

## TAX PROFESSIONALS' VIEWS ON SELF ASSESSMENT SYSTEM

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### ABSTRACT

*Malaysia has adopted an Official Assessment System (OAS) whereby taxpayers were assessed by the tax authorities based on the tax returns filed by them. The Malaysian Government has introduced a Self Assessment System (SAS) in stages commencing with companies from 2001. This new strategy require taxpayers to take more responsibility for getting their tax returns correct, since the information which they furnish in their returns will be accepted at face value by the Inland Revenue Board (IRB). The IRB, however, will audit some cases at random and if it has inaccurate information, the taxpayers concerned will be liable for prosecution.*

*This survey focuses on the role of tax professionals under SAS. The findings of the survey reports on tax professionals' views and level of preparation towards the implementation of SAS in Malaysia. The findings also report on problems faced by tax professionals under the existing official assessment tax system and seek to ascertain tax professionals' perception towards the introduction of the new assessment system. Finally, the data provides some input on the preparatory measures to be undertaken by the IRB to facilitate tax practitioners' role in enhancing tax compliance under the new assessment system.*

#### Key Words:

*Self assessment; tax compliance; tax evasion; tax audit & tax professionals.*

### ABSTRAK

*Malaysia memperkenalkan Sistem Taksiran Rasmi (STR) di mana pembayar cukai ditaksir oleh pihak berkuasa pencukaian berasaskan borang nyata cukai yang dikemukakan oleh mereka. Kerajaan Malaysia telah memperkenalkan Sistem Taksiran Sendiri (STS) secara berperingkat bermula dengan syarikat pada tahun 2001. Strategi baru ini memerlukan pembayar cukai lebih bertanggungjawab dalam memastikan borang nyata cukai mereka adalah benar. Ini adalah disebabkan maklumat yang dikemukakan oleh mereka akan diterima secara terus oleh Lembaga Hasil Dalam Negeri (LHDN). Bagaimanapun dalam sesetengah keadaan, pihak LHDN akan menjalankan audit secara*

*rambang dan jika didapati ada maklumat yang tidak betul, pembayar cukai berkenaan akan didakwa.*

*Tinjauan ini fokus kepada peranan pakar pencukaaian terhadap, STS. Dapatan tinjauan memperlihatkan pandangan dan tahap kesediaan pakar pencukaaian berhubung pelaksanaan STS di Malaysia. Dapatan juga menjelaskan mengenai masalah-masalah yang dihadapi oleh pakar pencukaaian terhadap Sistem Taksiran Rasmi sedia ada dan cuba mendapatkan tanggapan mereka terhadap pengenalan sistem taksiran baru. Akhir sekali, data tinjauan ini juga menyediakan sedikit input kepada langkah-langkah awal LHDN dalam membantu dan menjayakan peranan pakar pencukaaian dalam meningkatkan pematuhan cukai di bawah sistem taksiran baru.*

*Kata Kunci:*

*Taksiran sendiri; pematuhan cukai; pelarian cukai; audit cukai & pakar pencukaaian.*

## BACKGROUND

The world of tax administration has changed and continues to shift with increasing momentum due to technological advancement. There is now increasing demand for revenue systems to instantly update tax information. Tax administrators, worldwide, are also grappling with an increasing number of delinquent taxpayers. Malaysia is not far behind in facing such problems.

Malaysia has adopted the official assessment system (hereafter referred to as the Formal System) since 1947. Under such a system, taxpayers are assessed by the revenue authorities based on the tax returns filed by them. The year 2000, however, is a year of change for the Malaysian taxation system. Beginning 1 January 2000, income is assessed on a current year basis. Prior to that date, income was assessed on a preceding year basis. For example, income earned or derived in 1998 was taxed in 1999. Beginning 2001, the Inland Revenue Board (IRB) is implementing a self assessment income tax system in a staggered manner commencing with companies in 2001; business, partnership and co-operatives in 2003 and salaried individuals in 2004. These changes would take place simultaneously. Under SAS, taxpayers are required to take more responsibility for getting their tax returns correct, since the information they give on their returns will be accepted at face value by the IRB. The new system also demands for a complete change in the mind-set of various constituents of the Malaysian taxation system which comprise the tax officials, tax professionals and taxpayers. Tax professionals are expected to play a pivotal role under the self assessment system as several taxpayers would rely on them to file their tax returns.

