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The Viability of a Pre-Filled Income Tax Return System for Malaysia

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Abstract

Many countries have made various efforts to reduce tax non-compliance and the related compliance costs. These efforts include a pre-filled return system that no longer requires taxpayers to fill-up their tax return form. The aim of this paper is to examine the viability of a pre-filled return system for Malaysia. Specifically, five critical success factors suggested by the Organisation for Economic and Co-operation Development are examined in the Malaysian context. It is found that the pre-filled return system could prove viable due to the existing accurate withholding system, high integrity taxpayer identifiers and effective use of technology. The biggest challenge is posed by the need for comprehensive systems of third-party reporting to the revenue body and compatible legislative framework. The paper concludes that under the current Malaysian tax structure, a partially pre-filled return system is a more viable choice; a fully pre-filled return system is possible for higher detection of non-compliance.

Introduction

Tax compliance has always been an area of concern to governments, tax administrators and society in general. This is due to the fact that tax compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals (Tan and Sawyer, 2003: 1). However, the level of personal income tax (PIT) compliance in developing countries is relatively low and thus resulting in lower level of tax collections as a percentage of Gross Domestic Product (GDP) (Bird & Zolt, 2008: 814). As a result, many tax administrations place enormous effort in combating non-compliance.

However, enforcement activities such as tax audit and penalties may not be sufficient in ensuring compliance. Tax authorities need to balance enforcement with appropriate services to taxpayers (Greni, 2005: 5), one of which includes a pre-filled return system (or sometimes referred to as pre-populated return, pre-completed return or pro-forma return system). It uses third-party information and that held by the tax

authority to issue the pre-populated income tax returns. The system is expected to be beneficial to both taxpayers and tax authorities, including simplifying taxpayers' responsibility as well as reducing a government's costs (Drum, 2004). It may improve the compliance rate among taxpayers while reducing the compliance costs.

Hence, this paper is conducted with the objective to analyse the viability of a pre-filled return system implementation for salaried taxpayers in Malaysia. The analysis is made based on the five critical success factors (CSFs) suggested by the Organisation for Economic and Co-operation Development (OECD) (2006). The CSFs are: an accurate withholding system, high integrity taxpayer identifiers, comprehensive systems of third-party reporting, compatible legislative framework and effective use of technology.

This paper is presented in five sections. Following this introduction is a brief discussion on the Malaysian PIT and non-compliance. The third section explores the development and operation of the pre-filled return system. This is followed by the fourth section which analyses the viability of the pre-filled return system for Malaysia. Finally, the last section presents some concluding remarks based on the study's findings.

Personal Income Tax and Non-Compliance in Malaysia

The PIT system in Malaysia is regulated by the *Income Tax Act 1967*, which mandated all individual taxpayers to submit their income tax return to the Inland Revenue Board of Malaysia (IRBM) annually. For the years 2006 to 2008, personal income taxes formed the country's third major source of revenue, after corporate and petroleum taxes. Personal taxpayers in Malaysia are categorised into two main groups – salaried taxpayers (or those without business income) and self-employed taxpayers. The IRBM requires the latter to fill different tax return forms because the group is subject to different tax deductions and treatments.

The salaried taxpayers have been chosen as the main focus because they have simpler tax affairs, and their income and deduction information is available from third parties. Most countries such as Australia and Singapore start the pre-filling system with the employment information. As of 2008, there were about 4.6 million salaried taxpayers in Malaysia, which makes up 67 per cent of the total personal taxpayers. Further details of the number of taxpayers for both groups are shown in Table 1.

Table 1: Number of Personal Taxpayers, 2008

Type of Taxpayers	Number	Percentage (%)
Salaried taxpayers (Form BE)	3,092,912	67
Self-employed (Form B)	1,496,204	33
Total	**4,589,116**	**100**

Source: Data from personal communication through email by the R&D Department, IRBM (March 25, 2011).

The self-assessment system (SAS) for the PIT system was introduced in 2004. Under this system, each taxpayer is responsible for completing and filing his/her tax

form, calculating tax liability, paying accordingly or waiting for a refund, if any (Kasipillai, 2009), and keeping relevant records up to seven years for audit purposes (IRBM, 2011a). The increased responsibilities have placed a huge burden on taxpayers, especially in learning the tax law (Mansor, Saad & Ibrahim, 2004). Although the main aim of SAS is to increase voluntary compliance (Kasipillai *et al*., 1999), the non-compliance rate after SAS was implemented remains unchanged, even after more than seven years in operation.

