



MTPF

MALAYSIA TAX POLICY FORUM

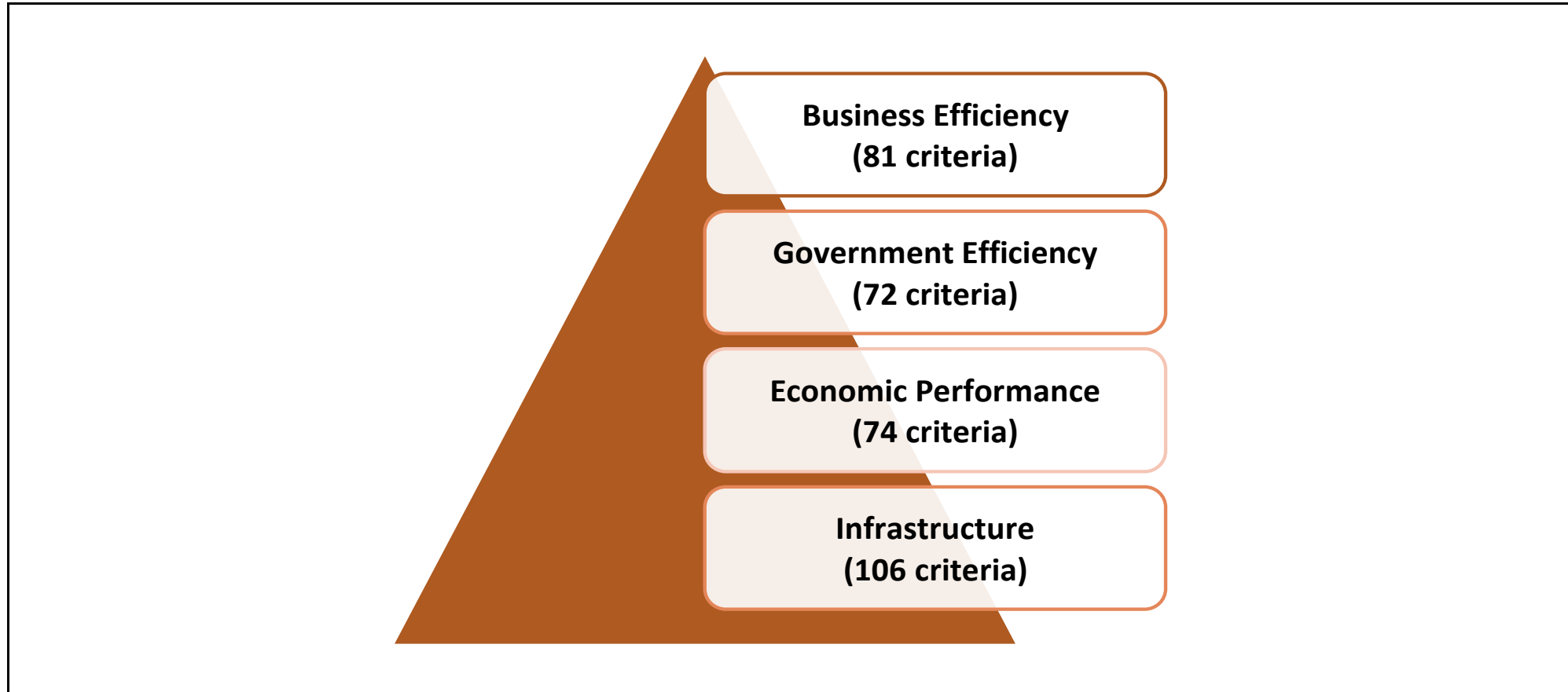
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How can Malaysia balance the need for increased tax revenue with the goal of maintaining a competitive and attractive environment for both domestic and foreign businesses?

Factors Measured for the IMD World Competitiveness Ranking



Source: IMD World Competitiveness Yearbook 2022 (pp. 310-500)

Competitiveness Factors and Sub-factors

FACTORS

Economic Performance

Macro-economic evaluation of the domestic economy, employment trends and prices.

Government Efficiency

Extent to which government policies are conducive to competitiveness.

Business Efficiency

Extent to which the national environment encourages enterprises to perform in an innovative, profitable and responsible manner.

Infrastructure

Extent to which basic, technological, scientific and human resources meet the needs of businesses.