The move towards a self-assessment system (SAS) generally reflects a re-thinking by Malaysian policy makers of ways to overcome current problems facing tax administrators (Kasipillai, 1998). Under SAS, the IRB will accept information contained in a tax return as the basis for computing tax liability.

Such a move would expedite the processing of tax returns considerably. To safeguard the assessment system against abuse, the IRB will audit some taxpayers at random, and if they are found to have given inaccurate information on their returns, they will be subject to varying penalties, depending on the nature of the offence. A significant feature of SAS is the absence of a time lag between lodgement of tax returns and the finalisation of a case as tax returns submitted by the taxpayer is deemed to be the notice of assessment.

Several tax administrations in both advanced and developing countries have adopted the SAS. These countries include, Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-87), New Zealand (1988), Ireland (1988) and more recently, United Kingdom (1996-97). As for the United Kingdom, the first self assessment tax forms were issued in April 1997 (Certified Accountant, 1997).

This survey was carried out between March and June 1999 to determine tax professionals' views and preparedness towards the introduction of a self assessment system in Malaysia. To our knowledge, this is the first time a survey of this nature has been carried out since the government announced in October 1998 the staggered implementation of SAS in Malaysia. The findings of the study would be useful to tax policy makers as it will highlight tax professionals' preparedness and views of SAS. The study also critically evaluates the measures that are needed for the smooth implementation of the new assessment system involving tax practitioners, taxpayers and IRB officials.

This paper is organised as follows. After providing the background to the self assessment tax system, Section 2 introduces the tax assessment system and briefly provides some concepts and definitions peculiar to tax assessment systems. Section 3 reviews the Formal System in Malaysia and critically evaluates the weaknesses of the tax system. The survey approach outlining the survey procedure and questionnaire formulation is presented in Section 4. The survey findings are reported in Section 5. The final section provides some concluding remarks by suggesting key factors that can be taken into account by IRB in implementing SAS.

## **TAX ASSESSMENT SYSTEM**

According to James and Nobles (1996), there are well established criteria which a tax system might be expected to meet. For instance, a tax system should be efficient in that it does not generally distort economic decision-making and its administrative and overall compliance costs should not be excessive. When a tax system is efficient, it does not unduly interfere with economic incentives to work, save and invest and it should be consistent with the macro-economic policy. However, Hagemann et al. (1988) pointed out that many tax systems in Organisation for Economic Cooperation and Development (OECD) countries

do not even meet the basic criteria of efficiency and equity. According to the researchers, a significant reason is that successful tax reform is a very complex matter. The tax system, very often, is used to achieve a broad magnitude of frequently changing social and economic aims.

In an attempt to reform the Malaysian tax system, the government has introduced a self assessment tax system. An important aspect of SAS is the underlying premise that taxpayers are expected to comply with their obligations under the tax law. The concept of taxpayers protecting themselves by making full and correct disclosure in lodging their returns is no longer possible, rather taxpayers are expected to seek the assistance of tax professionals whenever required to finalise their accounts before submitting their returns to IRB.

The findings of a survey in the US by Klepper and Nagin (1989) suggest that tax professionals represent both a means of increasing compliance and also potentially a threat to compliance. If this is the case in Malaysia, then local public policy must be carefully structured to exploit the pro-compliance effects of tax professionals. Hence, there is a need for greater knowledge about the effects of tax professionals on compliance, their preparedness towards SAS, perception about IRB and finally their suggestions to improve tax compliance.

Key terms used in this paper are detailed below:

<b>Self assessment</b>	It is an assessment procedure based on the assumption that information given by the taxpayer is accurate and does not need to be checked by the tax authorities.
<b>Formal system</b>	Taxpayers are assessed by the tax authorities based on the tax returns filed by them.
<b>Tax Law</b>	The present survey confines its study to income tax law.
<b>Tax professionals</b>	The term tax professionals, tax advisers, tax preparers and tax agents refer to persons involved in assisting taxpayers to prepare and file tax returns as well as advising their clients on all tax related matters.