In 1997 (before SAS), about 31 per cent of the total return issued by the IRBM was not filed (Kasipillai *et al*., 1999). The non-compliance rate escalated after SAS was implemented. It was reported that about 1.3 million taxpayers who had filed their tax return in previous years did not file for 2005 (Krishnamoorthy, 2006). Due to this non-compliance, Lai and Choong (2009) estimated that the Malaysian Government has lost approximately RM308 million or about AUD$97 million (Exchange rate at the time of writing is RM1=AUD$0.3141) during that year. Data from the IRBM's annual reports and unpublished data from the body reveal that the basic non-compliance rate ranged from 23 per cent to 40 per cent between 2004 and 2008. More details are shown in Table 2.

Table 2: Issuance and Receipt of Tax Returns Form BE and Basic Non-Compliance Rate for Salaried Taxpayers from 2004 to 2008

Year of Assessment	Issued/Active files[Δ]	Received	Basic Non-Compliance Rate
2004[#]	1,959,183	1,283,888	34%
2005[#]	2,198,914	1,683,201	23%
2006[#]	2,105,802	1,621,233	23%
2007*	3,000,272[Δ]	1,796,725	40%
2008*	3,092,912[Δ]	1,982,955	36%

Source: [#]The Inland Revenue Board (2006, 2007, 2009a).
*Data from personal communication through email by the R&D Department, IRBM (March 25, 2011).

In line with the implementation of SAS, the IRBM introduced the electronic filing (e-filing) system to facilitate tax compliance (Lai, Obid & Meera, 2004). The web-based e-filing system is available from the year 2007 (IRBM, 2009b). Nevertheless, the non-compliance rates in the year of assessment 2006 to 2008, as indicated in Table 2 are still high. The non-compliance rate jumped from 23 per cent in 2006 to 40 per cent in 2007. E-filing thus failed to achieve its objective. Under the e-filing system, taxpayers who have used the e-filing system previously are no longer issued the tax return form. There is a possibility that, without this form being issued, taxpayers became more lackadaisical since there is no firm reminder that they have to file their tax return. The number of users for e-filing and manual filing systems for salaried taxpayers and non-compliance rate for 2008 are shown in Table 3. Although the users of e-filing are more than manual filing, Table 3 clearly indicates that the users of e-filing only constitute about 40 per cent of total active salaried taxpayers.

Table 3: Users of E-Filing and Manual Filing Systems for Salaried Taxpayers (Form BE filers) and Non-compliance Rate in 2008

Type of filing system	Number	Percentage to total BE forms lodged (%)	Percentage to total BE active files (%)
E-Filers	1,236,394	62	40
Manual Filers	746,561	38	24
Total BE forms lodged	**1,982,955**	**100**	64
Difference/non-compliance	1,109,957	-	36
Total active files	**3,092,912**	-	**100**

Source: Developed by Ibrahim from data provided through email by the R&D Department, IRBM (March 25, 2011).

Reasons for non-compliance among Malaysian have been cited as the low level of tax knowledge among taxpayers (Kasipillai, Aripin & Amran, 2003; Kamaluddin & Madi, 2005; Palil & Lymer, 2009, Madi *et al*., 2010). With relatively low tax knowledge, Malaysian salaried taxpayers may not be competent to exercise appropriate compliance under the SAS (Loo & Ho, 2005: 53). Saad (2011) argues that taxpayers' attitude is another reason for the low compliance rate among Malaysian taxpayers. Compliance is also discouraged by compliance costs (Slemrod, 1989).

Compliance costs are defined as those costs incurred by taxpayers, or third parties such as businesses, in complying with the requirements in a given tax structure (Sandford, Godwin & Hardwick, 1989). They include the costs of time spent by a taxpayer on completing the tax form or in preparing information for the tax agent or accountant and money spent by a taxpayer on professional fees and miscellaneous costs such as postage and phone calls (Pope, Fayle & Duncanson, 1990). They are also considered by some as a taxpayer's excess burden (Guyton *et al*., 2003).