SUB-FACTORS

Domestic Economy

International Trade

International Investment

Employment

Prices

Public Finance

Tax Policy

Institutional Framework

Business Legislation

Societal Framework

Productivity

Labor Market

Finance

Management Practices

Attitudes and Values

Basic Infrastructure

Technological Infrastructure

Scientific Infrastructure

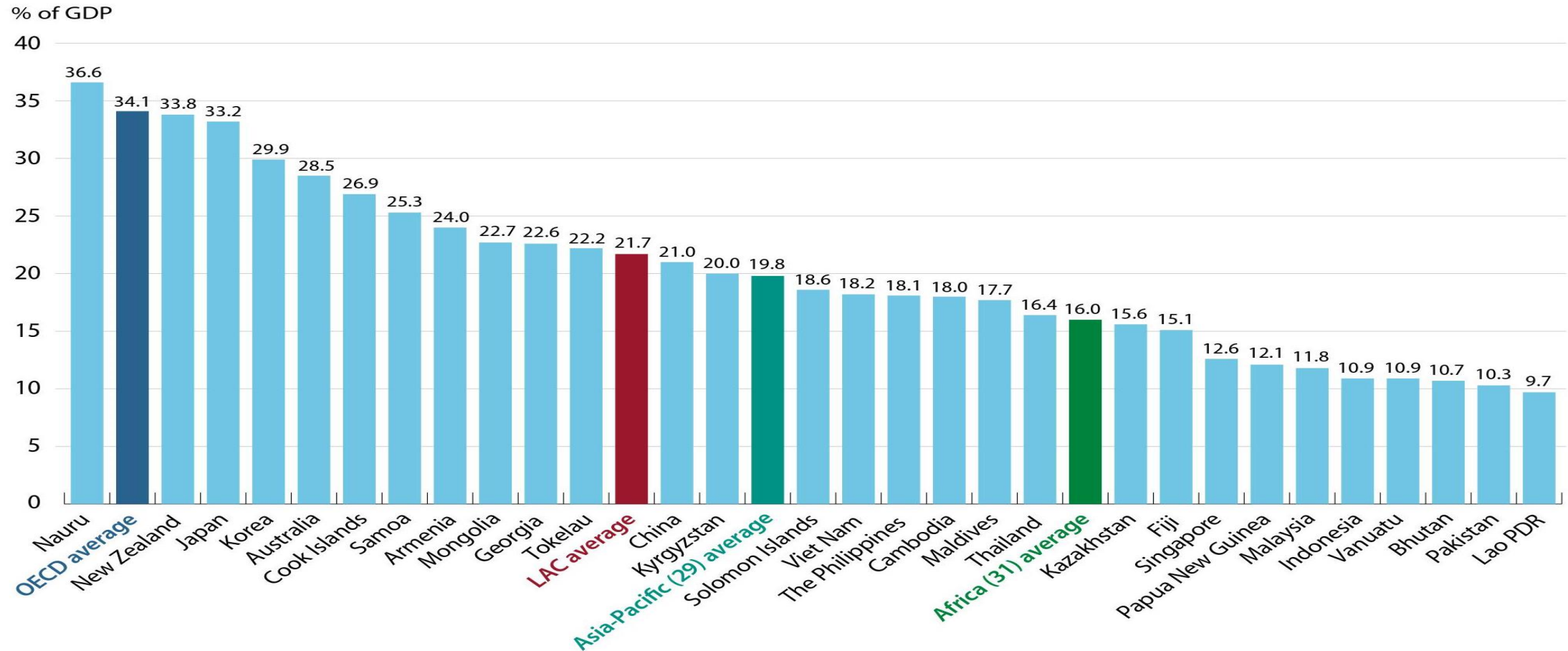
Health and Environment

Education

Tax Policy Criteria

2.2.01	Collected total tax revenues
2.2.02	Collected personal income tax
2.2.03	[B] Collected corporate taxes
2.2.04	[B] Collected indirect tax revenues
2.2.05	[B] Collected capital and property taxes
2.2.06	[B] Collected social security contribution
2.2.07	Corporate tax rate on profit
2.2.08	Consumption tax rate
2.2.09	Employer social security tax rate
2.2.10	Employee social security tax rate
2.2.11	[S] Real personal taxes