### FORMAL SYSTEM

The formal assessment system could be described as a 'mass production' system taking tax administration almost entirely out of the hands of most taxpayers. Under the formal system, it is assumed that taxpayers do not possess the necessary knowledge to compute their tax payable. Past IRB experience suggest that the rate of non-submission of tax returns is in the region of 20-25 percent of the total returns issued. Where a person who is chargeable to tax but has not submitted his or her return, the Director General of Inland Revenue (DGIR)

may to the best of his judgement determine the person's chargeable income and make an assessment accordingly. The taxpayer may, however, object to the assessment in writing within 30 days from the date of service of the notice of assessment.

### *Collection Procedures*

The payment of tax is administered by the Collection Branch located centrally in the Federal Territory. The tax liability stated on the notice of assessment is due for payment within 30 days from the date of issue, notwithstanding any objection lodged. If no payment is made within the 30-day period, a penalty on late payment will be imposed.

There is ample room for widening the withholding tax system to include resident persons in evasion-prone industries such as the construction and service sectors.<sup>1</sup>

### *Mission Statement and Operational Objectives*

The IRB's Mission Statement is: "To collect taxes for the nation at minimum cost, to improve compliance and to institute effective enforcement through prevailing legal procedures". The Mission Statement is further complemented with IRB's three-fold Operational Objectives<sup>2</sup> viz:

- To assess and collect the correct amount of revenue as provided under the law in the most effective manner and at a minimum cost;
- To instill public confidence in the fairness and integrity of the tax system; and
- To encourage voluntary compliance.

Judging from the mission statement and operational objectives of the IRB, the following question can be posed: Is the existing tax system effective and fair and does it encourage voluntary compliance? Increased voluntary compliance can only be achieved if taxpayers perceive the tax system to be equitable (Bar et al., 1977). If voluntary compliance is to be encouraged among taxpayers, the SAS should be introduced in Malaysia as in the case of other advanced and developing countries in the world (Mustafa, 1997). Several studies have indicated that SAS will improve efficiency and productivity of the tax administrative system (Bar et al., 1977; Sandford & Wallschutzky, 1994; Sandford, 1994; and James, 1996).

The following section examines some weaknesses commonly associated with the Formal System.

#### *(a) Weaknesses in the Official Assessment System*

The main weaknesses of the existing tax system are reviewed below:

### *Low Compliance Level*

In recent years, the Malaysian Inland Revenue Board is experiencing several constraints in its effort to improve voluntary tax compliance among its taxpayers (Kasipillai, 1996). Voluntary tax compliance constitutes the following:

- submitting a tax return when legally obliged to do so;
- disclosing all taxable income on the return;
- making a proper claim for deductions on the tax return; and
- settling the assessed taxes by due date.

The actual extent of non-compliance in Malaysia is difficult to estimate but available IRB statistics provide some clues as to the magnitude of the problem. In a small minority of cases, the taxpayer is investigated. Investigation takes place only on a selective basis. Recoveries of additional tax (inclusive of penalties) in 1998 amounted to some 0.03 percent of total income tax collected.

### *Taxpayer Grievances and Perception of Fairness*

Existing literature on tax compliance has referred mainly to the empirical findings of the extent of tax non-compliance in developed countries (Reinganum & Wilde, 1985 and Long & Swingen, 1990). These findings have some pertinent implications for tax administrators in a developing country like Malaysia. For instance, Price (1992), revealed in his paper that there is a strong positive correlation between the perception of fairness and respondent's tax knowledge with the level of tax compliance. He suggested that the level of compliance can be increased by improving taxpayers perception of fairness and by improving their tax knowledge through formal education or tax publicity. Other studies too have indicated that there would be higher levels of commitment to compliance with tax laws by taxpayers once they perceive: (i) favourable attitudes towards the government, (ii) fairness of the tax system and (iii) fairness of their treatment by the tax administrators [Roth et al. (1989), p.124].

