



Monthly Tax Deduction as a Final Tax: Is it a Good Choice?

Idawati Ibrahim

*Tunku Puteri Intan Safinaz School of Accountancy
Universiti Utara Malaysia*

Muzainah Mansor¹

*Tunku Puteri Intan Safinaz School of Accountancy
Universiti Utara Malaysia
E-mail: muzainah@uum.edu.my*

Natrah Saad

*Tunku Puteri Intan Safinaz School of Accountancy
Universiti Utara Malaysia*

Zainol Bidin

*Tunku Puteri Intan Safinaz School of Accountancy
Universiti Utara Malaysia*

Abstract: The case presents the work experience of an employee named Zara. She was a new Chief Financial Officer at a company located in Kuala Lumpur, Malaysia. She was excited and enthusiastic about her new job. However, she became anxious as she was given the responsibility of making a decision regarding a new tax scheme which was recently implemented at her company. Her company wanted her to decide whether to continue with the new tax scheme or revert back to the old tax scheme. She realised that the new tax scheme had both the advantages and disadvantages in its implementation. She had to convince her company with good suggestions if she decided to continue with the new tax scheme.

Keywords: Tax deduction scheme, monthly tax deduction, final tax

Zara had just joined CHEMICORAL SDN BHD, a subsidiary of CORAL BERHAD, a fast moving chemical-based products group of companies based in Kuala Lumpur, Malaysia, as the Chief Financial Officer (CFO). As a newly appointed CFO, Zara was responsible to handle all affairs relating to the monthly salary of the employees. She had to review the Monthly Tax Deduction as Final Tax (MTDFT) scheme which was implemented by the company. CHEMICORAL SDN BHD had been chosen as a pioneer company in CORAL BERHAD to implement the scheme. Recently she received an email from Mr. Dawood, the Head of Finance Department of CORAL BERHAD headquarters; he requested a formal report on the implementation of MTDFT before the next management meeting which would be held in two weeks. However, Zara was critically thinking whether to continue with the scheme or not as there were so many issues in successfully implementing the scheme.

BACKGROUND OF CHEMICORAL SDN BHD

CHEMICORAL SDN BHD was established in 1998. It is a subsidiary of CORAL BERHAD (CORAL) and involved in producing synthetic rubber products based in

¹ Corresponding Author

Kuala Lumpur, Malaysia. It had 11,000 employees from all different levels and divisions.

CHEMICORAL business activities included (i) research and development of synthetic rubber products; (ii) production of synthetic rubber products; and (iii) sale of synthetic rubber products in Malaysia and overseas. Committed to ensuring business sustainability, CHEMICORAL also strived to contribute to the synthetic rubber industry in Malaysia by producing innovative products that could be used both in Malaysia and overseas.

To be known in global market, CHEMICORAL had a vision “to be a leading synthetic rubber products multinational company” and mission “to be a business entity which produces high quality synthetic rubber products; to be responsible to develop and add value to synthetic rubber produce and to contribute to the well-being of the people and the nation.”

CHEMICORAL had organisational structure (Figure 1) consists of one Managing Director and three Chief Officers (Chief Human Resource, Chief Production Officer and Chief Financial Officer). The Chief Human Resource was assisted by Human Resource staff while the Chief Production Officer was assisted by a General Manager Material Resource Planning, an Assistant Material Resource Manager and Production Division staff. Finally, the Chief Financial Officer (CFO) was supported by two managers, i.e. the General Manager Purchasing and the Finance Manager and other staff. The preparation of employees’ salary including MTDFDT was done by the Finance Manager with the information supplied by the Chief Human Resource.