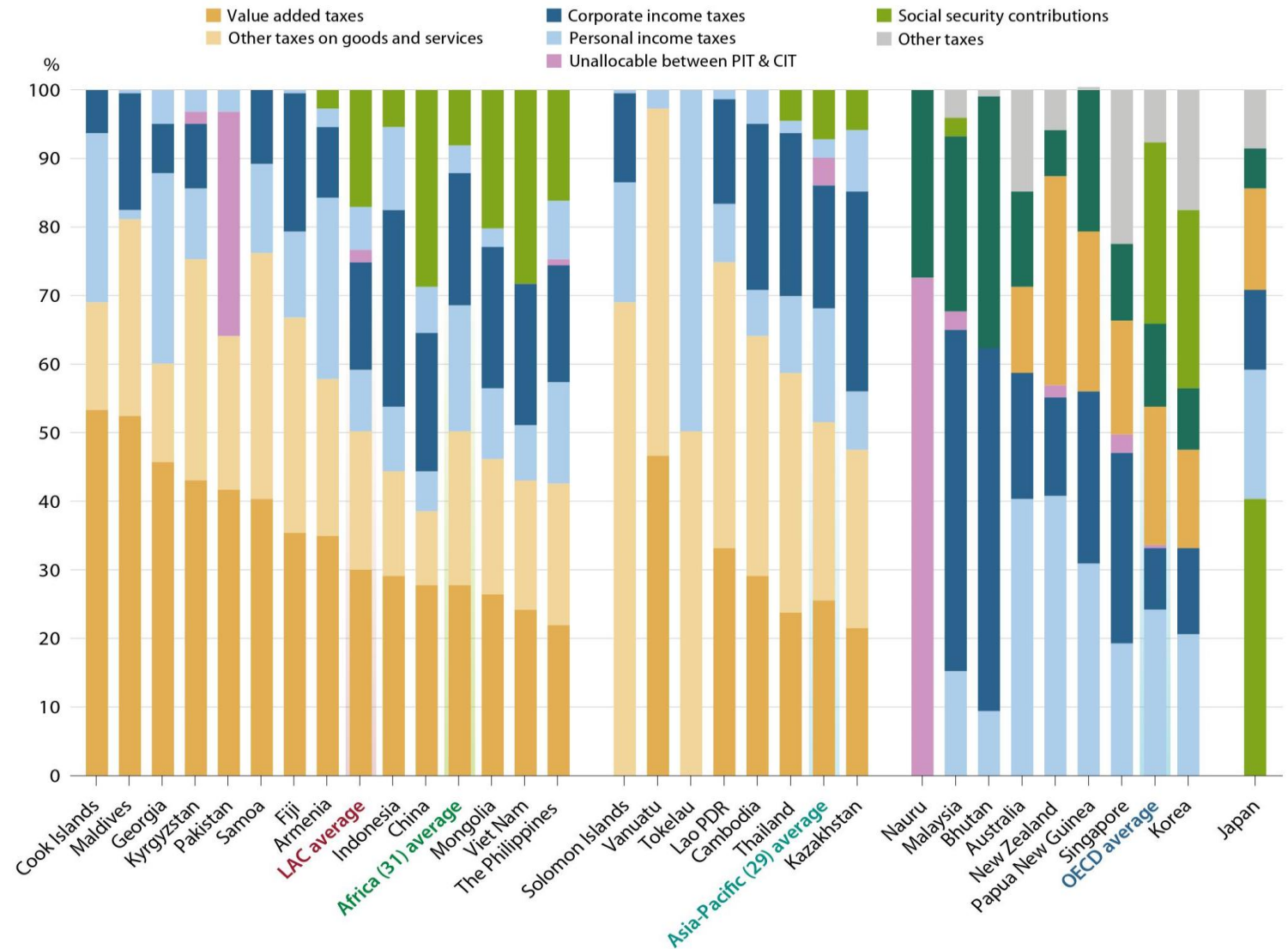
Tax-to-GDP ratios in Asian and Pacific economies (total tax revenue as % of GDP), 2021



Note: 2020 data are used for the Africa (31) average, Australia and Japan as data for 2021 are not available.

Source: OECD (2023), *Revenue Statistics in Asia and the Pacific 2023*.

Tax structures as a percentage of total taxation (2021)



Notes: The averages for Africa (31 countries), for Asia-Pacific (29 economies), for LAC (25 Latin American and Caribbean countries) and for the OECD (38 countries) are unweighted. Australia, Japan, Korea and New Zealand are also part of the OECD (38) group. Data for Australia, Japan, Korea, New Zealand and the OECD average are taken from *Revenue Statistics 2022* (OECD, 2022). 2020 data are used for the Africa (31) average, Australia, Japan and the OECD average.