### *Inadequate Enforcement Strategies*

The effectiveness of any assessment and collections system would very much depend on the strength of enforcement strategies instituted by tax authorities on tax defaulters. The existing Formal System, however, is inhibited by IRB's inability to scrutinise all returns in a desired manner due to staff shortage. Between the years 1992 to 1998, the IRB had vacancies ranging from 550 to 702 posts of varying levels (Annual Reports, 1992 to 1998). The current system is preoccupied with the issue of notice of assessments, leaving minimal staff for post-assessment enforcement activities. Of equal significance is the debatable question as to whether the Formal System in Malaysia encourages tax avoidance or, at very least, delay in tax payment. Three important circumstances that reinforce this view are:

- (i) In most circumstances, new taxpayers (particularly those who are self-employed) do not respond to the IRB until actually served with a return by a tax officer. The existing penalties for failure to notify chargeability to IRB are not severe enough to make errant individuals register as taxpayers. Although imprisonment is an option, there is only one known case when this power was invoked.<sup>3</sup>
- (ii) Other than penalties, no interest is payable to IRB for delay in settlement of tax liabilities by truant taxpayers.
- (iii) A sizeable portion of returns (15 to 20 percent) were not submitted on time, resulting in provisional assessments raised by the Revenue. Such an exercise greatly aggravates and places enormous demands on the tax appeal system that utilises vast Revenue resources which could be better employed in encountering tax evasion.

A system that incorporates the weaknesses outlined in (i) to (iii) above may have a built-in bias in favour of non-compliance.

#### *Significance of a Self Assessment System*

With the rapid development of information technology, significant growth of capital markets and a new generation of wealthier and more educated society, Malaysian taxpayers are expected to be financially more sophisticated and perhaps would be more inclined to manage their tax affairs more actively. A future tax system needs flexibility to accommodate such changes. At the same time, tax professionals need to equip themselves with sufficient staff to meet new filing requirements by IRB. The existing Official Assessment System is rather different as too much time is spent by IRB officials to monitor, check and correspond with taxpayers before notices of assessment are issued to them. Under self assessment, the IRB is expected to retrain and deploy existing staff to carry out more audit and investigation activities so that the probability of tracing tax defaulters would be significantly increased.

According to James (1996), countries with a self assessment system have higher compliance costs than countries which do not. In this study, the issue is not simply the current status in Malaysia regarding compliance costs, but what it is likely to be after the introduction of SAS. Taxpayers are expected to seek the assistance of tax professionals on how to maintain their accounting records and to complete their annual tax returns and, therefore, an increase in compliance cost is inevitable. The extent of increase in compliance cost is quite likely to be associated with the complexity and magnitude to which a tax system embraces the individual taxpayer's economic life. One other significant factor is the role of IRB, accounting and tax bodies in educating the general public on income tax laws. Tax education would probably have to be taught as an integral part of the education system at institutions of higher learning.

### *Objectives of the Study*

The principal objective of this research is to analyse tax professionals' perspective towards the introduction of self assessment. As the title of the paper suggests, the study looks in detail at tax professionals' views and preparedness towards the introduction of SAS in Malaysia. In particular, the study looks into the procedural issues that are of significant interest to the accounting professionals who are expected to play a significant role under SAS with their suggestions for improvement. It then considers how these findings can be used by the Revenue authorities to improve tax professionals' attitude towards the IRB. Furthermore, the study evaluates tax professionals' preparedness for the staggered implementation of SAS commencing with companies from 2001.

The underlying philosophy of SAS is to transfer assessment responsibilities from the IRB to taxpayers or to their tax advisers. During this period of change, good communication and cooperation between taxpayers, tax professionals and the IRB is vital. The findings of this survey would provide some input on ways to narrow the 'communication gap' that currently exists under the official assessment system.

## **RESEARCH METHODOLOGY**

A questionnaire was administered to carry out the survey involving Malaysian tax professionals. This section outlines the survey procedure, sample characteristics and questionnaire formulation.

