# Lost in the tax compliance maze — simplicity needed

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Corporate tax compliance rules can be tedious and complex. Income and expenses may have to be meticulously segregated, reclassified, or their movement tracked outside the accounting system. In many instances, taxpayers find that the time and effort needed to comply with some of the rules are not commercially viable.

This article looks at some of the tax compliance aspects that could be simplified.

## Accounting depreciation and capital allowance

For income tax purposes, accounting depreciation that is not deductible but subject to conditions, capital allowance — a form of depreciation at rates prescribed in the Income Tax Act (ITA) — may be available.

It should be noted that not all assets that are depreciated for accounting purposes qualify for capital allowance. Examples include land, intellectual property and certain buildings.

For assets that qualify for capital allowance, the rates may differ from the accounting depreciation rates. This results in a timing difference in a given year, but over the lifespan of an asset, the total "depreciated" for both accounting and tax purposes is the same.

As there is no tax leakage in a timing difference scenario, perhaps the accounting depreciation rates and the capital allowance rates could converge. This eliminates the need to identify the capital allowance rates applicable to each asset. Taxpayers would only need to identify assets that do not qualify for capital allowance. It would also make the computation of balancing adjustments on the disposal or write-off of assets more efficient. Several countries, including the Philippines and Thailand, allow such treatment.

### Percentage of increase in chargeable income

| | THE REDUCED TAX RATE |
|---|---|
| 5% to 9.99% | 23% |
| 10% to 14.99% | 22% |
| 15% to 19.99% | 21% |
| 20% and above | 20% |

## Accrued basis and paid basis

Recent amendments to the ITA saw an increased shift towards allowance of deduction on a "due to be paid" or "paid" basis. For example:

- Interest expense can only be claimed when it is due to be paid;
- Tax filing fee and company secretarial fee can only be claimed when the expenses are paid; and
- Payment subject to withholding tax can only be claimed when the withholding tax has been paid.

On the flip side, certain income has to be brought to tax on a "receipt basis" or "obligatory basis" instead of "accrued basis". For example:

- Advance payments received for services yet to be rendered are taxed on receipt; and
- Debt owing for services yet to be rendered is taxed where there is a legal right to the fees.

These changes require taxpayers to separately trace the income and expenses. Concepts like "due to be paid" and "debt owing" cannot simply be identified from the accounting system. Taxpayers need to review the terms of the contracts and determine when the trigger points occur. They would also need to constantly reconcile the timing of accounting recognition versus tax recognition.

Another cumbersome process is the notification requirement. Taxpayers who wish to claim interest expense when it is due to be paid are required to notify the Inland Revenue Board (IRB) in writing of such an intention within 12 months of the end of the year of assessment. Upon receipt of the notice, the IRB may issue a notice of reduced assessment for the relevant year in which the interest accrued.

These requirements place an unnecessary burden on taxpayers, considering that over a given period, the total tax liability arising from such income and expense is the same. There is, in essence, no tax leakage but there is a tax disadvantage to the taxpayer if they inadvertently miss a manual timing adjustment.

## Segregation of disbursements

Resident taxpayers may claim a deduction of tax filing fees and secretarial fees of RM10,000 and RM5,000 respectively. However, where such fees include disbursements, the IRB requires such disbursements to be identified and disallowed.

Disbursements for such services are usually insignificant. The requirement to identify and disallow such expense creates unnecessary administrative burden — all for a total maximum deduction of RM1,200 and RM2,400 respectively. In view of the nominal deduction, perhaps the IRB could be generous and simply allow the disbursements — subject to the abovementioned prescribed cap.

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