automatic information exchanges under initiatives like the Common Reporting Standard (CRS). This development has significantly enhanced tax transparency by enabling automatic sharing of bank account details and other financial information, thereby curbing international tax evasion. The OECD has played a crucial role in this shift, striving to strike a balance between transparency and the historical banking secrecy that some jurisdictions, like Switzerland and Singapore, once upheld.

Additionally, Mr. Thenesh discussed the necessity of transparency in tax policies and operational guidelines. He pointed out that Malaysia has been consistent in providing annual public rulings, which help create tax certainty and ensure taxpayers understand government positions on various tax matters. However, the debate over publishing private and advance rulings persists, with concerns about revealing trade secrets versus the benefits of transparency. Ensuring taxpayers have access to clear guidelines is essential for fostering a transparent tax environment.

Mr. Thenesh also called for long-term tax policy roadmaps to provide clear direction, despite the challenges posed by frequent election cycles. Such roadmaps are vital for taxpayers and investors to understand the future landscape of tax obligations and policies. Finally, Mr. Thenesh underscored the broader benefits of tax transparency, such as reducing excessive tax competition, discouraging aggressive tax planning, and promoting voluntary compliance. He noted the evolving perception of transfer pricing, which has shifted from a tax avoidance strategy to a compliance requirement. This change, along with Malaysia's extensive double tax agreements, supports the use of bilateral advance pricing arrangements (BAPAs) to provide certainty and attract investments. Overall, his insights highlight the ongoing global effort to balance transparency with confidentiality in the realm of taxation, aiming to create a fairer and more predictable tax environment.

En. Ibrahim Bin Abdullah
Head of International Tax Policy Section I, Tax Division of the Ministry of Finance Malaysia

En. Ibrahim Bin Abdullah emphasized Malaysia's robust commitment to international tax transparency standards, highlighting active participation in initiatives like the OECD Global Forum since 2009. He underscored the significance of Exchange of Information (EOI) mechanisms in combating international tax evasion, noting the shift away from traditional banking secrecy towards automatic exchanges under frameworks like the Common Reporting Standard (CRS). These efforts have significantly enhanced global tax transparency by facilitating the sharing of financial information across jurisdictions, leading to substantial additional tax revenues and fostering trust between governments and taxpayers.

In addition to the Global Forum, Malaysia has engaged as an associate member in the OECD Inclusive Framework, focusing on addressing Base Erosion and Profit Shifting (BEPS). En. Ibrahim detailed Malaysia's commitment to implementing minimum standards under Actions 5, 6, 13, and 14 of the BEPS Project. These actions aim to counter harmful tax practices, prevent treaty abuse, enhance transfer pricing documentation, and improve dispute resolution processes. The implementation of these standards not only ensures compliance with international norms but also enhances transparency in Malaysia's tax policies and practices.

En. Ibrahim also discussed Malaysia's legal framework supporting tax transparency, including the network of double taxation agreements and recent agreements like the Foreign Account Tax Compliance Act (FATCA) signed in 2021. These agreements provide the basis for exchanging information on financial accounts with jurisdictions like the United States, contributing to a more transparent global financial system. He emphasized the importance of maintaining stringent standards to ensure the confidentiality and security of taxpayer information while facilitating effective information exchanges.

Looking ahead, En. Ibrahim highlighted Malaysia's upcoming challenges and priorities in enhancing its tax transparency framework. This includes addressing areas for improvement identified in past Global Forum assessments, such as enhancing the availability of beneficial ownership information and ensuring timely responses to information requests. He stressed the ongoing need for legislative amendments and inter-agency collaborations to strengthen Malaysia's compliance with international tax transparency standards and maintain its largely compliant status in future assessments.

Overall, En. Ibrahim's presentation portrayed Malaysia's proactive stance in adopting and implementing international tax transparency standards, illustrating its commitment to fostering a fair and equitable global tax environment while ensuring compliance with evolving global norms and standards.

Pn. Roszita Binti Dim
Deputy Director of Customs, International Taxation Section, Internal Tax Division, Royal Malaysian Customs Department (RMCD)

Pn. Roszita Binti Dim emphasized the Malaysian Customs Department's (RMCD) approach to tax transparency, focusing on two key aspects: domestic actions and international company registrations under the Service Tax Act. Domestically, RMCD strives to balance transparency with confidentiality, ensuring that essential tax policies are accessible to the public while respecting confidentiality on sensitive matters, which are transformed into publicly shareable tax policy documents after obtaining consent from the Ministry of Finance (MOF). This ensures that stakeholders can access crucial information via RMCD's comprehensive guidelines and website, promoting awareness and compliance with tax regulations, including recent updates such as the service tax rate adjustment from 6% to 8%.