Source: OECD (2023), *Revenue Statistics in Asia and the Pacific 2023*.

Increased tax revenue, Maintaining a competitive and attractive environment



Raising productivity growth is the key to building a more competitive economy



A more open trade and investment policy framework is required



Greater market competition would provide economy-wide benefits



Taxes structured should be at 50:50 between direct and indirect taxes.

Steps to improve public perception and compliance with new tax policies, ensuring that they are seen as fair and beneficial to society as a whole

Looking behind symptoms to causes: Analysing compliance behaviour



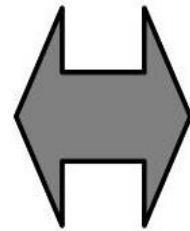
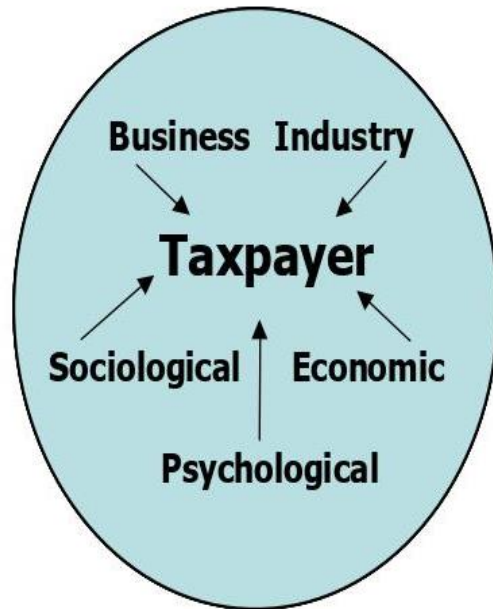
Understanding what influences taxpayer behaviour



Understanding what influences small business behaviour

A Spectrum of Taxpayer Attitudes to Compliance

Factors influencing taxpayer behaviour



Attitude to compliance

Have decided not to comply

Don't want to comply,
but will if we pay attention

Try to but don't
always succeed

Willing to do
the right thing

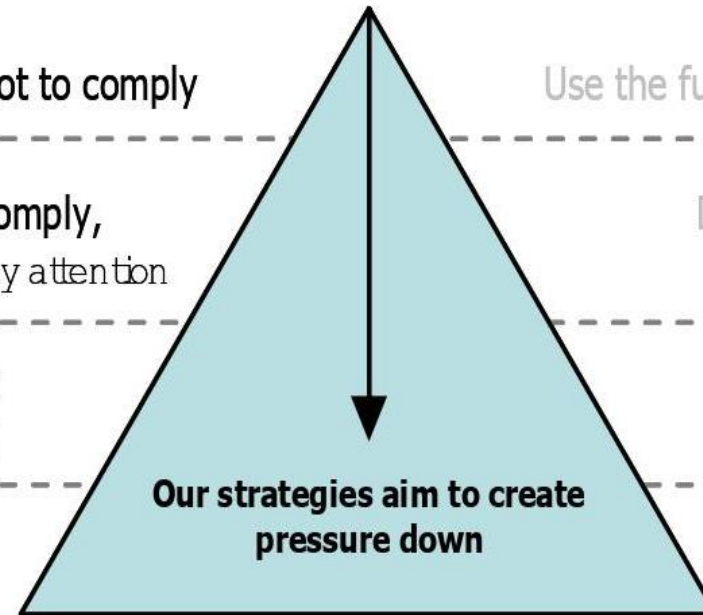
Compliance strategy

Use the full force of the law

Deter by detection

Assist to comply

Make it easy



Source: Adopted from *OECD Guidance Note (2004, pp. 41)*

The Disengaged

Resisters

Taxpayer
Attitudes

Triers

Supporters

Understanding what influences taxpayer behaviour

- Economic factors (financial burden, compliance cost, disincentives, incentives)
- Behavioural factors (individual differences, perceived inequity, perception of minimal risks, risk taking)
 - Main Reasons for Non-compliant Behaviour:
 - Equity – perceived fairness of a taxation system
 - Opportunity for non-compliance
 - Individual differences
 - Social Norms
 - Dissatisfaction with revenue authorities

Understanding what influences small business behaviour



12 Guiding principles of good tax policy: A framework for evaluating tax proposals

Equity and
fairness

Certainty

Convenience
of payment

Effective tax
administration

Information
Security

Simplicity

Neutrality

Economic
growth and
efficiency

Transparency
and visibility

Minimum tax
gap

Accountability
to taxpayers

Appropriate
government
revenues

What need to be done?

