

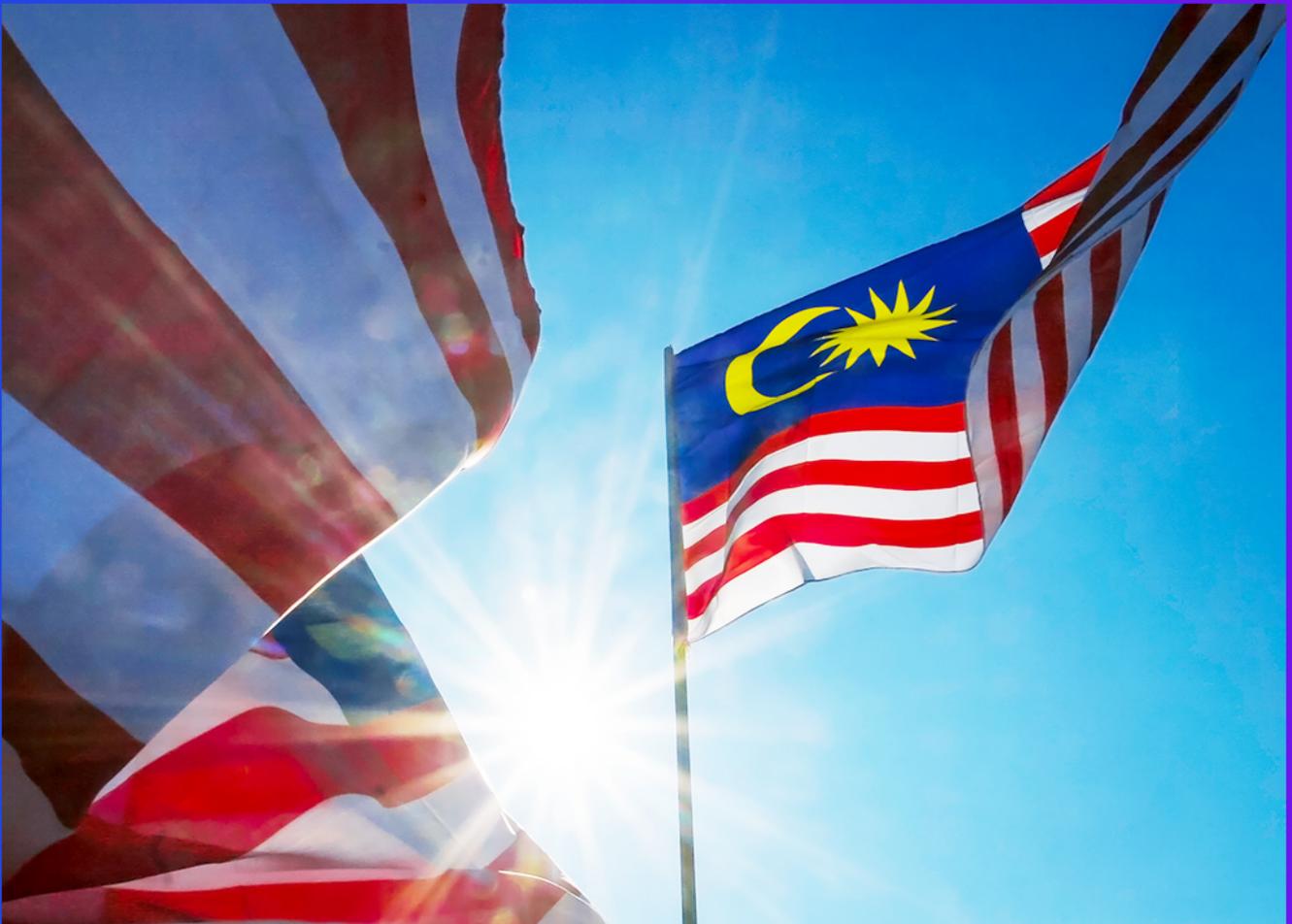


Preparing For A Future-Proof Tax

What companies should take note of

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KPMG in Malaysia



Overview and Commentary



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Key Message

“There has been much talk about the Malaysian economy being in a recovery phase in year 2022 from the earlier pandemic crisis years. Despite this, the Federal Government debts is also growing. To sustain the economic recovery growth and manage the Federal Government debts, it could be imminent for new taxes to be introduced to combat this.

From an indirect tax front, such regime has gone through several transformations over the years where each transformation brings along its own benefits and challenges. Although no major tax reforms were announced in the 2023 Budget, it is still important for businesses to adapt and be prepared for future changes to be ahead of its competitors.”

“Nothing is certain except death and taxes” – Benjamin Franklin, 1789



One of the most oft-quoted phrases amongst the tax and finance fraternity, it has withstood the test of time till today. It is universally known that it is a citizen’s duty to pay taxes to help with nation building. Correspondingly, ask any taxmen or taxpayers and their wish is for fairness, certainty, convenience and efficiency in taxes in the long term.

Unfortunately (or fortunately), the tax system is like a living organism. It lives in an environment that is always evolving and hence tax is no longer a standalone component in the larger equation of balancing the economy and can become a policy instrument used to set the future direction of a

country. What more, the current environment we live in is one of the most challenging to date - from the COVID-19 pandemic to the Russia-Ukraine crisis and domestic political landscape.