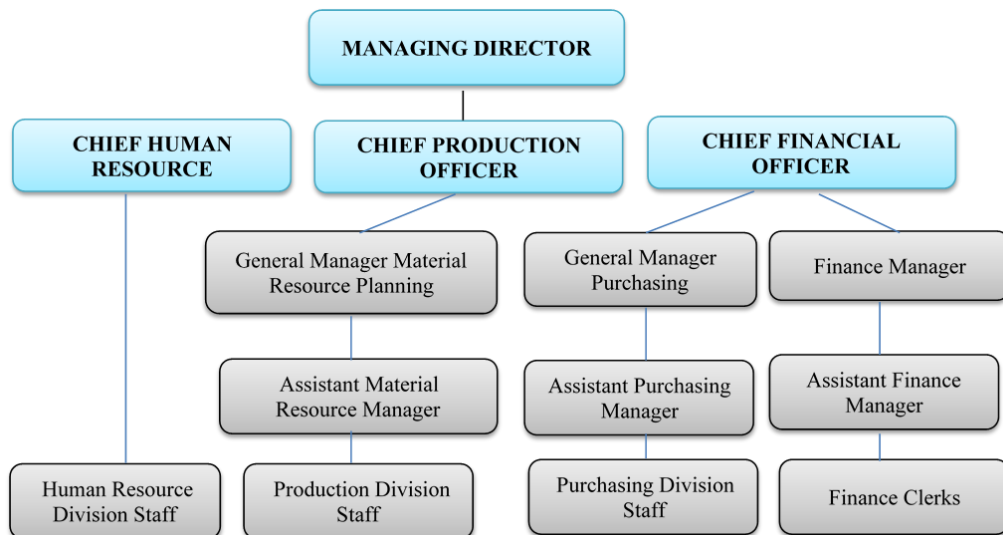


Figure 1: The Organization Chart of CHEMICORAL SDN BHD

CURRENT PRACTICE OF MTDFT AT CHEMICORAL SDN BHD

The IRBM had introduced the MTDFT since the year 2014 as being tabled by the Finance Minister in the 2014 budget. The MTDFT was expected to be similar to the Pay-As-You-Earn (PAYE) system in the UK or Pay-As-You-Go (PAYG) system in Australia. The introduction of the new scheme was mainly to reduce the burden of filing the return forms among the salaried taxpayers group. Under this new scheme, the taxpayer might choose not to file a return form if he or she accepted his/her MTDFT. There was no refund or extra tax payment under this system as the calculation of MTD needed to be as accurate as possible. To ensure this, employees needed to update their employers on their circumstances, especially the items related to personal tax reliefs and rebates so that the calculation of MTDFT could be done accurately. However, this might impose extra burden especially to the employers because in Malaysia, the burden of calculating the MTDFT (which should be the correct amount of monthly tax liability) had been shifted to the employers. While, the success of the MTDFT was unknown, CHEMICORAL had already implemented this new scheme.

CHEMICORAL opted to exercise MTDFT on its approximately 11,000 employees. Under this scheme, the employees of CHEMICORAL were given option to accept MTDFT or to file their personal tax returns every year as normal practice. This proactive move was undertaken in order to facilitate its employees. Under this scheme, CHEMICORAL was responsible to calculate, withhold monthly taxes from its employees and remit the amount by the 10th of the following month in accordance with the Income Tax (Deduction and Remuneration) Rules 1994.

The implementation of MTDFT involved the CFO (Zara) of CHEMICORAL and Head of Finance Division (Dawood) from CORAL BERHAD. At CHEMICORAL, the calculation of MTDFT was done by the Finance Manager based on the information on employees' background supplied by the Chief Human Resource. With quite a big number of CHEMICORAL staff, processing payrolls and MTDFT every month were huge tasks for both divisions (Human Resource and Finance divisions). As a pioneer company in CORAL to implement the MTDFT scheme, Zara needed to report to the Head of Finance Department at CORAL headquarters regularly on MTDFT progress.

With the implementation of MTDFT, Zara had to furnish a complete and accurate employees' information in a return form when submitting MTDFT (on a monthly basis which will eventually submitted to the IRBM) to CORAL. The form included income tax number (if any); name as stated on identity card or passport; new and old identity card number/police number/army number or passport number (for foreign employee); and MTD/additional deductions amount.

Before submitting the form to Coral, Zara had to make sure that the employees who chose this scheme had satisfied three criteria. i.e. (1) receiving their employment income as prescribed under Section 13 of the Income Tax Act 1967; (2) deducting MTD under the Income Tax (Deduction from Remuneration) Rules 1994; and (3) serving the same employer for a period of 12 months in a calendar year (i.e. January 1 – December 31), as in accordance with the IRBM rules.