Internationally, RMCD manages registrations for overseas companies under the Service Tax Act, which are crucial for Malaysians to verify if these companies are registered when receiving taxed services. This registration status can be checked through RMCD's lookup and status verification tools, facilitating transparency in tax compliance for cross-border services provided to Malaysians. Pn. Roszita also highlighted RMCD's efforts to combat corruption and smuggling, emphasizing fair treatment and effective customs procedures to enhance revenue collection. Additionally, she mentioned RMCD's international engagement, such as discussions on customs valuation and its interaction with transfer pricing, underscoring the department's role in ensuring accurate tax declarations and preventing tax underpayment related to cross-border transactions.

SPECIAL LUNCHEON ADDRESS

YBhg Datuk Dr. Abu Tariq Bin Jamaluddin
CEO/ Director General of Inland Revenue Board Malaysia

In his special luncheon address, Datuk Dr. Abu Tariq Bin Jamaluddin conveyed the gratitude of the Director General of Customs, YBhg Dato' Anis Rizana Binti Mohd Zainuddin, to all taxpayers and attendees, celebrating the record-breaking tax collection of RM 183 billion in 2023. He emphasized the theme of the forum, "Bridging the Taxation Divide: Building a Sustainable Future for Malaysia," and introduced HASIL's journey towards Tax Administration 3.0, highlighting the importance of digitizing tax administration to align with the rapid technological advancements.

Datuk Dr. Abu Tariq elaborated on the four key areas of focus under the Tax Administration 3.0 initiative: digital transformation, taxpayer services and compliance, cooperative compliance, and international cooperation. He explained how these areas aim to enhance tax compliance, simplify processes, foster collaboration between tax authorities and taxpayers, and improve global cooperation to combat tax evasion.

He also discussed the implementation of e-invoicing, set to begin in stages from August 1, 2024, initially involving 5,000 taxpayers. Dr. Abu Tariq addressed concerns about the timeline and penalties, assuring that HASIL will provide assistance and leniency on a case-by-case basis. He highlighted the focus on seven key industries for compliance and the introduction of tools like the MyInvoice portal and app to ease the transition, especially for MSMEs.

Dr. Abu Tariq then covered the Tax Corporate Governance Framework (TCGF), aimed at building better relationships with taxpayers based on trust and mutual understanding. He outlined the principles of TCGF and its benefits in promoting tax compliance, reducing tax risks, and ensuring transparent tax reporting. He encouraged participation from large companies and compliant taxpayers, noting the success of the pilot project launched in 2022.

Lastly, he reviewed the Special Voluntary Disclosure Program 2.0, which exceeded its targets, and the overall tax to GDP ratio improvements. Despite the achievements, he emphasized the need for continued efforts to enhance tax collection and compliance. He acknowledged the challenges posed by the global economic outlook and highlighted HASIL's strategies to increase compliance activities and enforce tax regulations, aiming to build a better and sustainable Malaysia.

PANEL DISCUSSION 3 - REFLECTION ON THE IMPACT AND IMPLICATIONS OF TAXATION ON THE ECONOMY

Mr. Zen Chow
Executive Director and Tax Practice Leader in YYC Group

Mr. Zen Chow provided comprehensive insights into the latest developments in Malaysian taxation for the year 2024. He began by discussing the implementation of the Capital Gains Tax (CGT), effective from January 1, 2024, with an initial two-month exemption period aimed at easing the transition. The CGT applies primarily to companies, LLPs, trusts, and corporate societies, targeting gains from the disposal of shares in unlisted companies and certain foreign-incorporated entities with substantial Malaysian interests. This tax initiative is expected to generate significant revenue, projected at RM 800 million, contributing to Malaysia's fiscal strategy to diversify revenue sources.

Another pivotal topic addressed by Mr. Chow was the High Value Goods Tax (HVGT), originally slated for introduction on May 1, 2024, but postponed indefinitely pending further announcements. The HVGT seeks to impose taxes on luxury items based on their value rather than brand names, potentially yielding RM 700 million in revenue. The delay in its implementation reflects ongoing considerations regarding economic impacts and administrative readiness. Meanwhile, the Service Tax underwent notable adjustments, including a 2% increase from 6% to 8% effective March 1, 2024. This adjustment was accompanied by an expansion in the scope of taxable services, with projected revenues reaching RM 3.45 billion. However, challenges persist among businesses, particularly in adapting to dual tax rates and navigating expanded tax obligations.