Be as it may, it is becoming more apparent that tax can no longer play only a supporting role in an organization, as it takes up more importance and presence in Boardroom discussions. Which leads us to pen down our thoughts on preparing for the future of Malaysia’s indirect tax.

Malaysia’s indirect tax regime has seen accelerated transformation over the past 10 years – SST1.0, GST, Tourism Tax, SST2.0, Service Tax on Digital Services, Sugar Tax, Sales Tax on Low Value Goods (LVG) and more recently the call for the reintroduction of GST2.0. It is undeniable that such revolutions have their own valid reasons, which will not be discussed here. Notwithstanding that there were no major tax reforms announced in the 2023 Budget, what is important is how businesses can adapt and be prepared for any future changes in the Malaysian indirect tax environment. We have listed down below some of the areas to be considered.

Support from the Top

Top management is responsible for establishing policies, guidelines and strategic objectives, as well as providing leadership and direction to the organisation. Hence, no matter how elaborate or advanced your plan is, support from the top is one of most important ingredient in putting your plan into place.

Develop your plan, identify responsibilities and discuss with senior management. Once approved, it can then form the direction and implementation for other divisions within the business, as tax is not just a finance function. It is a whole business transformation and this particularly holds more weightage for indirect tax which is a transaction tax.

Budget

A rather sensitive topic currently but it is something which needs to be discussed and secured, so that identified changes can be effected without facing subsequent issues of cost constraints. With a visual on the approved budget, businesses can plan and manage their resources and needs accordingly within the means.

Budgeting involves identifying planned and buffer for unplanned expenditure. When it comes to implementing tax changes, apart from the impact of the new tax on the business operations, other key expenditures include human resources, systems improvement, engaging consultants/ advisors, as well as impact on pricing. All these can be costly if not managed properly.



Resources – Do you have the ‘right’ people?

Malaysia is not spared from the current global phenomena of “The Great Resignation”, “The Big Quit” or “The Great Reshuffle”. The tax and finance function require tax technical and comprehension skillset, which may be in short supply. To complicate things, not only do they need to be strong in tax technically, but also data, process and technology skills.

In this respect, talent management and upskilling will be an on-going investment that needs to be prioritized. Not only this, but retention of talent is also another challenge as the evolving work trends and global mobility makes it easier for people to relocate.

Start identifying key players in managing the transition and keep them updated on developments.

Technology



As indirect tax is a transaction tax, automating day to day recording and reporting of transactions appear to be the solution, particularly for businesses with voluminous and/ or repetitive transactions. Otherwise, the risk of errors and omission can be high leading to penalties and non-compliance. Learning from GST1.0, businesses should be aware of the importance of a robust tax system to not only capture real-time transactions, but also the value-add for which data analytics can bring.

Having a robust tax system with data analytics built in would definitely be useful in the long term as it can not only automate the daily transactions, but also identify potential risk areas and opportunities.

Although businesses may have existing systems, remember that restarting them or updating them with new tax rules takes time, cost and resources.

Also, as businesses embrace technology, note that Tax Authorities are also leveraging on technology tools to gather information and conduct audits!

Current Compliance and Transitional Rules

As businesses race to implement a new tax regime or change, care must be given not to neglect the current tax compliance as tax still needs to be collected in the interim. Also be alert of transitional rules, as they may differ and apply for a specific period. Some transitional rules are introduced to ease compliance or achieve neutrality, so ignoring them may be disadvantageous. For example, transactions which were not subject to tax under the old regime but taxable in the new regime may be given flexibility in adapting, depending on prescribed conditions.

Documentation

Keep records of plans, decisions and processes. Often times, preparing these documents may be time consuming but it is very important to ensure decisions made are supportable and for business continuity. It also encourages accountability and transparency.

GST1.0 taught businesses to keep detailed and contemporaneous records to support the tax treatment adopted. This good practice should be continued in many years to come.

Also, the change from one tax regime to another would generally involve audits being conducted not just immediately after the change, but this could happen a few years down the road, as experiences have shown. Hence not just keeping records, but keeping them for the duration of the statute of limitation is important in supporting any tax treatment adopted as these could potentially help to save costs in the event of any challenges by the tax authorities during audits.

Communicate



As mentioned earlier, indirect tax is a transaction tax which affects the entire business supply chain – not only the tax function. The understanding of a particular transaction should not differ between a personnel from the sales department to the legal team or the finance/ tax department. In other words, there should not be 3 different interpretations for a similar transaction – otherwise, the tax treatment adopted would be questionable. Hence, effective and constructive communication is a must to keep everyone informed of the same objective, i.e. to implement a tax change effectively. After all, a breakdown in communication leads to misunderstanding, wrong interpretation and lost opportunity.

With this, a continuous and effective communication channel needs to be developed so that informed decisions can be made on a timely basis.

As a saying by Henry Ford goes, *“Coming together is a beginning. Keeping together is progress. Working together is success.”*

Notes/Important

The above are by no means exhaustive, and it can differ from one business to another depending on the degree and complexity of the operations. However, hopefully it can be used as a guide for references when implementing a new tax regime or tax changes.

Should you need any assistance in preparing for a tax transition, please do not hesitate to email or contact any of our Executive Directors, Directors, Associate Directors or Managers whom you are accustomed to dealing with or who are responsible for the tax affairs of your organization.

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