IPS-ESS Workshop

# PAYE Taxation System

November 2004

*This is a summary report of a workshop on "PAYE Taxation System" jointly organised by the Institute of Policy Studies (IPS) and the Economic society of Singapore (ESS), on 23 October 2004. We offer this as an additional input to the policy-making community and others with a keen interest in taxation systems.*

*We would greatly appreciate any comments or feedback you might have on this report. Please send them to Ms Chang Li Lin at IPS. (chang_li_lin@ips.org.sg).*

Institute of Policy Studies

**INSTITUTE OF POLICY STUDIES – ECONOMIC SOCIETY OF SINGAPORE**
**WORKSHOP ON PAYE TAXATION SYSTEM**
**9 NOVEMBER 2004**

## INTRODUCTION

The Institute of Policy Studies (IPS) and the Economic Society of Singapore (ESS) jointly convened a workshop on the PAYE Taxation system on 9 November 2004. The basic objective was to explore the pros and cons of such a system and examine the difficulties in switching from the current system to the new one, if the Government were to make such a decision.

The workshop featured four presentations from taxation experts, including those from Australia and Malaysia, and they were followed by an open discussion on the key aspects of the PAYE system. The following is a summary report of the presentations and the discussions at the workshop.

## PRESENTATIONS

### Presentation on the Current Year Basis of Assessment

Mr. Donald Low, Director (Fiscal Policy) from Ministry of Finance, Singapore, first compared the differences between preceding year (PY) and current year (CY) bases of assessment. Then he explained the pros and cons of CY assessment. The recent public consultation on CY assessment gave the impression that people who prefer CY assessment support the scheme strongly, whereas those against CY assessment tend to offer weaker opposition. Finally Mr. Low outlined various possible options for Singapore. *(Please refer to slides in Annex 1)*

### Presentation on Pay As You Go

Mr. Murray Crowe, Assistant Commissioner (Payment And Product Processing) from the Australian Taxation Office, explained the historical background of the taxation system in Australia. In particular, he noted that Australia had operated a provisional tax payments system, including PAYE for employees, for more than two decades before the switch to the PAYG system. He went on to explain the features, issues and mechanics of Pay As You Go instalments and Pay As You Go withholding. Mr. Crowe also clarified that the Australian system assumed no continuous losses from firms. *(Please refer to slides in Annex 2)*

### Presentation on Pay As You Earn

Mr. David Stevens, Lead Partner from KPMG Tax (Strategy And Policy Group), gave an account of the Australian experience from a private sector perspective. Contrasting the Singapore and Australian objectives for introducing PAYE, Mr. Stevens emphasized that net revenue benefit was a crucial element of the overhaul of the tax system in Australia. On the other hand, the 15% tolerance level of instalment estimate may not be sufficient for businesses to deal with major cyclical changes. But a delicate balance should be achieved between a reasonable tolerance band and true revelation of profits and investment income. Mr. Stevens also recommended that default payment options should err on the side of simplicity, certainty and low burden for taxpayer so as to induce people to use the options. By adopting relatively simple and generous rules, the aim of macro-economic stabilization would be realised while minimising compliance cost to businesses and individuals. *(Please refer to slides in Annex 3)*

**Presentation on The Malaysian Perspective**

Dr. Veerinderjeet Singh, a Malaysian tax expert from the private sector, gave an account of the change from the PY to the CY assessment basis with effect from 2000. One key feature of the Malaysian experience was waiver of income tax on the 1999 income. Overall the impact of PAYE system on individuals was small because the employees who had commenced employment before 1995 were already on PAYE deductions. Companies and businesses were already on compulsory instalment scheme too. Overall, the change to CY assessment basis went on well primarily due to the carrot of the income tax waiver and the limited impact on only a small group in the economy. *(Please refer to slides in Annex 4)*

## MAIN POINTS OF DISCUSSION

*Economic Rationale of Implementing PAYE*

The discussants generally agreed with the economic arguments in favour of the PAYE taxation system. These include its stronger countercyclical or stabilising effects at the macroeconomic level, and better matching of tax liabilities with income and employment resulting in smoother consumption and investment patterns. It was noted that this economic rationale was even more compelling in the case of Singapore, given the increased volatility in economic growth witnessed in recent years. While discretionary fiscal measures could arguably be used as a macroeconomic stabilisation tool, their effectiveness was limited by the long lags between policy decisions and their impact on the economy, and difficulties in calibrating the optimal amount of disbursements and rebates. Moreover, discretionary fiscal measures were difficult to withdraw once implemented.