Mr. Chow also delved into the Low Value Goods Tax (LVGT), which came into effect on January 1, 2024, aiming to capture revenue from goods of lower value, contributing an anticipated RM 200 million to government coffers. The introduction of LVGT complements Malaysia's broader strategy to enhance indirect tax revenue streams while ensuring equitable tax burdens across various consumption levels. Moreover, the session addressed the updated Transfer Pricing Rules 2023, emphasizing stringent compliance requirements such as contemporaneous documentation before tax return submission and a narrower arm's length range (37.5% to 62.5%). These changes underscore Malaysia's commitment to aligning with international standards and enhancing tax transparency and fairness.

Lastly, Mr. Chow highlighted ongoing discussions and considerations surrounding proposed exemptions under the CGT regime for IPOs, internal restructuring, and venture capital activities. These exemptions, if implemented, aim to mitigate potential adverse impacts on investment activities and market dynamics, fostering a conducive environment for economic growth. Overall, Mr. Zen Chow's session underscored Malaysia's proactive approach in adapting its tax framework to current economic realities while balancing revenue needs with fostering business competitiveness and economic resilience in the global market.

Mr. Chong Mun Yew
Council Member of Chartered Tax Institute of Malaysia & Executive Director of Tax at Crowe KL Tax Sdn Bhd

Mr. Chong articulated several key perspectives. Firstly, he emphasized the perspective that paying taxes signifies a privilege, as it predominantly affects the wealthy who have the means to contribute financially to the nation. He contrasted this with those less fortunate who aspire to pay taxes but lack the financial capacity to do so. Mr. Chong underscored the inevitability of tax policies like the Sales and Service Tax (SST), High Value Goods Tax (HVGT), and Capital Gains Tax (CGT), highlighting their role as crucial instruments directed by governmental directives from the Ministry of Finance to enhance revenue collection.

Secondly, Mr. Chong acknowledged the inherent imperfections within any tax system globally, including Malaysia's. He commended efforts by the Inland Revenue Board (IRB) and Customs Department to manage complexities such as cascading effects in SST and the intricate legal drafting required for CGT. Despite challenges, he recognized the importance of these taxes in funding national development, citing concerns over Malaysia's significant national debt and the necessity to elevate the tax-to-GDP ratio for sustainable economic growth.

Lastly, Mr. Chong addressed Malaysia's economic competitiveness, beyond taxation policies, stressing the importance of currency strength. He noted instances where Malaysia's affordability compared favorably to neighboring countries like Singapore, potentially attracting business and seminars due to lower costs. He advocated for enhancing Malaysia's industrial capabilities, possibly through vocational education and attracting foreign investments (FDI), to nurture a skilled workforce capable of supporting economic advancement and attracting higher-value jobs.

In summary, Mr. Chong's reflections highlighted the intricate balance between tax policies, economic development, and national competitiveness, underlining the importance of effective fiscal strategies in sustaining Malaysia's economic trajectory amidst global dynamics.

Prof Dr. Zuraeda Ibrahim
Professor in Accounting (Systems and Assurance), Universiti Teknologi MARA

Prof Dr. Zuraeda Ibrahim highlighted several key strategies and considerations for Malaysia to balance increased tax revenue with maintaining a competitive business environment. Firstly, she stressed the importance of raising productivity to drive economic growth, cautioning against overburdening taxpayers with excessive tax hikes. She advocated for greater market competition and a more open trade and investment policy framework to stimulate the economy.

Prof Dr. Zuraeda emphasized the need for a balanced tax structure, citing the 50:50 ratio recommended by the OECD between direct and indirect taxes. She supported the reintroduction of the Goods and Services Tax (GST) as an efficient consumption tax model, despite previous challenges with its implementation and public perception. She underscored the importance of addressing public perception and compliance issues through education and simplifying the tax system, particularly for small businesses.

Additionally, she discussed behavioral factors influencing taxpayer compliance, highlighting economic pressures, social norms, and the need for fair taxation policies that enhance purchasing power. Prof Dr. Zuraeda advocated for clear taxpayer obligations, social dialogue, and effective enforcement mechanisms to foster community confidence in taxation policies. Overall, her insights underscored the delicate balance Malaysia must achieve between revenue generation and maintaining a conducive environment for domestic and foreign businesses amidst global competitiveness challenges.