### *Survey Procedure*

The questionnaires were mailed to tax professionals who are members of the Malaysian Institute of Taxation. An undertaking was made that all responses would be treated confidentially. Initially, the questionnaire was pre-tested and the criticisms of four commentators on this study were helpful in preparing the final questionnaire. After improving the survey instrument so as to eliminate ambiguous questions, the questionnaire was mailed to the respondents. The selection process of the sample relied on the 1999 directory of the Malaysian Institute of Taxation (MIT). This directory contained a list of MIT members and their respective addresses. Questionnaires were sent to a total of 280 tax professionals. A second request (reminder) for responses was sent out a month later after the original posting of the survey. Of the total questionnaires that were mailed, 85 were completed and returned, providing a response rate of 30 percent. Two of the questionnaires were omitted due to insufficient data, leaving a total of 83 usable responses. A reliability analysis was carried out to determine the accuracy of the instrument used to carry out the survey. The analysis indicated that the instrument was reliable ( $\text{Alpha}=0.72$ ). This finding is consistent with that of other studies of a similar nature.



## *The Questionnaire*

The questionnaire was divided into four sections (referred to as **Sections A to D**). Section A ("**demographic information**") contained questions relating to the socio-economic characteristics of respondents—including age, race and academic/professional qualification. This section also elicited from the respondents the nature of their working environment, that is, firm size and whether it is a regional or natural practice.

Section B had three parts (referred to as parts I, II & III). Part I probed into the extent of tax professionals' views of the Formal Tax System while part II investigated into tax professionals' preparedness towards implementation of SAS. Part III determined respondents' perception towards the IRB.

Section C investigated the factors that contribute to the ambiguity of Malaysian income tax laws. Finally, Section D elicited from the respondents approaches IRB could use to improve tax compliance.

In Section A, some of the questions required a tick for the correct answer and a couple of the others required a simple Yes/No response. In Sections B to D, a five-point Likert scale, ranging from 1 being strongly disagreeing to 5 strongly agreeing, was used in the survey instrument. For all the queries in Sections A to D, the respondents had to tick the appropriate column.

## **SURVEY FINDINGS**

A summary of the characteristics of respondents are reported in Table 1. The sample characteristics suggest that about 52 percent of the respondents are 40 years or below and another 29 percent are between 40 and 50 years of age. Sixty percent of the respondents were Chinese, 24 percent were Indians and 12 percent were Malays. The large percentage of Chinese respondents is understandable as these professionals provide tax services to the bulk of the business community. Available data suggest that 65 to 70 percent of the business community in urban towns are Chinese (Year Book of Statistics, 1998).

The survey findings presented in this section are in terms of the types of questions answered in Sections B to D of the questionnaire.

### *Perception of Tax Simplicity*

Significant differences exist among professionals of different ethnic background towards perception of tax simplicity ( $F:4.61$ ;  $p = 0.005$ ) (See Table 2). In this study, the Chinese respondents found tax laws and regulations to be more complex (2.8) compared to their Malay and Indian counterparts. Chinese tax agents have always been a dominant group in the accounting profession

**Table 1**  
Summary of Sample Characteristics\*

	<b>Percent</b>
<b>Age</b>	
Under 30 yrs	20.7
31-40 yrs	31.7
41-50 yrs	29.3
51-60 yrs	18.3
	100.0
<b>Ethnic Composition</b>	
Malay	12.3
Chinese	60.5
Indian	23.5
Others	3.7
	100.0
<b>Gender</b>	
Male	66.7
Female	33.3
	100.0
<b>Firm Size</b>	
National Practice	6.5
Big Five (5)	53.7
State/Regional Practice	7.8
Sole Practitioner	29.9
Others	2.1
	100.00
<b>Qualification</b>	
Completed secondary education/ Certificate	14.9
Diploma	10.8
Bachelor	66.2
Master	8.1
	100.0
<b>Professional Qualification</b>	
Yes	71.4
No	28.6
	100.0

\* Number of useable respondents: 83

providing tax services to the public. Their perception towards tax complexity is perhaps reflective of the constant amendments introduced to tax law.