Despite the old saying “if it ain’t broke, don’t fix it”, there was a general consensus that it would be worthwhile to switch to the PAYE system in view of the potential benefits in cash management. In the case of Australia, the PAYG is now widely accepted by the general public and businesses as a better and more sensible system than the lagged taxation system.

One participant expressed strong opposing views on the move towards a PAYE taxation system. He was sceptical that PAYE could be an effective macroeconomic stabilisation tool, and pointed out that the reason for the implementation of PAYE in Japan and Australia was to increase tax revenue, rather than to achieve greater macroeconomic stability. In response, Mr Stevens clarified that Australia’s overall package of tax reform was designed to be revenue-neutral, and the additional revenue earned from introducing PAYE was only a transitional gain and offset by revenue losses in other areas. In the case of Malaysia, the decision to move to a PAYE system was made during the Asian financial crisis to support the economy and for political reason as there was a net revenue loss from the introduction of the system.

The participant also felt that the ability to pay taxes was a matter of personal financial planning. However, the other participants felt that while a financially prudent individual should be able to meet his tax obligations, a PAYE system would help individuals to better manage their cash flows, even for those who are financially prudent. Furthermore, with the Singapore economy having entered into a more volatile phase, income streams for both individuals and companies had become more unpredictable, making it more difficult to plan for deferred tax payments. In comparison, the PAYE system would result in a stronger link between tax liabilities and current disposable income.

Another participant expressed the concern that the current year basis of tax assessment could make the government's spending pro-cyclical, as tax receipts would decrease during economic downturns, limiting the government's ability to spend in order to "pump-prime" the economy. Mr Low pointed out that such argument would only be valid if the government had to balance its budget every fiscal year. This was not the case in Singapore, where the policy rule was to balance the budget over the business cycle.

*Issues Pertaining to the Introduction of a PAYE System in Singapore*

The participants also discussed different methods of introducing a PAYE system in Singapore. In particular, discussants felt that the new system should not place an overly heavy tax burden on taxpayers during the year of transition. It was noted that Malaysia avoided this problem by waiving taxes for the preceding year's income in the year that they introduced the PAYE system. In the case of Australia, the additional tax payment for the transitional year was spread out over several years.

One participant proposed an opt-in system to make the PAYE system more politically palatable if a waiver was not possible. For example, the government could announce that the PAYE system would be implemented fully in five years' time. In the interim, the government could provide some incentives for people to switch to the new system earlier. Furthermore, if the government were willing to lower the tax rate slightly, this would help to dispel any public suspicion that the government was trying to obtain more revenue through the switch in the tax system. The opt-in system also had the advantage of allowing people a longer period of time to adjust their lifestyles and financial plans before adopting the PAYE scheme.

Another suggestion was that the PAYE system could first be implemented on new workers entering the labour force, as in the case of Malaysia. This would allow seasoned workers to witness the benefits of the PAYE scheme, thereby making the subsequent implementation of the system for all employees more acceptable. It was also noted that it would be easier to implement the PAYE system for both individuals and companies at a time when the economy is down and individuals and companies can see the benefit of the PAYE system in managing their cash flows.

In general, the introduction of a PAYE system was viewed as a viable option for Singapore. It was noted that many countries including Indonesia, Thailand and Malaysia had already switched to the PAYE scheme. There was no reason why Singapore would not be able to implement it successfully, especially since we already have the CPF system in place which would facilitate tax deductions using workers' CPF accounts.

*Desirable Features in a PAYE System*

The discussants felt that the PAYE system should be kept simple and flexible as this would help reduce the compliance cost to businesses and individuals. In addition, tax schedules should not be changed too frequently. It might also be desirable not to over-deduct current tax payments and put in place a simple and efficient system of obtaining refunds for smooth implementation of the system.