As for the employees, they were required to submit Form TP1 (the relief and rebate form), to Finance Division. It was in this form that employees should state the reliefs

that they were entitled to facilitate the computation of MTDFT. Employees that chose MTDFT by submitting Form TP1 were no longer needed to submit their tax returns by the deadline in the following year. As for employees who did not choose MTDFT scheme, they were required to file their tax return form annually under the standard MTD scheme.

ISSUES IN IMPLEMENTING MTDFT AT CHEMICORAL SDN BHD

As far as Zara was concerned, there was no workshop or briefing on MTDFT that had been carried out by CHEMICORAL or CORAL to its employees. Discussion by Zara with the staff at her department indicated that very few employees opted for this scheme although the scheme offered huge saving especially on time and costs on income tax matters. CHEMICORAL had made an investment in developing the MTDFT software (for MTDFT calculation) and if it was underutilized by the employees, it was a waste of money.

This scenario made Zara wondered what was wrong with the scheme. One of the employees, Sari said *“I have very minimum understanding on MTDFT; I only know that I don't have to do tax return if I choose this scheme and it will be automatically computed”*. Moreover, another employee, Zaman said *“There is no complete and clear information or engagement from the top management to explain about this. I am not sure whether I can claim deductions or reliefs under this scheme”*.

Another issue was the problem related to Form TP1, particularly the lack of employees' awareness on the timing of its submission. Zara read an article which stated that the Executive Director of Malaysian Employers Federation (MEF) proposed Form TP1 to be submitted only twice a year (as opposed to monthly submission), either in June or July and November. This would reduce the burden in managing the MTDFT. Furthermore, he added that the main reason employees did not submit their Form TP1 was because most employees prefer to file their income tax returns only in April every year. Zara agreed with the opinion of the Executive Director of MEF on the timing of Form TP1 submission.

Another area of concern was that Form TP1 was only available in hard copy; hence it was inconvenience for the employees to fill up the form regularly. From previous discussion with the employees, Zara remembered that David said *“There is no system prepared by the company for me to inform the employer about all my tax deductions or relief throughout the year. I cannot check whether the employer has recorded all the information about my claims. I do not know to whom to report the claims and no information on what I am supposed to do regarding MTDFT”*.

Further, Zara also worried about the accuracy of MTDFT calculation because employees might request for many reliefs and rebate to be deducted. As indicated in the IRBM website, there were more than ten types of reliefs available for personal taxpayers to claim on top of the standard relief such as personal relief, and wife and children relief for married couple. In addition, from the observation of Zara on personal reliefs, the list might be changing every time the new budget was announced. Zara also noticed that the IRBM had warned taxpayers against claiming more tax reliefs than they were entitled if they opted for MTDFT. The fine could range between RM1,000 and RM10,000 plus 200% of the tax undercharge. Zara thought that there should be some

ways to avoid false claims made by the employees as being implemented by other countries' tax authorities. However, in Malaysia, the IRBM did not give much guidance on the implementation of MTDFT.

WHAT IS NEXT?

Zara sat back in her chair in the office and contemplated the challenges ahead. She was surprised that Mr Dawood, the Head of Finance Department at CORAL BERHAD headquarters requested her to prepare the report in such a very short period. She felt tense as she was still new to CHEMICORAL. However, "*this is the time for me to prove that I am capable of handling my job efficiently*", said Zara to herself. Zara gathered her strength and started thinking about what to report to Mr Dawood. The alternatives that Zara had were to continue the MTDFT scheme or to revert to the MTD scheme.

NARRATIVE

The case study is based on true and personal experience related to a close friend of the second author. However, the identity of the company and the characters involved have been disguised or changed to maintain confidentiality.

DISCUSSION QUESTIONS

1. How to determine the tax liability for individual employment income by referring to Section 4(b) and other relevant sections in the Income Tax Act 1967?
2. What are the responsibilities of the employers in relation to salary income tax requirements?
3. How the MTD scheme differs from the MTDFT scheme? What are the advantages and disadvantages of the MTDFT scheme?
4. Why the MTDFT scheme was not successfully implemented at Chemicoral Sdn Bhd?
5. How Chemicoral Sdn Bhd can improve the implementation of MTDFT if the company decided to continue the scheme?