**Table 2**  
Perception of Tax Simplicity

<b>Ethnic Group</b>	<b>Mean*</b>	<b>Standard Deviation</b>
Malay	3.67	0.78
Chinese	2.80	1.14
Indian	3.63	0.83
Others	2.67	0.58

\* Measured on a 5-point scale

*Perception of Tax Rates*

There are significant differences among ethnic groups towards perception of tax rates as being high (F: 3.07; p = 0.033). Data presented in Table 3 suggests that the Chinese tax professionals perceive Malaysian income tax rates are high as compared to the other two main ethnic groups. This could be so because the Chinese dominate in commerce and trade and perhaps they are comparing current corporate tax rates with those of other ASEAN countries such as Hong Kong and Singapore. In Hong Kong, the corporate tax rate is merely 16 percent, Singapore has a rate of 25 percent compared to Malaysia’s corporate rate of 28 percent.

**Table 3**  
Perception of Tax Rates

<b>Ethnic Group</b>	<b>Mean*</b>	<b>Standard Deviation</b>
Malay	2.92	0.67
Chinese	3.81	1.06
Indian	3.53	1.02
Others	4.33	1.15

\* Measured on a 5-point scale

*Perception Towards IRB Self Assessment System*

There are significant differences among ethnic groups towards IRB (F: 4.35; p = 0.007). The Chinese perception (mean of 3.94) towards IRB is less favourable compared to Malays (3.42) and Indians (3.11) (Table 4). The Chinese tax professionals want IRB staff to be more helpful in addressing tax issues as and when they arise. Such differences among the races, however, may change after the implementation of a self assessment system.

**Table 4**  
Adverse Perception Towards IRB

<b>Ethnic Group</b>	<b>Mean*</b>	<b>Standard Deviation</b>
Malay	3.42	0.90
Chinese	3.94	1.03
Indian	3.11	1.05
Others	2.67	0.58

\* Measured on a 5-point scale

*Taxpayer to Compute Own Taxes*

There are no significant differences among ethnic groups on their views on taxpayer ability to compute their own taxes at five percent significance level (F: 2.42; p = 0.07). The findings indicate that all professionals, regardless of ethnic background, perceive alike in observing favourably taxpayer ability to compute their own taxes (See Table 5). These findings, however, do not measure the extent of tax knowledge among taxpayers. Taxpayers may or may not possess the necessary knowledge in tax laws to compute their own taxes.

**Table 5**  
Views on Taxpayer Ability to Compute Own Taxes

<b>Ethnic Group</b>	<b>Mean*</b>	<b>Standard Deviation</b>
Malay	3.42	1.00
Chinese	3.15	1.25
Indian	3.89	0.66
Others	4.00	1.00

\* Measured on a 5-point scale

The successful implementation of a new tax system such as SAS will invariably depend upon the sincerity of the majority of the tax-paying public including tax professionals. At the same time, Revenue authorities too have long recognised that levels of tax compliance are intrinsically linked with both the perceived fairness of a tax system and taxpayer's perceived probability of detection if he or she decides to evade. Under SAS, there will be a greater probability of taxpayers being audited and hence the role of tax professionals become even more significant. It has been established that taxpayers' perceptions of the fairness of a tax system coupled with the probability of them evading part of their taxable income may in turn be affected by the complexity of tax laws [Spicer and Becker (1980) and Jackson and Milliron (1986)]. Therefore, in introducing SAS in Malaysia, simplification of tax laws should be on the policy agenda, as in other parts of the world. Once the tax-paying public perceive the tax system to be fair, tax professionals will find it easier to encourage their clients to be more compliant with tax laws.

*Perceiving Extent of Loopholes*

Tax professionals attached to the Big Five accounting firms as well as sole practitioners perceive that there are few loopholes in the Income Tax Act compared to accountants attached to State/Regional and National practice (F: 3.34; p = 0.014) who perceive it otherwise, (see Table 6). The findings in this study, therefore, suggest that tax professionals employed in State/Regional and National practice are aggressive in taking advantage of tax loopholes to minimize their employer's income tax compared to tax professionals attached to the Big 5 and sole practitioners.