It was noted that an accurate system of assessing current year income was a key component of a successful PAYE scheme. There were various methods ranging from self-assessment to assessment by the tax authority. In Australia's case, the tax office would determine a company's profitability ratio based on its previous year's tax assessment, which would then be applied to its current turnover. In addition, participants agreed that the tax system should not impose "uplift factors" whereby the assessment of the current year's tax payments had to be higher than the previous year's, as in the case of Malaysia.

It was also pointed out that penalties should be imposed for large discrepancies in income estimates from actual outcomes to deter taxpayers from under-declaring their incomes. However, given the increased volatility in the economic activity, there should be a reasonable tolerance level for inaccuracies in income estimates, which would act as a cushion against events such as a sudden economic downturn. In addition, tax authorities should be willing to accept reasonable explanations for deviations from income projections.

Participants also mentioned that a PAYE withholding system is better able to address the problem of sudden dismissal or unemployment, as it was a real-time payment system. It would also obviate the need for companies to retain departing non-Singaporean employees for a month to settle their tax liabilities.

## CONCLUSION

Dr. Khor Hoe Ee, the moderator of the workshop, concluded that PAYE was a good taxation system in principle (or at least, it was no worse off than the current system), although there could be some difficulties in implementing it. The experiences in Australia and Malaysia suggested that it was possible to avoid the potential pitfalls and establish a sound PAYE taxation system. Dr Khor also noted that the main benefit of the PAYE system was to help individuals and companies better manage their cash flows, especially in an era where the economy was prone to greater shocks and increased volatility.

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### Speakers

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Assistant Commissioner
Payment and Product Processing
Australian Taxation Office

Mr Donald LOW
Director
Fiscal Policy
Ministry of Finance

Dr Veerinderjeet SINGH
Council Member
Malaysian Institute of Accountants,
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## Rapporteur

Mr Billy Leung

## Current Year Basis of Assessment

Presentation to IPS-ESS Forum

MINISTRY OF FINANCE
SINGAPORE

## Outline

- Background
- Why CY?
- Pros of CY basis
- Cons of CY basis
- Summary of Feedback from Consultation
- Possible Options for Singapore

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## Background

**Preceding Year (PY) Basis of Assessment**

- Income tax is payable this year on income earned in the previous year
  - ➢Individuals report previous year's incomes by 15 Apr
  - ➢Companies file estimated tax within 3 months of accounting year end, and file final tax return by 31 Jul

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## Background

**Current Year (CY) Basis of Assessment**

- Income earned by individuals and companies is assessed to tax on a current year basis i.e. tax is paid on the income as it is earned
  - ➢For salaried individuals, tax amount may be withheld monthly by employers
  - ➢For companies, tax may be paid in installments

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## Why CY?

Past Feedback for CY basis:

- ERC 2002
- IPS Forum June 2004

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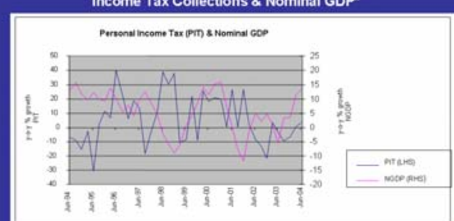
## Pros of CY Assessment

**Personal income tax collections lag nominal GDP growth**

**Income Tax Collections & Nominal GDP***




Source: MAS, 2004

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## Pros of CY Assessment

- Taxing income on a preceding year basis has a pro-cyclical effect on the economy and reduces the automatic stabilising effects of the tax system
- CY Assessment has stronger counter-cyclical or stabilising effects at the macroeconomic level

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## Pros of CY Assessment

- Counter-factual simulations on counter-cyclical effects of CY tax system
- Assumption: recession year followed by a boom year

Effect of CY Assessment (in %) on PIT Revenue & Private Consumption

| | Recession Year | Boom Year |
|---|---|---|
| GDP | 0.02 | -0.02 |
| Pte Consumption | 0.04 | -0.05 |
| Pte Disposable Income | 0.20 | -0.49 |
| PIT Revenue (diff. in $m) | -2.4 (-112) | 6.2 (300) |