In Malaysia, the only research that is publicly available on personal taxpayers' compliance costs is from Sapiei and Abdullah (2008). They discovered that the average compliance costs in terms of time spent on compliance activities by an individual taxpayer is 70.6 hours per annum. The estimation is relatively very high as compared to 25.5 hours in the United States (Guyton *et al*., 2003), 8.5 hours in Australia (Evans *et al*., 1997), and 7.16 hours in Canada (Vaillancourt, 2010). The high estimation in Sapiei and Abdullah may be because the SAS was still new during that time and 28 per cent of the study comprises self-employed taxpayers.

Among suggestions to reduce non-compliance rate and compliance costs are the use of technology (Goolsbee, 2004, 2006; Bird & Zolt, 2008) and reliance on third-party information (Slemrod, 1989; Abdul, 2001). These suggestions make a pre-filled return system a suitable solution for salaried taxpayers in Malaysia. The next section will discuss the system briefly.

Pre-Filled Return System

The pre-filled return system was pioneered in Denmark in 1988, followed by other Nordic countries such as Sweden in 1995 and Norway in 1998 (OECD, 2008).

The system then became well accepted in other parts of the world, including Australia in tax year 2004-05 (Evans & Tran-Nam, 2010), the State of California in 2004 (Bankman, 2005), Singapore in 2005 (IRAS, 2005) and Slovenia in 2006 (Klun, 2009). The following subsections explain the pre-filled return system in greater detail.

Definition and Concept

A pre-filled return is defined as 'an original tax return prepared by the revenue authority for the taxpayer, using information obtained from third-party sources and other sources (e.g. records of the revenue body)' (Highfield, 2006: 332) (Highfields's underlining). A system is a set of principles or procedures according to which something is done; an organised scheme or method (Oxford Dictionaries Online, 2011). Therefore, a pre-filled return system can be defined as an organised method in collecting information from third parties and other sources and preparing a pre-populated income tax return by the revenue body for the taxpayer using the latest technological methods. The main ideas of this system are to relieve personal taxpayers of the obligation to file an annual tax return as well as to improve the level of compliance (OECD, 2007).

Under the pre-filled return system, the revenue body is responsible for collecting income and other information from third parties and other sources such as employers, pension funds, banks, unions and investment firms. Based on this information, the revenue body then prepares a pre-filled income tax return, which will be issued to each personal taxpayer. Taxpayers only need to check and verify that the information in the issued pre-filled return is correct. In Denmark, corrections can be carried out over the telephone or via the internet (Danish Ministry of Taxation, 2008). In California's pilot project of the system, only selected employees are involved. Taxpayers were selected based on information in previous years which includes persons who were single, have no dependents, do not itemise and have wage income only from a single employer (Dircksen, 2005).

The pre-filled return system is different from a no-return system such as Pay-As-You-Earn (PAYE) in the UK. In a no-return system, a huge burden is imposed on employers because they have to calculate the tax withheld as close as possible to the final tax liability. Further discussion on this system can be found in Gale and Holtzblatt (1997). However, under a pre-filled return system, tax withholding does not have to be exact. Any differences in tax withheld and final tax liability as calculated in a pre-filled return will result in a tax refund or tax payment, determined by the tax authority using advanced matching and processing systems. Comparatively, the pre-filled return system is considered as more relaxed and does not place a great burden on employers and other third-parties in comparison to an exact withholding system (All-Party Parliamentary Taxation Group, 2009). Thus, the pre-filled return system is deemed as more appealing and its implementation could prove to be more beneficial in the Malaysian context.

A comprehensive pre-filled return in a pre-filled return system contains the following information (Highfield, 2006: 333):

- taxpayer's identification;
- most major income sources and the amount paid;
- asset sales and purchases that may have capital gains or wealth tax implications;
- specific deduction items that can be quantified from third-party sources or are predictable using a formula;
- personal reliefs/tax credits etc.; and
- calculations of tax payable/refundable based on known information.

Most Nordic countries have issued comprehensive pre-filled returns (OECD, 2008). Other countries like Australia and Singapore use a partially pre-filled return system whereby only certain information is included in the pre-filled returns (IRAS, 2005; Evans & Tran-Nam, 2010). Slovenia, as a country in transition, has attempted a comprehensive level of the system in 2008 with several reforms to their tax code and the implementation of a partially pre-filled return system since 2006 (Klun, 2009). In a more advanced policy, Denmark has implemented 'deemed acceptance' whereby taxpayers who do not respond within a specified period will be treated as accepting of the pre-filled returns.

