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Competency of Malaysian Salaried Individuals in Relation to Tax Compliance under Self Assessment

Ern Chen Loo and Juan Keng Ho

Abstract

Salaried individuals in Malaysia will commence to comply with the self assessment system when they file tax returns on income derived in the year 2004. However, under the self assessment regime, salaried individuals need to possess some fundamental tax knowledge to file appropriate returns. This study examines white collar salaried individuals' tax knowledge, particularly in relation to chargeable income and exemptions as well as relief, rebates and tax credits that are generally available to individual taxpayers.

The findings reveal that a majority of those surveyed are not able to identify the correct year for wh

assessment and salaried individuals' knowledge in relation to chargeability to tax, exemption, joint and separate assessment for individuals as well as personal relief, rebates and tax credits that are generaR63.1u2 Tm(at a0707i718 15 ,h03 T.9837 en)Tj7.98 0 0 7

income (Kasipillai et al, 2003). Although it was found that there was a strong positive co-relationship between tax knowledge and the level of tax compliance (Kasipillai et al, 1999), however a study by Mottiakavandar et al (2003) covering taxpayers in the northern states of Peninsular Malaysia revealed that the level of tax knowledge had no effect on their non-compliance behaviour. Instead, Mottiakavandar et al (2003) found positive co-relationships between attitude towards one's own compliance with attitudes towards other taxpayers' compliance, effectiveness of the IRB and fairness of

available to those who derived taxable dividends from Malaysia. In the case of married couples, either of the spouses may opt for joint assessment, while in the event that both are silent regarding their option, separate assessment shall be applied.

OBJECTIVE OF THE STUDY

All individual taxpayers, deriving income from employment and, or from non business sources must comply with the self-assessment system in relation to income arising in and after the year 2004. Self assessed returns on income for 2004 should be filed with the IRB by 30 April 2005. In view of the impending implementation of self-assessment for salaried individuals, the objective of this study is to assess the tax knowledge and competency of salaried individuals who have been paying taxes on income derived in and prior to the year 2003, and who are likely to pay income taxes on income derived in and after the year 2004.

The focus of this study is only in relation to salaried individuals deriving income from employment and non-business sources. The individuals' tax knowledge being examined is restricted to relief, rebates and tax credits that may be available to salaried individuals who are tax residents in Malaysia, as well as knowledge on joint and separate assessment, chargeability of income and exemptions.

METHOD AND LIMITATIONS

The data for this study were obtained through a questionnaire survey cum meetings with respondents. The survey cum meetings were conducted from the month of November 2003 to January 2004.

The purpose of the meetings was to clarify the objectives of the survey and explain the contents of the questionnaire. The respondents were particularly made aware that the objective was not to solicit information pertaining to the quantum of their income or tax liabilities, but what was being solicited is basically their understanding and knowledge pertaining to personal taxation.

The respondents are salaried white collar employees who hold middle and senior administrative positions in commerce and industries located in the State of Malacca and who are literate and deriving income from employment, and may also be deriving income from other non business sources. Individuals excluded from this study are those employed in the banking, finance and insurance industries as well as professionals employed in the accounting, tax, legal and corporate secretarial professions³.

A total of 250 questionnaires were administered at random. Responses from all respondents were recorded, but only those who had paid income taxes in and prior to the year 2003 are included in this study. Those who have not paid any income tax are excluded on the assumption that these individuals would have no prior experience in personal tax matters. A total of 106 completed questionnaires are usable for analysis. The respondents are only those who exercised their employment in the vicinity of the

³ The objective of excluding these groups of individuals is that by virtue of the nature of their occupations, they need to possess adequate tax knowledge.

commercial center of Melaka Raya⁴ in the State of Malacca. Since all respondents are employed and residing in Malaysia, they qualify as resident taxpayers.

Questions to test knowledge on joint and separate assessment, chargeability of income, exemptions, relief, rebates and tax credit are based on responses of either a (1) "YES", (2) "NO" or (3) "NOT SURE" to each question in relation to these issues. Questions on relief for children are particularly in relation to the year 2003. In addition, three scenarios were designed to test the respondents' knowledge on (1 a

(2) the chargeability to tax on income remitted to Malaysia and (3) the correct year for which income from bonus should be chargeable to tax.

Scenario One: “An individual has a chargeable income of RM70,000. Using the Tax Table provided, are you able to compute his or her tax chargeable?”

Scenario Two: “An individual derived income from outside Malaysia and later remitted the income to Malaysia in the year 2004. Is the income remitted to Malaysia taxable?”