Source: MAS, 2004

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## Pros of CY Assessment

Effect of CY Assessment (in %) on CIT Revenue & Private Non-Residential Investment

| Year | Recession Year | Boom Year |
|---|---|---|
| GDP | 0.05 | -0.05 |
| Pte Non-Res Investment | 0.37 | -0.33 |
| CIT Revenue (diff. in $m) | -3.8 (-218) | 19.0 (1180) |

Source: MAS, 2004

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## Pros of CY Assessment

- Alternatively, Government can use discretionary fiscal policy management
  - E.g. tax rebates, transfers
- However, 2 key limitations with this approach:
  - Substantial lag between policy decision and impact on economy
  - Difficult to calibrate optimal amount of rebates

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## Pros of CY Assessment

- Better matching of individuals' tax liabilities with their income/employment situation means and smoother consumption and investment patterns

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## Pros of CY Assessment

- Lessen burden on companies (during downturn) as the tax system will be more responsive to their position.
- Companies need not pay taxes based on previous year's higher profits.

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## Cons of CY Assessment

- Greater uncertainty in tax collection
- Increased frequency of filing and contact for taxpayers will probably result in higher compliance costs
  - Compliance costs depend on design of CY assessment system

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## Public Consultation on CY Assessment

- Public Consultation on 15 Sep to 30 Oct 2004 – to seek views of businesses and individuals on pros and cons of switching, and possible designs of CY system
- Issue for transitional year to be considered only *after* study on whether to switch to CY

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## Summary of Feedback

<u>Individuals</u>

Reasons to Support:
- Better matching of income and expenditure
- Reduces uncertainty as taxpayer does not have to set aside money for future taxes

Reasons Against:
- Additional compliance
- Lower disposable income can be a strain for individuals who are already financially stretched and rely on bonuses to pay their tax
- Loss of time value of money on their tax which they enjoy under the present system of deferred tax

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## Summary of Feedback

<u>Companies</u>

Reasons to Support:
- No significant compliance impact

Reasons Against:
- Greater compliance costs
- PY assessment offers better cash flow benefits by deferring tax payment by one year.

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## Summary of Feedback

Other common concerns

- Timeliness of refund in the event of over-payment of tax
- Transitional year arrangements
- Manner and frequency of declaring income and the collection mechanism

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## Possible Options for Singapore

- CY basis for both companies and individuals
- CY only for large companies
  - greatest impact on automatic stabilisation
  - generally better able to manage compliance
- CY only for salaried employees
  - Better matching of income against expenses
  - greater ease of compliance

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## Pay As You Go

Collecting current year income tax by instalments

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## Origins

- Australia has operated provisional income tax payments for more than two decades
  - **Provisional tax** for business individuals and investors
  - **Company instalments** for companies and superannuation funds
  - **Pay-As-You-Earn** for employees
- **Pay As You Go** replaced these older systems from 1 July 2000
  - An element of tax reform
  - Integrated with Goods and Services Tax
  - Changes in payment timing and the method used by business to calculate their current year tax instalments

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## Pay As You Go

- One 'system', but two mutually exclusive arms
- Pay As You Go instalments
  - Payment of instalments by entities with business or investment income
- Pay As You Go withholding
  - Amounts withheld from payments made to others and paid to the Tax Office
  - Typically, employers withhold a proportion of gross wages and pay directly to the Tax Office on behalf of employees
  - Employees receive credit for the amount 'withheld' when their tax return is lodged

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## Pay As You Go **Instalments**: Drivers for reform

- Lack of equity in payment timing between individuals and companies
  - Individuals paid within the year of income
  - Companies mainly paid instalments after the year of income
- No flexibility
  - Payments required were not based on current income received
- Concern about 'uplift factors'
  - Provisional tax payments were uplifted by 8% per year
- Businesses faced many different forms and due dates
  - Most businesses have more than one tax obligation, and we were introducing a new GST