Potential Costs and Benefits of the Pre-Filled Return System

Although the system is estimated to reduce taxpayers' compliance costs, it may affect especially the revenue body's costs. The costs can be divided into two categories, namely start-up costs and maintenance costs. Start-up costs include investment in new infrastructure that would accelerate the processing and matching of information (Holtzblatt, 2007), programming and survey design (Bankman, 2005). Based on Californian experience, Franchise Tax Board (FTB) (2009) reported that the start-up costs for their ReadyReturn project for the fiscal year 2004/05 was US$222,000.

The recurrent costs may include postage costs, some administrative costs for data collection, monitoring and website maintenance as incurred by the FTB (Bankman, 2005). Other relevant costs as identified by the OECD (2006) are incidental costs arising from tracking taxpayers' information that requires personalised withholding rates, processing taxpayers' adjustments to the pre-filled returns and the risk of taxpayers not reporting missing income in the pre-filled return.

The pre-filled return system benefits both taxpayers and the revenue body. Several benefits of the pre-filled return system for taxpayers include reduction of compliance time and costs, increased certainty and faster refunds for overpaid tax (OECD, 2006). Davidson (2009) argues that the pre-filled return system reduces substantial time and efforts in filling in a PIT return form, calculating tax liability and submitting the income tax return. By eliminating those requirements, Leigh (2006) states that Australians would have an additional public holiday due to estimation of compliance costs made by Evans *et al.* (1997). In Slovenia, compliance costs were estimated to be around 73 per cent lower under a pre-filled return system (Klun, 2009), although this seems rather a large reduction.

The revenue body, on the other hand, benefits from the system as it enables faster processing of a taxpayer's return, quicker refunds of overpaid tax to a taxpayer, reduced administrative burden such as checking, and an enhanced image for the revenue body from improved service delivery (Highfield, 2006). It was also reported that the rate of tax evasion is very small for income that is subject to third-party reporting (Kleven *et al.*, 2010). Interestingly, the psychological effect on taxpayers may be significant as the taxpayers may be surprised to see how much information the revenue body has (Evans & Tran-Nam, 2011).

Analysis of Viability of the Pre-filled Return System for Malaysia

The assessment of the pre-filled return system in the Malaysian context may now be analysed based on the critical success factors (CSFs) identified by the OECD (2006). Specifically, the CSFs are (1) accurate withholdings at source, (2) high integrity taxpayer identifiers, (3) comprehensive third-party reporting system and timeliness of reporting, (4) compatible legislative framework, and (5) effective use of technology.

CSF 1: Accurate Withholding System

Accurate withholdings at source are essential to ensure that aggregate withholdings over a tax year are more or less approximate to taxpayers' total tax liabilities. This is to minimise the administration of large refunds of tax and tax liability (OECD, 2006). In Malaysia, the withholding system for employment income is managed by the Monthly Tax Deduction (MTD) system. The system commenced on 1 January 1995 under the provision of *Income Tax (Deduction from Remuneration) Rules 1994 (MTD Rules)* as gazetted in Explanatory Notes by the IRBM (2010a). According to the Rules, 14 items are subject to the MTD calculations, including salary, wages, overtime payment, commission, tips, allowance, bonus or incentive, director fee, perquisite, employee's share option scheme, tax borne by the employer, gratuity, compensation for loss of employment, and other remuneration related to employment. However, benefits in kind received from employment, such as the company car and driver and living accommodation provided by an employer, are not included in the calculation of the MTD but are taxable.

The MTD is determined based on either one of the following methods: (1) schedule of MTD or (2) computerised calculation (IRBM, 2010a). Calculation based on the schedule captures income group (not the exact income), employee's marital status, employee's provident fund (EPF), and number of children under 18 years old. The calculation based on the computerised calculation method, however, is more precise. The computerised method calculates MTD based on actual incomes and deductions claimed by taxpayers (which may include those not subject to MTD).

In order to facilitate accurate calculations of the MTD, IRBM has allowed taxpayers to adjust their MTDs with the items not captured in the generated MTDs (IRBM, 2010a). Allowable adjustments are in two forms: (1) to reduce MTD by claiming for deductions and rebates and (2) to increase MTD by adding on benefits-in-kind received from employment, including the value of living accommodations. The IRBM also approved 51 software providers as at 30 September 2010. These software

providers offer approved software in order to calculate MTD using computerised method.