Scenario Three: “In the year 2003, an individual received an income (e.g. bonus), being arrears for the year 2001. In which year should the income (i.e. bonus) be chargeable to tax?”

For Scenario One, the chargeable income of resident individuals are chargeable to tax based on a scale rate, ranging from zero to 28%. In this survey, a copy of the tax rate table was made available to the respondents together with the given hypothetical amount of chargeable income. Only 38.68% acknowledged that they know how to use the tax rate table to determine the hypothetical tax chargeable⁷, while 33.96% acknowledged that they do not know how to compute the tax chargeable. The remaining 27.36% acknowledged that they are not sure of how to use the table.

Scenario Two is in relation to income derived from outside Malaysia and later to be remitted to Malaysia in the year 2004⁸. Effective from the year of assessment 2004, such remittance is not taxable, and only 22.64% are aware of that. It is significant to note that 52.83% of those surveyed are not sure of whether such remittance is taxable or not, while the remaining 24.53% wrongly indicate that such remittance is taxable.

For Scenario Three, the correct response should be the year of assessment 2001. Only 42.45% are able to successfully identify the correct year of assessment for which a particular income (i.e. bonus) should be chargeable to tax while 41.51% fail to identify the year of assessment correctly and 16.04% are not sure of the correct year.

The findings in relation to some other chargeable and exempted income are reported in Table 2. Nearly eight out of 10 and seven out of 10 respectively know that rental and dividend income are chargeable to tax. As for interest (on savings of less than RM100,000)⁹, only about one third know that such interest are tax exempted, while the majority are not sure. The majority either do not know or are not sure that dividend received from cooperative societies and from approved unit trusts are exempted from tax¹⁰.

Withholding Tax on Dividends and Tax Credits

In Malaysia, a company, when paying dividends (that are taxable) to its shareholders, has a statutory obligation to withhold tax at a rate applicable to that company and to

⁷ The respondents were not requested to demonstrate their ability to use the Tax Table to determine the amount of tax chargeable. They only need to acknowledge that they either know, don't now or not sure of how to use the table.

⁸ Similar remittance would have been chargeable to tax if remitted in or prior to the year 2003.

⁹ Interest derived by any resident individual on any deposit not exceeding RM100,000 in any savings or fixed deposit account with any bank or finance company in Malaysia is exempted from income tax.

¹⁰ Any dividend paid to unit holders by any unit trust approved by the Government or to members by any Co-operative Society registered in Malaysia is exempted from income tax.

personal use. Less than 10% know of the rebate for fees paid for foreign workers' work permits and the rebate of RM350 if one's chargeable income does not exceed RM35,000.

Relief in Relation to Children

As reported in Table 6, among the respondents who are married (n = 75), 80% of them (n = 60) have children. Out of those (n = 60) who have children, only 23.33% of them know that child relief in general is available only in relation to an unmarried child. However 83.33% and 78.33% respectively know that a child relief of RM800 shall be allowable if a taxpayer maintains a child who is under the age of 18 years or a child who is over the age of 18 years but still a full time student at pre-tertiary level. For a child who is a full time student at terti.14124 Tm(me st)Tj12. 9608 370.73999 635t9.96033 Tm()T

compliance (LHDN, 2004)¹⁵, the impact of tax literacy on the rate of appropriate compliance deserves the attention of the Inland Revenue Board and investigations by researchers.

¹⁵ LHDN (i.e. The Inland Revenue Board of Malaysia) listed three objectives for adopting self assessment, namely (1) to modernize and to coordinate tax administration, (2) to create a system that is more efficient and for a more timely collection of tax and (3) to enhance the rate of tax compliance.

TABLE 1: PROFILE OF RESPONDENTS*

Gender; Marital Status and Language Proficiency (Written and Spoken)

Male	62.26 %	Not Married	29.25 %	Malay and English +	85.85%
Female	37.74 %	Married	70.75 %	English only	14

TABLE 2: CHARGEABLE AND EXEMPT

TABLE 3: HUSBAND AND WIFE: JOINT OR SEPARATE ASSESSMENT

The Respondents	All Respondents (n = 106)				Married Respondents (n = 75)			
	Yes *	No	Not Sure	Total	Yes *	No	Not Sure	Total
	%	%	%	%	%	%	%	%
Husband and Wife: Joint or Separate Assessment and Spouse Relief								
If both husband & wife have taxable income, can the wife request that her income be jointly assessed together with that of her husband?	25.47	36.79	37.74					

TABLE 4: PERSONAL AND SOME OTHER RELIEF

If an individual has income, in com

TABLE 5: TAX REBATES

If an individual has taxable income, in computing his o

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