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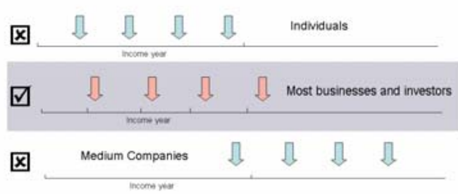
## Changes to payment timing

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## Key features

- Payment timing aligned to (quarterly) GST obligations
- Reported on the Business Activity Statement
  - One form and payment for business each quarter
  - Allowed 'netting off' liabilities and credits
- Tax Office provides a % rate that is applied to 'turnover' each quarter
  - Rate is based on the last income tax assessment
- Some annual payments retained
  - Taxpayers who were not registered for GST; and
  - Income tax less than $8,000

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## Issues

- Overlap in payment timing between old and new system
  - Companies entitled to defer payment of some of their 1999-2000 income tax … next slide
- Some entities pay GST, but distribute their income
  - Partnerships, trusts
- Turnover for GST purposes is different to Turnover for income tax instalment purposes
  - Need to exclude capital gains for income tax
  - Need to include interest and dividends for income tax
- Did not receive the focus that the new GST did
  - Caught businesses and tax agents by surprise

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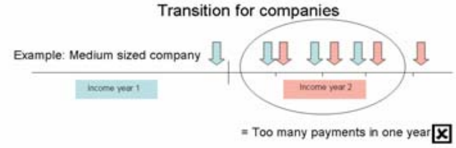
## Transition for companies




We allowed companies to defer payment of their 2000 year tax:

Small companies: 100% in 21 equal quarterly instalments over 5 years

Medium companies: 42% in 21 equal quarterly instalments over 5 years ☑

Large companies: 20% in 10 equal quarterly instalments over 2.5 years

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## Subsequent changes

- Small businesses and individuals entitled to pay an amount worked out by the Tax Office
  - One quarter of last year's tax, increased for GDP
  - Now have 77% using that method
  - 23% continue to use rate and quarterly income
- Introduction of simple, non-returnable activity statements
- Administrative changes to entry and exit rules
  - Increase in business/investment income threshold
  - Increase in tax payable on assessment threshold

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## Pay As You Go **Withholding**

- Australia has operated tax withholding from salary and wages since the 1940's
- We have some 800,000 employers the majority of which are small businesses employing less than 5 people
- Employers deduct tax according to published tables from wages and pay employees a net amount
- Employers pay the amounts deducted as a single payment to the Tax Office every quarter for small business … but more regularly by larger businesses
- Employers report at year end what they have paid each employee and how much tax was deducted
  - Report to each employee and to the Tax Office

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## How much tax to withhold?

- Australia operates progressive income tax rates
- We publish tax tables that advise how much to withhold for any given gross wage
  - Tables are produced for weekly, fortnightly or monthly payrolls
  - Electronic calculators are available
- Employees can 'personalise' their tax deduction by giving a form to the employer to claim specific tax rebates or benefits through the amount withheld
- Some employees have special circumstances (eg large rental property deductions). They ask the Tax Office for a personal amount to withhold
  - The Tax Office notifies the employer

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## Effectiveness

- Withholding covers more than 9m employees in Australia
  - Through 800,000 employers
- The tax tables are structured to generally result in a refund when the income tax return is processed
- Employer withholding grossed $A90b in collections, but generated more than $A12b in refunds
  - Average refund is >$1,000
  - Refund culture drives strong compliance with annual returns
- Supports delivery of changes to income tax rates and other Government benefits 'real time' through take home pay

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## Issues

- Employees with more than one employer make it difficult to apply the right tax rate
  - We use second income assumptions
  - For last year, we received more than 15m payment summaries from employers for 9m employees
- There is a heavy use of paper in the system
  - We have privacy rules that prevent the transfer of taxpayer data electronically unless stringent electronic security is applied
  - The electronic security arrangements have not been well accepted by small businesses so far

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## Some mechanics

- The Tax Office does not allocate withheld tax to individual employees
  - Recorded in the employers tax account
- Employees claim their credit in their annual tax return
  - Using the 'payment summary' provided by the employer
- The Tax Office uses the salary and wage data provided by employers for matching to income tax returns, but generally after the return has issued
  - This ensures employees can claim their refunds from the first day after the tax year
- We have stringent 'refund' tests in our income tax processing system