Besides that, free online software namely 'e-PCB' and 'e-Kalkulator' are also provided by the IRBM to encourage small companies to use the computerised method. On the other hand, employees are also given the opportunity to calculate their own MTD using the online 'e-PCB' calculator provided at the IRBM website. This facility helps employees to check whether their MTD is calculated correctly by their employer. Currently, however, it is doubtful whether employers and employees are aware of these developments. Therefore, the IRBM should address this as an urgent priority.

In Malaysia other investment incomes, such as interest and dividends, has withholding tax deducted at the source. All interest received from financial institutions has already been taxed. Dividend incomes are moving towards a fully single tier system in 2013. Under this system, dividends received are final and net of tax, which means that the dividends distributed will be exempt from tax in the hands of shareholders (MICPA, MIA & CTIM, 2009). Therefore, the first CSF is evaluated as viable to achieve. This is mainly due to the availability of the computerised MTD that manages to accurately calculate the withholding of tax from employment income.

CSF 2: High Integrity Taxpayer Identifiers

The high integrity of a taxpayer identifier is important for the tax authority to match and process large volumes of third-party reports accurately and securely with tax records. The taxpayer identifier should be printed on all reports prepared by a third party for the revenue body. Previously, an income tax reference number was used by the IRBM as a taxpayer's identifier. The income tax reference number had to be enclosed in all tax-related forms and letters to and from the revenue body. However, since 18 January 2010, a Malaysian citizen needs only to use his/her MyKad number as the single reference number in all transactions carried out with any government agency (MAMPU, 2010). The MyKad number is basically the Malaysian citizenship number. However, for security control, government agencies are allowed to create a second level review mechanism to confirm the identity of the customer before a transaction is carried out (Bernama, 2010). In effect, the IRBM can still use an income tax reference number as the second verification code.

The use of a single identification number (which is the MyKad number) as a taxpayer identifier enables ease of memorisation by a taxpayer and facilitates the matching of information received from a third-party to a taxpayer's record by the tax authority. Nevertheless, the credibility of the single identification number as a taxpayer's identifier is yet to be examined. This suggests that Malaysia may need to carry out a study or an audit of citizenship number to determine its integrity of the MyKad as a single identifier. However, as a start, the current use of the MyKad number is a viable tool for a pre-filled return system to be implemented.

CSF 3: Comprehensive Systems of Third-Party Reporting to the Revenue Body

The level of comprehensiveness of taxpayers' information reported by third parties depends on the nature and scope of information required by the revenue body. The scope of information required by the IRBM from employers is covered by *Section 83(1) and (1A) Return by Employer, Income Tax Act 1967* (IRBM, 2010b). According to the Act, employers are required to produce a remuneration statement which is referred as an EA/EC Form to the employees and E Form to the IRBM. The forms are the main forms that contain information from employment to be pre-populated by the revenue body.

The EA/EC Form is to help employees to fill in their income tax returns. It contains details of employment income and deductions. The E Form contains the same information as the EA/EC Form but as a total figure. For example, the EA/EC form shows each item of employment income, benefits and living accommodation provided by employer, but the E Form only shows a total figure of those items. Moreover, the EA/EC Form shows details on zakat payment (a rebate item) and contribution to an approved fund (a relief item), which are not contained in the E Form. Using the E Form, the body can only pre-populate gross employment income, total income (if the taxpayer has only employment income source) and the MTD. However, the chargeable income cannot be determined as it requires information on reliefs and rebates.

As a result, it can be concluded that current systems of third-party reporting to the revenue body are not so viable for a successful pre-filled return system. As this paper focuses on salaried taxpayers, it is suggested that the information held by the employers to calculate MTD (but not available to the IRBM) such as marital status, number of children under 18 years old and reliefs claimed by taxpayers, be available to the IRBM for tax liability calculation.

CSF 4: Compatible Legislative Framework

Ideally, to operate the pre-filled return system successfully, tax law should have limited nonstandard deductions, (Highfield, 2006; OECD, 2006), fewer personal tax rates, wide scope of withholding at source (Evans, 2004), an individual rather than a family as the unit of taxation, and a large exemption on capital gains from tax (Gale and Holtzblatt, 1997). Specifically, Evans (2004) suggests that work-related deductions be removed from tax structure. Those factors are to ensure that the calculation of tax liability can be done and accepted without amendment by taxpayers and the scope of taxpayers is covered widely.