**Table 6**

Tax Professionals' Working Environment and Perceiving Extent of Loopholes

<b>Working Environment</b>	<b>Mean*</b>	<b>Standard Deviation</b>
Sole practitioner	2.78	0.95
Regional Practice	3.17	0.75
Big 5 Accounting Firms	2.79	0.79
National Practice	3.40	0.55
Others	3.59	0.80

\* Measured on a 5-point scale

*Improving Tax Compliance*

The respondents had indicated their level of preferences for several services that could be provided by IRB in improving tax compliance (see Table 7). Nearly all the respondents sought for: toll-free services (96%), free publications of tax literature (96%) and assistance from service counters (93%). Service via internet were also preferred by 89 % of the respondents.

Over 92 % of the respondents advocated for simplified tax returns. This suggests that all accounting institutes should focus their attention on isolating complex tax matters which could be simplified without adversely affecting existing legislation. If these proposals were presented to IRB on a sensible basis, tax professionals might get some sensible action.

**RECOMMENDATIONS AND CONCLUDING REMARKS**

In this study, we examined tax professionals' preparedness towards the self assessment system (SAS), their perception towards IRB and factors that contribute to the ambiguity of Malaysian income tax law. We also solicited from the tax professionals possible approaches to improve compliance among taxpayers. The findings of the study would be useful to tax policy makers as

**Table 7**  
Ways to Improve Tax Compliance\*

Nature of Service	Extremely Important		Extremely Unimportant	
	Number of Responses	Percent	Number of Responses	Percent
Toll-free services	81	96.4	1	1.2
Free publication	80	96.4	1	1.2
Service counters	78	92.8	1	1.2
Internet services	73	89.0	1	1.2
Simplified tax returns	78	92.8	2	2.4
Mobile unit operations	56	67.5	10	12.0

\* Number of responses for each nature of service: 83. The remainder had a neutral stand, suggesting that they neither found the nature of service extremely important or extremely unimportant.

they will highlight tax professionals' perception and extent of preparedness towards a self assessment system.

From the taxmen's perspective, the whole idea of promoting a SAS is to expedite the rate of tax collection and simultaneously lower the cost of collecting taxes. The new system is introduced with a view of increasing voluntary compliance among the taxpayers. It is generally believed that under SAS, there would be an increased tax burden by way of increased compliance cost on most taxpayers. In this regard, it may be the honest but ignorant taxpayer who may innocently fall foul of a newly introduced self assessment system and whose compliance costs are particularly expected to rise. Whether this increase in taxpayers' compliance cost will be off-set by a fairer and efficient compliance programme remains to be seen.

Tax professionals in the survey generally perceived that SAS is preferred by their clients. Under the new system, taxpayers would determine their own taxes without too much correspondence with IRB. However, the combined effect of the changes that are to be introduced to the Malaysian tax system could make the period of transition from the Formal System to SAS very challenging to the taxpaying public, tax professionals and IRB alike. Undoubtedly, tax professionals will now have a greater role to play in the new tax system as more taxpayers would rely on them to file their returns.

The limitations of this study include those usually associated with mail surveys. An attempt was made to minimize these inherent limitations by a careful pilot-test of the survey. Moreover, the findings of the survey show respondents preparedness towards SAS, perception towards IRB and ambiguity of Income Tax Law over a brief period covering July and August 1999 when the data was collected. It is only expected that respondent's views may change over time.

Ideally, a survey of this nature should be replicated after the implementation of the self assessment system. Another significant point is that future surveys could try to probe further into whether tax professionals represented a threat to compliance or if they represented a means of increasing tax compliance.

### ENDNOTES

1. Currently, resident individuals who receive interest income from various deposit-taking institutions such as banks and finance companies are subject to withholding tax. It must be borne in mind that individual taxpayers are subject to withholding tax on their interest income (excluding exempt income).
2. According to the IRD Malaysia Corporate Plan (1993-1997), the Revenue Department's commitment pledge is as follows:
  - execute the duties efficiently, effectively and with quality;
  - provide prompt and courteous service to the public;
  - be trustworthy, honest, responsible and positive; and
  - strive to enhance the image of the Department.(Corporate Plan 1993-97, p.2)
3. A taxpayer was jailed for three days and fined RM75 for each of the offences for not submitting returns for assessment years 1984, 1985 and 1986.

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