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## Pay As You Earn
## PAYE

**Workshop**
**Singapore Institute of Policy Studies**
**9 November 2004**

David Stevens
Lead Partner
KPMG Tax - Strategy & Policy Group

kpmg

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## Introduction

**Australian Experience:**
**Private Sector Perspective**

- Overview of Australian system
- Lessons to learn
- Possible options for Singapore

kpmg 2

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## Singapore Objectives

- Counter cyclical macro-economic management
- Cashflow management for individuals and businesses
- Minimise compliance cost to business
- Provide transitional relief
  - E.g. not require 2 years of tax in 1 year

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## Australian Objectives

- PAYG was announced in ANTS in August 1998
- Part of the overhaul of Tax Administration
- Net revenue benefit of $4.8b over 4 budget years
- PAYG being sold as a simplification measure (especially for small business) by consolidating tax liabilities into one quarterly form/payment
  - GST, FBT, PAYG withholding & instalments
- Not based on an international precedent

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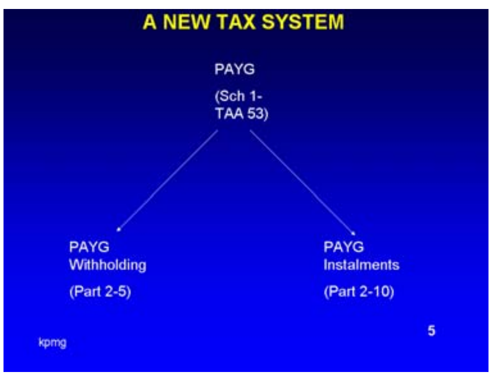


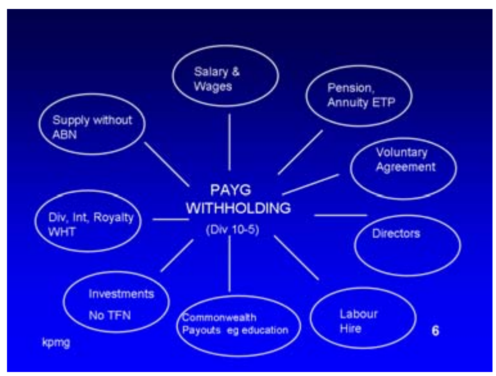


## Wages & Salary

- Australia has had withholding for a long time
- Recent changes did not impact on this element
- Australian individual taxpayers whose main source of income is wages & salaries usually receive a tax refund after year end
- Australian system becoming very complex with family benefits, Child Support, HECS, etc obligations all be added on

kpmg 7

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## Supply (Div 12-190)


kpmg 9

## Voluntary Agreement

- New event
- Note 12-55 (1) (b) no other type of event
- Between individual business taxpayer & entity
- Recipient of payment must give ABN
- Otherwise recipient is an instalment taxpayer
- There will be no GST as withholding amounts will be excluded (provided payer is entitled to input tax credits)

kpmg 10

## Withholding : Penalties

- Entity does not withhold and it should have or if it fails to pay Commissioner within time.

  (16-25&30: 10 penalty units/$fail withhold/pay ATO)
- GIC: 16-80
- Large withholder does not electronically pay. (16-90: 5 penalty units)
- Entity does not keep documentation re Voluntary Agreement. (12-55: 30 penalty units)

Penalty unit =$110

kpmg 11

## PAYG Withholding Issues

- Does it apply to non cash benefits?
- When is an amount withheld?
- How do you determine amount to withheld ?
- Are there transitional rules?

kpmg 12

## Who? (div 45-10)


kpmg 13

## Do you have a liability for instalments?

- Not, if Commissioner does not give instalment rate (45-15)
- Not, if assessable income wholly withholding payments (45-15 note 2)?
- If liable, must notify Commissioner instalment income for period on or before it is due (45-20)
- Commissioner NOTIFIES default liability &/or instalment rate – payer chooses and CAN vary.