Currently in Malaysia, there are a variety of tax deductions (which include deductions related to work expenses, reliefs and rebates as well as gifts and donations) and about ten tax brackets for individuals. These tax structures are possible sources of inaccuracy in MTD and need improvement. Work related deductions, reliefs, gift and donations, and rebates available for year of assessment 2010 as well as the availability of the information to revenue body are shown in Table 4. It is found that the majority of the deductions information is not available to the IRBM at current stage.

Table 4: Availability of Deductions for Personal Income Tax in Malaysia

Types of Deduction	Availability of the information to the IRBM at current stage	Party who produces/holds relevant receipt/information
Work-Related Expenses		
(e.g. official travel expenses and, professional fees)	No	Employer
Reliefs:		
1. Self and dependent	Yes	n/a
2. Medical expenses for parents	No	Medical institutions
3. Basic supporting equipment	No	Pharmacy/shops
4. Disabled taxpayer additional relief	No	Welfare dept./hospital
5. Education fees (Individual)	No	Educational institution
6. Medical expenses for serious diseases	No	Medical institutions
7. Complete medical examination	No	Medical institutions
8. Purchase of books, journals, etc.	No	Shops
9. Purchase of personal computer	No	Shops
10. Net saving in SSPN's scheme	No	Financial institution
11. Purchase of sport equipment	No	Shops
12. Subscription fees for broadband	No	Internet provider
13. Interest expended to finance purchase of residential property	No	Financial institution
14. Spouse/Alimony payments	No	Marriage registrar/previous return
15. Disabled spouse	No	Welfare dept./hospital
16. Ordinary child relief	No	Employer/previous return
17. Child ≥ 18, not married and receiving full time normal education	No	Taxpayer/educational institution
18. Child ≥ 18, not married and pursuing diploma or above qualification	No	Taxpayer/educational institution
19. Disabled child	No	Welfare dept./hospital
20. Life insurance and EPF	No	Insurer/EPF institution
21. Premium on annuity scheme	No	Insurer
22. Education and medical insurances	No	Insurer
Gifts and Donations	No	Approved institutions
Rebates:		
1. Chargeable income below RM35,000	Yes, if deductions are correct	n/a
2. Zakat payment	No	employer/zakat institution
3. Fee/levy for foreign worker	No	employer/taxpayer

Source: Developed by authors from AljeffriDean (2009: 62-63) and the IRBM website (IRBM, 2011b).

In Malaysia, the unit of taxation is generally an individual (whether single or married). By default, a married couple will be treated as separate individuals by the tax authority. Taxpayers may opt for joint assessment if they think the assessment is better or produces a lower tax liability. This situation may create a lot of options for taxpayers and the options affect the type of reliefs and rebates that they may claim. The use of a tax card as in Denmark may help determine the status of taxpayers more accurately as the information is updated by taxpayers themselves when changes happen (Danish Ministry of Taxation, 2008).

Fortunately, interest and dividend incomes in Malaysia are subject to withholding tax at the source. Capital gains tax was exempt starting from 1 April 2007 (Choong, 2009) but it was reactivated in 2009. The situation would be a source for inaccuracy in MTD. Therefore, it should be added by taxpayers themselves in a pre-populated return as implemented in Denmark and Sweden (OECD, 2008).

Generally, the availability of too many reliefs, rebates and work-related expenses in Malaysia is deemed as not viable for a successful pre-filled return system. They also increase the compliance burden (Evans, 2008) and create a source for tax evasion (Highfield, 2006). Therefore these items should be given high attention. As a suggestion for reform, other countries such as Slovenia reduced the nonstandard reliefs and introduced general tax relief (Klun, 2009). Slovenia has also reduced their number of tax brackets from six to five in 2004 and to three in 2007 to enhance their pre-filling system. Overall, the reform needs strong support from government and political parties (Bird & Zolt, 2008).

CSF 5: Effective Use of Technology

This CSF combines three technology-related CSFs recommended by OECD (2006), comprising (1) high degree of automation among information suppliers, (2) large scale information processing and (3) automated and minimal interactions with the taxpayers. The effective use of technology requires the revenue body to use technology as optimally as possible in order to receive bulk information from third parties, to process the information and to match for relevant taxpayers.