PANEL DISCUSSION 4 - EXAMINING THE TAX POLICIES OF TOMORROW

Mr. Marcus Tan
Executive Director, Tax in Baker Tilly Malaysia

Mr. Marcus Tan provided an insightful overview of tax policies in the context of Public-Private Partnerships (PPPs) and broader economic and social considerations. He emphasized the importance of collaboration between the public and private sectors to positively impact the economy, society, and the nation. Tan defined PPPs as collaborative efforts between government and private sector entities aimed at achieving mutual benefits, highlighting that PPPs typically involve the private sector taking on financing burdens, thus alleviating financial pressure on the government. He discussed the need for supportive tax policies to enhance PPPs, particularly in managing the significant financing costs borne by private entities. Tan suggested that tax incentives could help mitigate these costs, such as exemptions or allowances for capital contributions and intercompany transactions. He also addressed the complexities of transfer pricing and potential tax issues related to intercompany loans and financing, proposing that the government consider exemptions or special tax treatments for PPP projects to avoid post-event tax complications.

Furthermore, Tan proposed expanding tax incentives to encourage corporate and individual contributions to Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) initiatives. He highlighted existing incentives for SMEs and suggested that more could be done to support individuals' contributions to societal well-being. Additionally, he discussed the impact of e-invoicing on compliance for individuals and businesses, noting the importance of preparing for these requirements to ensure long-term sustainability. Tan underscored the need for strong political will to drive tax reform and innovation, referencing recent tax introductions like the capital gains tax and the upcoming global minimum tax. He concluded by advocating for efficient tax systems, such as GST, which could enhance productivity and reduce business costs, suggesting that e-invoicing could serve as a precursor to such reforms.

Ms. Farah Rosley
Malaysia Tax Leader, Partner, Ernst & Young Tax Consultants Sdn. Bhd.

Ms. Farah Rosley began her session by expressing her enthusiasm for tax policy and reform, emphasizing the importance of forward-thinking in navigating the country's future economic phases. She acknowledged the unprecedented challenges posed by COVID-19, supply chain disruptions, and geopolitical tensions, which have increased the focus on tax and fiscal measures to bolster government revenues. These circumstances have underscored the need for adaptable and innovative tax policies to address both immediate fiscal requirements and long-term economic stability.

She then identified four key drivers shaping the development of tax policies globally. The first driver is fiscal policy objectives, which include controlling inflation, increasing revenue, and reducing national debt. Rosley noted the significant rise in tax revenue collection from about 80 billion ringgit in 2007-2008 to almost 200 billion ringgit in recent years, with a growth rate surpassing GDP growth. This increase highlights the government's efforts to meet fiscal needs through enhanced tax measures, such as reducing subsidies and introducing new taxes.

The second driver is compliance with international tax standards. Rosley highlighted the shift from domestic to global tax considerations, such as the implementation of the OECD's Base Erosion and Profit Shifting (BEPS) initiatives and the upcoming global minimum tax. She emphasized the importance of transparency and real-time data in ensuring compliance, facilitated by advancements in technology like e-invoicing. This digitalization of tax administration aims to simplify compliance and enhance the efficiency of tax systems.

The third driver is the alignment of tax policies with social and political goals. Rosley discussed how tax measures can influence social behavior, promote economic growth, and address wealth inequality. She pointed to the role of taxes in supporting Sustainable Development Goals (SDGs), such as implementing carbon taxes and incentives for green practices. These measures are designed to encourage environmentally sustainable actions and contribute to the broader goal of equitable wealth distribution.

Finally, Rosley addressed the impact of technological advancements on tax administration. She explained that digital transformation is crucial for reducing the compliance burden on taxpayers and supporting them in adhering to complex tax regulations. She noted that many countries, including Malaysia, are moving towards real-time tax reporting and automated tax deductions, which streamline the tax process. Rosley concluded by emphasizing the need for balanced tax reforms that ensure fair wealth redistribution while maintaining the contributions of the wealthy to the economy. She stressed the ongoing evolution in taxing digital and shadow economies, predicting that what is currently considered emerging trends will soon become commonplace in tax policy.

Ms. Eunice Hooi
Managing Director of Tax, Asia at Boardroom Corporate & Advisory Services Pte Ltd

Ms. Eunice Hooi focused on the OECD's two-pillar approach to addressing base erosion and profit shifting, with particular emphasis on Pillar 2's implementation in Malaysia. She briefly mentioned Pillar 1, which reallocates taxation rights to market jurisdictions where multinational corporations (MNCs) have significant consumer-facing activities. This ensures these jurisdictions receive a fair share of tax revenue reflecting the economic activity within their borders.