kpmg 14

## Instalments: an overview


kpmg 15

## How do you work out the amount of annual instalment?

- Separate rules for 2002/03 and beyond - refer 45-115.
- Your instalment is either:
  1) ATO rate x instalment income
  2) most recent notional tax before end of year
  3) benchmark tax you estimate (45-115) (45-365/370)
- For 2000-01 and 2001-02 year: 2) and 3) above if not instalment taxpayer (45-175)

kpmg 16

## Are you a quarterly instalment payer?

- Has client received an instalment rate from Commissioner? (45-15)
- Will you receive an instalment rate if your only income is withholding payments? (45-15: note 2)
- Client must notify Commissioner of instalment income (45-20)

kpmg 17

## How do you work out the amount of an instalment?

Instalment rate x Instalment income for quarter (45-110)

kpmg 18

## Instalment income

Instalment income is ordinary income derived during the period to the extent that it is assessable income (45-120).

Issues and compliance costs will arise in relation to:

- timing differences (ie dividends and interest - including Div16E)
- net profit calculation
- deemed income
- partially exempt income (eg branch income not subject to tax)
- Penalty for underpayment is calculated under 45-80

kpmg 19

## Your Instalment Rate

- Most recent rate by Commissioner
- Rate you chose
- Earlier rate you chose

(45-110)

kpmg 20

## Notional tax

Notional tax is the tax payable in the prior year, uplifted by a GDP inflator, using the following:

- assessable income of the most recent assessment (or if loss - the most recent return);
- less capital gains (other than super funds);
- less non-loss deductions; and
- less losses available for the instalment year.

kpmg 21

## Introduction Payment Time-line


kpmg 22

## How do you vary an instalment?

- Choose varied rate (div 45-205)
- If varied rate is less than 85% benchmark instalment rate penalty: GIC (45-230)

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## The benchmark rate is:

- The actual tax for the current year on non-capital gains assessable income (45-365)
- Divided by the ordinary income for the current year (45-360).

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## Penalties

1 Failure to notify/instalment insufficient notification of instalment : shortfall x rate x period

2 Late payment of instalment : GIC

3 > 15% error in estimate : GIC

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## Lessons to learn from Australia

- Revenue pull forward had a big impact on cashflow during the transition year
- GDP inflator is less generous than previously
- Default instalment rate doesn't take account of losses
- 15% tolerance on varying is not sufficient
- When tax system used for delivering other policy changes (e.g. deductions/rebates), this will add to the compliance cost for business

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## Singapore options

- Transitional rules to be generous
  - Not driven by revenue bring forward
- Provide flexibility to vary tax payments
  - Means don't penalise if get it wrong
- Consider a threshold for small business & individual (non wage & salary income)
  - under which regular PAYE is not necessary
- Default payment options should err on the side of simplicity, certainty, AND low burden for taxpayer
  - Means don't inflate previous year (already have the use of the money)

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## Summary

- Objective to improve cashflow management and macro-economic stabilisation is sound
- If rules are flexible this aim will be better achieved and the compliance cost to business/individuals will be less onerous

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## For more information

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Tax Services

# PAYE TAXATION SYSTEM: THE MALAYSIAN PERSPECTIVE

Dr Veerinderjeet Singh

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## THE CHANGE

The Basis of Assessment from the Preceding Year Basis to the Current Year Basis w.e.f. Year 2000.

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## IMPLICATIONS OF MOVING TO CURRENT YEAR ASSESSMENT

In the year 2000, there were the :

- PRECEDING YEAR BASIS OF ASSESSMENT:
  Year of Assessment 2000 on the income for year 1999.
- CURRENT YEAR BASIS OF ASSESSMENT:
  Year of Assessment 2000 on the income for year 2000.

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## IMPLICATIONS OF MOVING TO CURRENT YEAR ASSESSMENT

- Income tax was waived on the 1999 income.
- In year 2000, taxpayers paid tax on the current year basis of assessment, i.e. tax for the year of assessment 2000 was based on the income for the year 2000.

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## LEGISLATIVE CHANGES: CURRENT YEAR ASSESSMENT

1. Change in the basis of assessment – Implementation of current year basis of assessment for Year of Assessment 2000 for current year income (2000).
2. Waiver of tax for Year of Assessment 2000 for preceding year income (1999).
3. Provisions in respect of income from business.
4. Anti-Avoidance Provisions.