In doing so the IRBM should have a good system for internal processing and also facilities for interfacing with taxpayers. The internal processing system should be able to match all the information received from third parties or from its own database to relevant taxpayers and try to determine their tax liability. On the other hand, the taxpayer interface should have a good automated system that can handle information submitted as well as queries from third parties and taxpayers so that less human interaction is needed. Currently, the services rendered by the IRBM are not considered satisfactory as about 51 per cent of surveyed taxpayers indicated that tax authorities delayed their responses to tax correspondence (Lai & Choong, 2009).

Although there is no current study that analyses the capability of IRBM in providing the necessary technological resources, it could be surmised that the body has appropriate resources based on the various efforts made by the Malaysian Government in ensuring technological development, including the launching of the Multimedia Super Corridor in 1995 and the various applications of electronic systems (such as e-filing, e-Daftar and e-PCB) by the IRBM itself. The body also has experience in processing large volumes of information for the e-filing system that has operated for more than five years for individual taxpayers.

Effective use of technology is also necessary for third-parties in order to gather and generate all information in a timely manner. This may not be a barrier for large companies that have better resources to acquire good systems. However, there is a concern for small businesses with limited resources. Therefore, the IRBM may have to take extra effort in order to facilitate these small businesses in terms of systems

requirements if a pre-filled return system is to be implemented successfully. Overall assessments of the CSFs are summarised in Table 5.

Table 5: Summary of Findings for the Five Critical Success Factors Analysed

CSFs	Findings	Assessment
Accurate withholding at source	• Mechanism for accurate withholding at source is available (the MTD) but the accuracy can be improved via improving the CSF 4.	√
High integrity taxpayer identifiers	• MyKad is used as the main taxpayer identifier and tax file number as the secondary. This means that the taxpayer identifiers are viable. • However, the integrity of the identifiers needs to be studied.	√
Comprehensive systems of third-party reporting	• Covered by s83(1) and s83(1A) of ITA 1967. • Information required is not enough for a successful pre-filled return system. Only information on gross employment income, exempt allowance and MTD amount available to the IRBM.	X
Compatible legislative framework	• Variety of nonstandard deductions available (more than 20 types of reliefs and rebates). • Ten tax brackets with different marginal tax rates • Although by default taxpayers are assess separately, married couple may opt for joint assessment which will affect the deductions available for them.	X
Effective use of technology	• Appropriate technological resources available for the IRBM. • Previous experience on e-filing system helpful. • System interaction with taxpayers should be improved as indicated in previous study. • Small third-party is a concern for effective use of technology.	√ (for the revenue body)

√ denotes as viable
X denotes as not so viable

Concluding Comments

This paper analyses the viability of a pre-filled return system for Malaysian salaried taxpayers. Low compliance rates and high compliance costs are the main reasons for the new system to be analysed. The analysis is based on the five critical success factors suggested by the OECD (2006). The analysis indicates that three of five CSFs can be considered as 'viable' for the pre-filled return system. They are accurate withholding at source, high integrity taxpayer identifiers and effective use of technology. However, two most important areas, namely comprehensive systems for third-party reporting and compatible legislative framework, need priority attention from the government if a successful pre-filled return system is to be implemented for Malaysian salaried taxpayers.

In conclusion, under the current Malaysian tax structure, a partially pre-filled return system is a more viable choice than a comprehensive one. This is because

comprehensive systems of third-party reporting and compatible legislative framework do not exist at the current stage. These are the reasons for non-accurate MTD calculation. Furthermore, the current tax structure should have fewer options (e.g. tax reliefs) so that the pre-filled returns are correctly prepared. A fully pre-filled return may be a wasted effort because the return will almost certainly be amended by taxpayers. However, it is useful as a mechanism for detection of non-compliance.

The benefits of the pre-filled return system could prove to outweigh the costs of implementation especially in terms of low compliance costs and non-compliance rate. But a full assessment by government and the IRBM is needed. Future studies may consider simplification of the current PIT structure so that the proposed system will be more successful in terms of cost savings and easier to introduce. Views of third parties particularly employers, could also be studied as their successful participation will be directly required in any new pre-filled system.

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