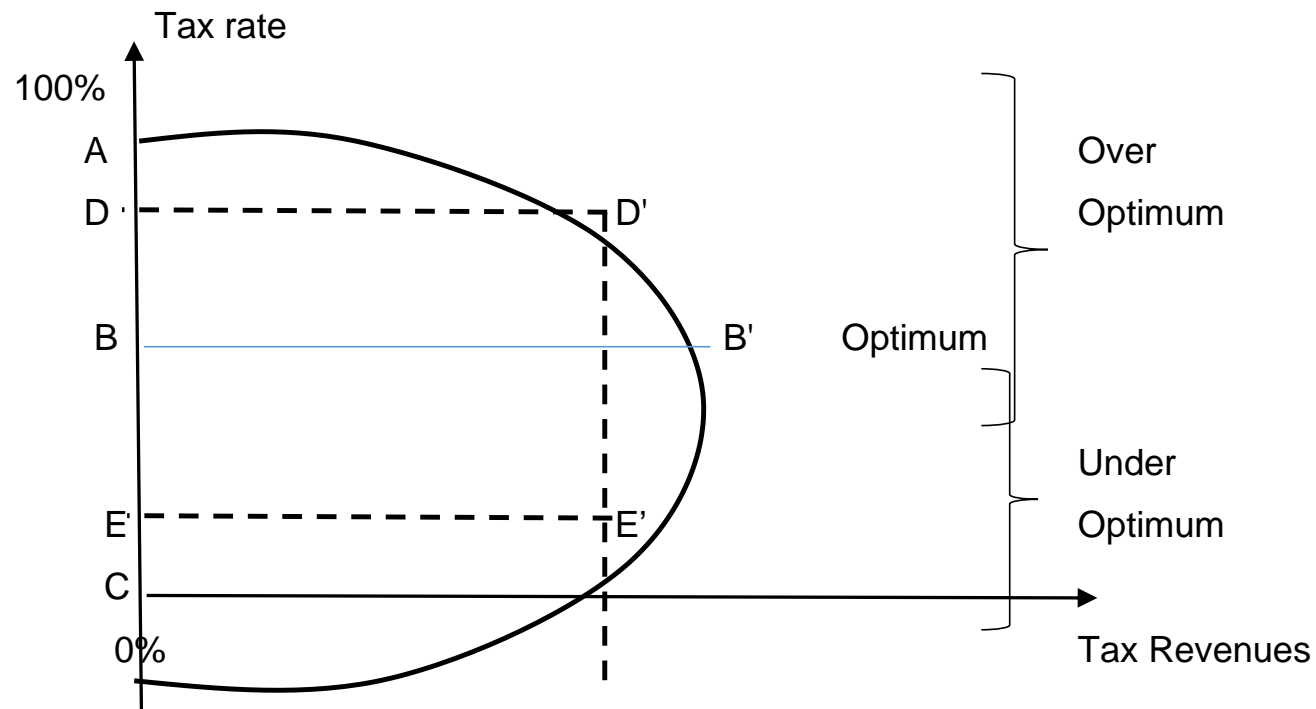
- A clear mandate
 - Make taxpayers obligations clear
 - Secure high-level political commitment and buy-in from all stakeholders
 - Building community confidence & partnership
 - Act with fairness and integrity
 - Flexible & customised approach
 - Provide incentives
 - Bolster integrity through identifier, withholding and reporting system
- Recognising the effect of the tax system – Simplify the tax system and curb exemptions
 - Legislation
 - Introduce comprehensive tax administration
 - Management, Governance, Human Resource
 - Establishment of larger taxpayer offices
 - Smart use of information management systems
 - More modern registration, filing and management of payment obligations
 - Enhanced audit and verification program

What need to be done?

- Escalating the severity of enforcement
 - Exercise sanctions when appropriate
 - Revenue authorities should communicate effectively the use of their powers (successful prosecutions, reports of tribunal decisions)
 - Bogus Tax Agents
- Reform indirect taxes on goods and services (competitiveness advantage)
- Demonstrates effective and efficient use of resources
- Engaging stakeholders in implementation
- Ensuring effective execution

Metrics and indicators to evaluate
the effectiveness of recent tax
reforms in achieving their
intended economic and social
objectives

The Laffer Curve



Source: Laffer, A. B. (2004), *The Laffer Curve: Past, Present and Future*. *The Heritage Foundation*