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## CURRENT YEAR ASSESSMENT

### ADVANTAGES

- FOR THE GOVERNMENT
  As tax was assessed and collected on income derived in the same year, tax was collected based on the current cash flow position and ability to pay.
- FOR THE TAXPAYERS
  Ability to relate the year they pay tax to the income that was being taxed.

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## RETURN FORMS

| | |
|---|---|
| Y/A 2000<br>(preceding year)<br>Return Forms Issued<br>February 2000 | Y/A 2000<br>(current year)<br>Return Forms Issued<br>February 2001 |

Returns accompanied with accounts and tax computation for company cases.

Normal provisions relating to submission of returns applied.

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## PAYMENT OF TAX

Payment of tax in the year 2000 was based on income derived in the year 2000.

All individual taxpayers were on a PAYE system.

For companies, sole-proprietors and partners of a partnership, the Section 107B plan will continue (i.e. the previous instalment plan).

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## PAYMENT OF TAX

- Compulsory Instalment Scheme for non-individuals
- With effect from 1 January 1989
- Based on previous year's assessment
- Directed by the Inland Revenue
- Paid in 5 bi-monthly instalments
- From YA 2000 (current year basis) monthly instalments were due from January 2000 and taxpayer can apply to vary the instalment scheme by 30 June
- Penalties if actual tax is much higher than the revised amount



## WAIVER OF TAX

In respect of all income chargeable to income tax under ITA, 1967 except :

- Dividend income (whether a business/non- business source)
- Income subject to final withholding tax (i.e. interest, royalties, technical fees)
- Non-citizens or non-resident individuals who commenced or ceased employment in 1999.



## WAIVER OF TAX

- Employees who commenced employment before 1 January 1995
  - STD continued
- Employees who commenced employment after 1 January 1995/in Sabah and Sarawak
  - STD stopped in 1999 & re-commenced in 2000



## WAIVER OF TAX

- Other taxpayers
  - continue installment schemes
- Tax Returns had to be Filed for 1999 income (Y/A 2000)
  - NO WAIVER!!



## WAIVER OF TAX

- Only applied to income tax
- Did not apply to petroleum income tax and other taxes
- Did not extend tax holidays/incentives



## WAIVER OF TAX

- Return Forms had to be filed for 1999 income
- Notices of assessment were issued (if taxable)
- For companies, tax computations were issued to confirm losses to be carried forward/exempt account
- Capital allowances deemed claimed



## WAIVER OF TAX

- Unabsorbed business losses/capital allowances brought forward from Y/A 1999 were allowed
- Unabsorbed business losses/capital allowances for Y/A 2000 (1999 financial year) were carried forward to Y/A 2000 (current year)



## WAIVER OF TAX

- Waiver was for the basis period of a company (i.e. financial/calendar year end)
- Restricted to the first 12 months only
- Time apportionment applied if accounts were for more than 12 months
- If company commenced business on1 July 1999 and prepared its first accounts of 12 months to 30 June 2000, NO WAIVER was given

## WAIVER OF TAX

- ABC Sdn Bhd
  - 1.7.1997 - 30.6.1998 ( 12 months)
  - 1.7.1998 - 31.12.1999 (18 months)
  - 1.1.2000 - 31.12.2000 (12 months)

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## WAIVER OF TAX

| Basis Period | Year of assessment |
|---|---|
| 1.7.1997 - 30.6.1998 | 1999 (taxed) |
| 1.7.1998 - 30.6.1999 | 2000 (waived) |
| 1.7.1999 - 31.12.1999 | 2000 (taxed) |
| 1.1.2000 - 31.12.2000 | 2000 (current year basis - taxed) |

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## CONCLUSION

- Switch went on well
- Employees – already on PAYE deductions
- Companies/businesses – already on compulsory instalment scheme
- Administrative changes
- Switch to monthly instalments
- Some fine tuning
- Overall, went on well due to the waiver and avoidance of paying tax for 2 years

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