

Asian Development Bank 17th Tax Conference
Tokyo – 8-11 October 2007
Streamlining Personal Income Tax Systems

Asian Development Bank

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**Streamlining
Personal Income Tax
Systems**

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3 Critical Areas

- Policy
- Legislation
- Administration


Tax Policy

Fundamental objectives

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- To collect tax revenue from individuals
 - To influence individuals' economic behaviour
 - Income redistribution
 - Fairness
 - Taxpayer engagement
 - Enforceability

Tax Policy

Fairness

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- Global vs. schedular taxation
 - Benefits in kind
 - Flat tax rate
 - e.g. Russia, Hong Kong, China
 - Progressive scale
 - Steepness of progressive scale

Tax Policy

Taxpayer Engagement
means

Keeping the tax law and
administrative processes simple

Engagement = Simplicity

Tax Legislation

Simplicity

- Comprehensibility
 - Understandable legislation
 - Uncomplicated law
 - Logical law
 - Simple language
- Reduce opportunities for:
 - Tax avoidance
 - Tax evasion
 - Corruption

Tax Policy

Motto

*“Tax evasion should be difficult;
tax paying should be easy.”*

Tax Policy

- **Personal exemptions/deductions**
 - Reduces **taxable income**
 - Problems with progressive tax system
- **Income tax rebates**
 - Reduces actual **tax payable**
 - Achieves taxpayer equity

Tax Exemption

Samoa



SAT	Marginal Tax rates
0 – 12,000	0%
12,001 – 15,000	10%
15,001 – 20,000	20%
> 20,001	27%

Tax Exemption/Rebate


Malaysia



MYR	Marginal Tax Rates
0 – 2,500	0%
2,501 – 5,000	1%
5,001 – 20,000	3%
20,001 – 35,000	7%
35,001 – 50,000	13%
50,001 – 70,000	19%
70,001 – 100,000	24%
100,001 – 250,000	27%
> 250,000	28%


Tax Rebates

Malaysia



Purchase of a computer for personal use at a cost of MYR 3,000 (once every three years)


Business Individuals




Closer alignment of accounting profit measurement with taxable income measurement

- Captures broader range of income
- Reduces compliance costs

Business Individuals

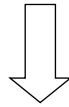
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- Periodic tax payments
 - Cash flow to Government
 - Basis of calculation
 - Audit focus
 - Standard of recordkeeping and accounting
 - Identification and timing of income and expenses

Self-assessment

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- Taxpayer calculates his/her own tax liability
 - Ideally, primarily business taxpayers and capital gains
 - Reduces tax administration cost (but increases taxpayer compliance costs)
 - Buttressed by comprehensive penalties regime for non-compliance

Final Withholding Tax

Minimise compliance burdens and costs



Final withholding tax on source deduction payments

Final Withholding Tax

- Application
 - Salary and wage earners
 - Passive income earners
- Advantages
 - Ensures Government collects at least part of tax
 - Speeds up collections
 - Taxpayers automatically pay their tax liability at source
 - Tax administration deals with fewer individuals
 - Reduces administration costs
 - Better accuracy and audit

Final Withholding Tax

Effectiveness depends on:

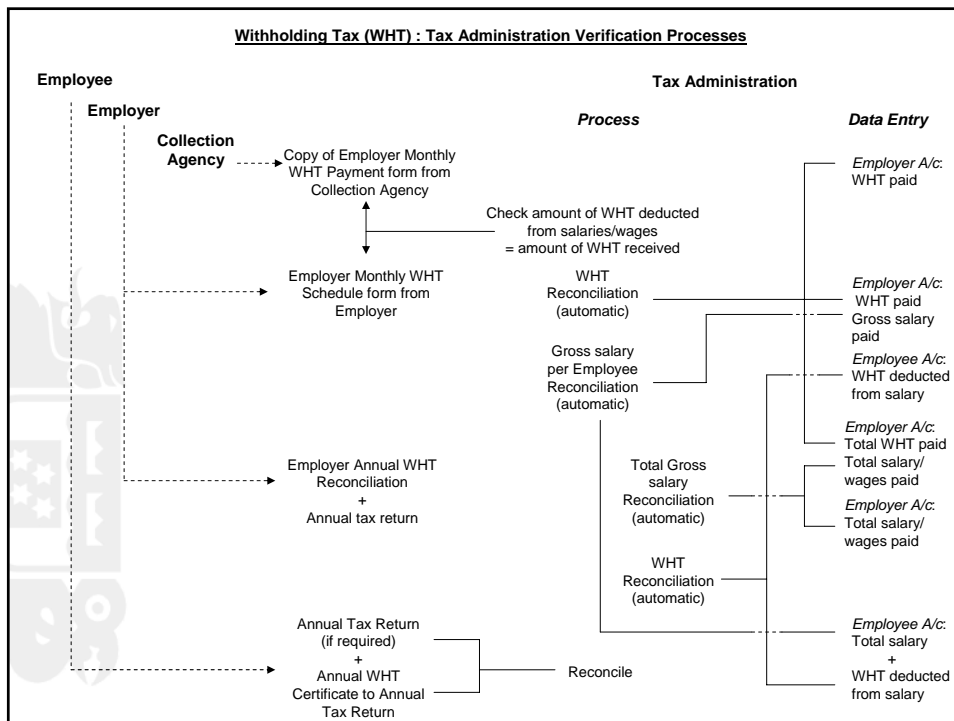
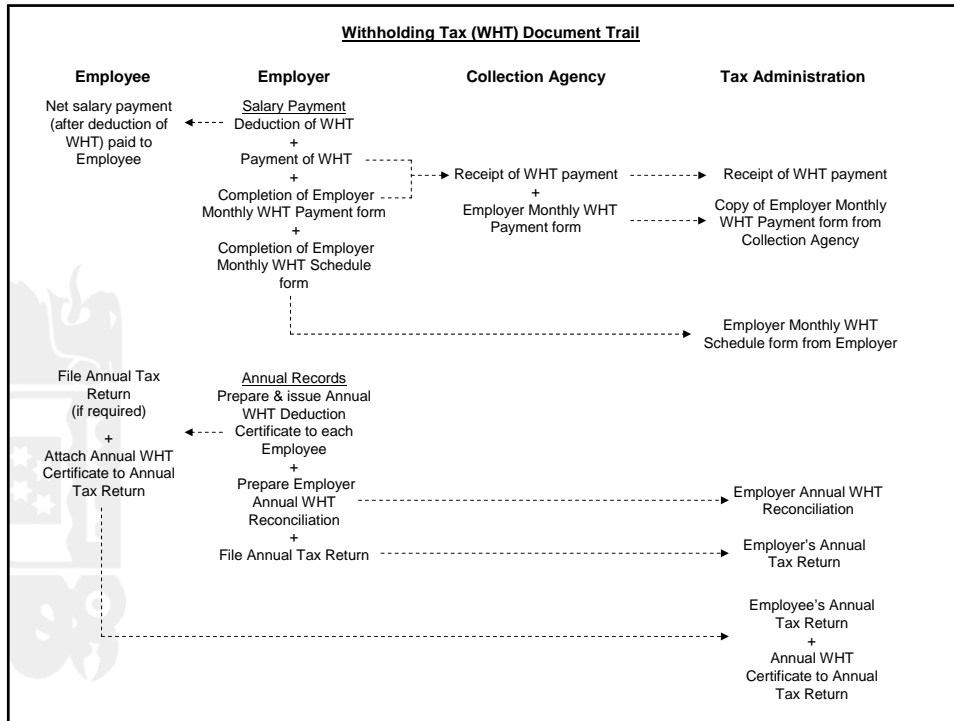
- Payer accuracy and level of record keeping
- High level of payer compliance
- Penalties borne by payers
- Correct taxpayer tax code declarations
- No (or minimal) income tax deductions

Final Withholding Tax

Information and documentation flow

- TIN numbers
- Funds regularly sent to tax administration (e.g. each month)
- Monthly reconciliations of withholding tax received
- Annual reconciliations of gross income and tax withheld
- Example: salaries and wages

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Final Withholding Tax



Duplicate for other payers of withholding income:

- Banks, other finance institutions and borrowers (interest)
- Companies (dividends)

Tax Returns

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- No need for individuals to file returns if they have only source deduction income, provided:
 - Tax code declarations are correct; and
 - Payer calculations are correct
 - Tax administration automatically calculates balance of tax payable/refund

Tax Refunds



Speedy refunds for overpayment of tax


- Increased taxpayer confidence/acceptance of system
- Increased engagement

Tax Refunds




- Choice on return to show how refund to be paid
- Interest on overpaid tax
- Paid from central/regional level of tax department
 - Strengthens tax administration's internal controls
 - Authorisation level by amount of refund

Investment in IT


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- Efficiency
 - Cost effective
 - Facilitates:
 - Accurate records and calculations
 - Regular reconciliations
 - Better audit
 - Identification of discrepancies
 - Faster remedial action

Compliance and Penalties Regime


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- Stiff penalties for non-compliance, especially:
 - wrong tax code declaration
 - wrong withholding tax deductions by payers
 - wrong self-assessment
 - Deterrent as well as remedial
 - Retrospective assessments with compounding penalties where non-compliance detected
 - “Use of money” interest

Audit


Strategy

- 
- Pre-determined
 - Known to taxpayers
 - Expectation of audit every (say) 5 years on average


Audit

- 
- Far fewer payers of income than recipients of income
 - Focus on **payers** of income
 - Employers (salaries and wages)
 - Borrowers (interest)
 - Companies (dividends)
 - Reduction in tax administration costs


Audit

- 
- Audit risk assessments largely confined to:
 - payers of source deduction payments
 - business individuals
 - Individuals who derive capital gains

Emigrating Taxpayers

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- Integration with border control
 - Timely flow of up-to-date information
 - Immediate removal of name after payment of tax
 - IT link with Immigration Department


Taxpayer Services




Encourage taxpayer compliance by providing information and assistance to taxpayers:

- to engage taxpayers
- to make life easy for them to engage


Taxpayer Services

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- Information and education
 - Easily accessible forms and documents
 - Assistance with business records
 - “New business” teams

Tax Agents

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- Reduces number of taxpayers to deal with directly
 - Information of higher standard
 - Quality can be assessed and monitored by tax department
 - Administration costs passed on to private sector
 - Creates business opportunities

Education and Training

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- Taxpayer
 - Businesses
 - Small traders
 - Schools
 - Accountants

Education and Training

- 
- **Tax administration staff**
 - Basic concepts to all staff for general understanding and ability to recognise issues
 - Technical issues for individuals at appropriate level
 - e.g. New Zealand IRD courses