Turning to Pillar 2, Hooi explained that it introduces a global minimum tax rate of 15%, aiming to prevent profit shifting to low-tax jurisdictions and curb tax competition among countries. She highlighted how countries, including Malaysia and Singapore, have engaged in tax competition by lowering corporate tax rates to attract foreign direct investment, leading to a "race to the bottom" phenomenon. Pillar 2 aims to mitigate this by ensuring MNCs pay a minimum tax rate, regardless of where they operate.

In the Malaysian context, Hooi noted that the current corporate tax rate of 24% is above the OECD's proposed minimum rate. However, various tax incentives and exemptions in Malaysia could reduce the effective tax rate for MNCs below 15%. She discussed the potential impacts of Pillar 2 on Malaysia, including positive outcomes like reducing harmful tax competition, leveling the playing field for businesses, and increasing tax revenue. These revenues can be reinvested in public services, infrastructure, and economic development.

Hooi also addressed the challenges associated with implementing the global minimum tax. These include increased administrative burdens for tax authorities and compliance costs for MNCs, who may need to invest in new systems to track their effective tax rates. She highlighted the risk of double taxation due to different interpretations of the rules, which could impact domestic investment and economic growth. She suggested that MNCs reassess and potentially restructure their operations and tax strategies to align with the new tax landscape.

Lastly, Hooi discussed the alignment between the global minimum tax and transfer pricing policies, emphasizing the importance of transparency and consistent reporting. She pointed out the potential for double taxation and the need for robust tax governance frameworks to ensure compliance. Using a case study involving a Malaysian parent company and a Singapore subsidiary, she illustrated the complexities and opportunities presented by the interaction of these tax frameworks. She also mentioned e-invoicing, noting that it will impact both businesses and individuals by increasing transparency and allowing tax authorities to trace transactions more effectively.

CLOSING ADDRESS

YBhg Dato' Anis Rizana binti Mohd Zainudin
Director General of Customs

Represented by
YBhg Dato' Aidid Bin Tajuddin
Deputy Director General of Customs

In her closing address on behalf of the Director General of Customs, YBhg Dato’ Anis Rizana Binti Mohd Zainuddin, Dato’ Aidid bin Tajuddin emphasized the importance of taxation in shaping Malaysia's present and future. She noted that taxation is not only about revenue collection but also about creating a fair and transparent system that supports individuals, businesses, and sustainable development. As an implementation agency, the Royal Malaysian Customs Department (RMCD) plays a vital role in facilitating international trade, safeguarding borders, and fostering economic prosperity, while ensuring that tax policies remain under the purview of the Ministry of Finance.

Dato’ Aidid highlighted RMCD's commitment to trade facilitation as a top priority, recognizing the need for a seamless and efficient customs clearance process to support business growth and economic prosperity. The department is investing in modernizing customs procedures through technology and innovation, such as AI scanners, to streamline processes, reduce paperwork, and expedite cargo clearance. Programs like the ASEAN Single Window (ASW) and Authorized Economic Operator (AEO) are empowering businesses to navigate international trade with ease and confidence.

Security remains a critical concern for RMCD. Dato’ Aidid underscored the importance of securing Malaysia's borders against illicit trade, smuggling, and terrorism. The department is enhancing risk management, intelligence-sharing, and international collaboration to combat transnational crime and protect the nation’s security and integrity. This dual focus on facilitation and security ensures a balanced approach to customs administration. Transparency and accountability are fundamental principles for RMCD. Dato’ Aidid stressed the need to build trust and confidence among stakeholders, including businesses, government agencies, and the public. By promoting transparency in processes, engaging in meaningful dialogue with stakeholders, and upholding high standards of integrity, RMCD aims to foster an environment of openness, fairness, and accountability in customs operations.

Finally, Dato’ Aidid reiterated RMCD's commitment to tax transparency and fairness. The department is investing in digital platforms and tools to make tax information more accessible and understandable for all Malaysians. She emphasized the importance of a progressive tax system and mechanisms for accountability and transparency in tax collection and expenditure management. By enhancing public reporting, independent auditing, and citizen engagement, RMCD is working towards a fair and transparent tax system that responds to the needs of all Malaysians, paving the way for a brighter and more prosperous future for the nation.