Taxation in malaysia essay

In 1910, Straits Settlements (Singapore, Malacca, Penang) Legislative Council introduce a draft bill for imposing a tax on income, but faced strong opposition from tax-paying public. So, proposal s to introduce income tax were stated as to “ fund the Imperial War Expenditure”, not to raise revenue. The public agreed. Then, War Tax Ordinance was introduced, in force up to 1919. It was then converted into Income Tax Ordinance 1920, effective from 1 January 1920. In 1922, taxpayers opposed the Ordinance as the 1922 revenue was used to meet local expenditure rather than to advance the war efforts of the Imperial Government. As a result, the Ordinanc e was repealed in that year also.

Till 1941, a tax on profit and income was reimposed in the Straits Settlement. The Ordinance was renewed in 1942 but the attempts to collect taxes were forestalled by the Japanese Occupation of Malaya during 1942 till 1945 (War War 2).

Post Japanese occupation, the Special Tax Adviser to the Governent, R. B. Heasman, was appointed in 1946 to draft a tax legislation. A comprehensive report was completed in 1947, and the Income Tax Ordinance 1947 took effect from 1 January 1948. This marked the beginning of the modern form of income tax on a permanent basis in Malaya. Even then, the press opinion was hostile to this introduction of income tax.

The provisions of Income Tax Ordinance 1947 were based on the Model Colonial Territories Income Tax Ordinance 1922 (UK). The taxability of income for a year of assessment was covered under sec 31 of the Income Tax Ordinance 1947.

The Income Tax Ordinance 1947 was subsequently replaced by the Income Tax Act (ITA) 1967, came into effect on 1 January 1968. This happen in accordance to the formation of Malaysia in 1963. The Income Tax Act 1967 consolidated the three laws of income taxation existing before formation of Malaysia, which include Income Tax Ordinance 1947 (Peninsular Malaysia), Sabah Income Tax Ordinance 1956 (Sabah), and Sarawak Inland Revenue Ordinance 1963 (Sarawak). Under the ITA, income that subject to tax includes business income, employment income, rent, dividens, interest and royalties. Income tax was one of the easy ways by which the Treasury could obtain a steady source of revenue.

Malaysia relied on indirect taxes during her early years of development. Others include export and import duties and land taxes. For examples, in 1960 indirect taxes accounted for 76. 7% of total tax revenue. By 1999, less reliance was placed on indirect taxes as the economy developed and with the introduction of other taxes. In 2012, the estimated share of indirect taxes to total Federal tax revenue was only 15. 82%. Meanwhile, the direct taxes stood at 59. 66%. Direct taxes comprise of corporate income taxes, personal income taxes, petroleum income taxes, stamp duties, witholding taxes and real property gains taxes.

There are 3 sources of revenue law in Malaysia, which are statute law, case law and practice of the Malaysia Inland Revenue Board (IRB). Statute law is the principal direct tax legislations in Malaysia, which include Income Tax Act 1967 (Act 53); Petroleum (Income Tax) Act, 1967 (act 45); Labuan Business Activity Tax Act (LBATA), 1990 (Act 445); Real Property Gains Tax Act, 1967; and Stamp Act, 1949 (Act 378)(Consolidated and Revised 1989). The

Government can introduce changes to the tax laws any time, normally proposed in the annual budget. Then, the proposed changes stated in a Finance Bill will be debated in the House of Representatives and the Senate. After receives Royal Assent from the King, the bill will be gazetted as a Finance Act.

Case laws are the accumulated decisions of the courts upon the interpretation of the statutes. There has been a steady growth of Malaysian case law on income tax. The practice of the Malaysia Inland Revenue Board (IRB) is applied through its review procedures, daily practice in dealings with tax agents and the public, and through public rulings and the guidelines issued by IRB. It did not create “ law”. It is an expression of administrative option and do not bind the courts.

The Malaysian Government derives a major part of its revenue from taxes, both direct and indirect. Direct taxes include: Taxes on Income; Stamp Duty; Real Property Gains Tax; and Petroleum Income Tax. Indirect taxes include: Export Duty; Import Duty; Excise Duty; Sales Tax; and Service Tax (Goods and Services Tax Bill- GST) and Other Taxes.

The taxable income of company, generally, is computed in the same way as that of an individual except that no personal reliefs are deductable. The classes of income in which tax is charged under ITA are: gains from a business; gains from an employment; dividens, interests or discounts; rents, royalties or premiums; pensions, annuities or other periodical payments; and gains not falling under any of the above. Income tax exemption include: income remitted into Malaysia from abroad; salaries paid to the royalties;

allowances to members of parliament; compensation for loss of office due to ill-health and emoluments of any member of the armed forces of a Commonwealth county; certain retirement gratuities; certain interest, dividend and royalty income.

Tax from petroleum income is raised from companies deriving income from petroleum operations. Real Property Gains Tax is a tax on capital gains arising from the disposal of shares held in real property company. “ Real property” means “ any land situated in Malaysia and any interest, option or right in or over such land”. Stamp duty is imposed by the Stamp Act 1949 on instruments. “ Instruments” include every written document.