Malaysia's tax amnesty programme draws interest from Singapore companies

Under the amnesty, taxpayers can voluntarily disclose any undeclared or under-declared income, or rectify over-claimed expenses in previous Years of Assessment. PHOTO: AFP

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AN ONGOING tax amnesty scheme in Malaysia has drawn interest from Singapore-based companies with operations across the Causeway, amid a flurry of audit letters from Malaysia's Inland Revenue Board (IRB).

The tax amnesty, known as the Special Voluntary Disclosure Programme 2.0 (SVDP 2.0), runs from Jun 6, 2023, to May 31, 2024. During this period, taxpayers – both individuals and companies – can voluntarily disclose any undeclared or under-declared income, or rectify over-claimed expenses in previous years of assessment (YAs).

They will not face any penalties after making up the shortfall, and the IRB will take the information in "good faith", without conducting audits or investigations.

Tax service providers told *The Business Times* that Singapore-based firms with tax obligations in Malaysia are looking to make the most of this amnesty.

This comes as, over the past year, companies across Malaysia have received letters of audit from the IRB at a far greater rate than before, they said.

"These 'love letters' from IRB are generally classified as tax audit letters," said Chester Leong, managing director of accounting and tax services provider BoardRoom Group. "Most of them just ask very general questions about past tax returns and there is no indication that IRB has found any issues."

He estimates that about seven in 10 of BoardRoom's clients in Malaysia have received such letters over the past year, up from "maybe one or two in 10" previously.

Baker Tilly Malaysia has seen "similar trends", executive director of tax services Marcus Tan told BT: "We have seen increasing tax audits being conducted by the IRB from their respective branches around Malaysia."

Industry players said the letters seem to be having the intended effect – spurring companies to review past tax returns for any underpaid tax before they receive further scrutiny from the taxman.

"A lot of companies, including Singapore companies with operations in Malaysia, are panicking because of the letters," Leong said.

In the audit letters, IRB "will indicate which YA the company is being audited for", said Leong. "If the letter from IRB indicates that the company is being audited for YA2021, then the company cannot participate in the amnesty programme for YA2021. But the company can participate in the programme for YA2020 and before."

For YAs that are under audit and thus not eligible for the amnesty, taxpayers face stiff financial or even criminal penalties if they are found to have filed incorrect tax returns or wilfully evaded taxes.

As a result, companies are now engaging accounting firms to review their past tax returns, so that they can voluntarily declare and make up any shortfall under the penalty-free tax amnesty programme, Leong added.

BoardRoom expects to serve some 60 Singapore companies by the end of the year-long amnesty scheme, while Baker Tilly could see up to 50 such clients during the same period.

Genuine mistakes

The vast majority of cases handled by BoardRoom have little to do with tax evasion and are more about genuine mistakes, Leong said.

Agreeing, Baker Tilly's Tan noted that under Malaysia's self-assessment system, companies may not immediately know when they have made errors in filing their returns. "They can go on and do the same thing year after year, and not know that it's a mistake until they get audited."

One such mistake is when business owners claim personal expenses as business expenses, thus lowering the pre-tax profit of companies, he added. Another is using incorrect formulas to calculate tax-deductible capital allowances, which allow taxpayers to write off the cost of an asset over a period of time.

Companies may also simply make accounting errors or forget to declare certain income.

An executive at a Singapore-based consultancy with operations in Malaysia, who spoke to BT on condition of anonymity, said their company discovered unpaid service taxes on up to RM2 million (S$577,230) of FY2022 revenue during an internal audit last year.

If the error had been discovered during an IRB audit, the financial penalty of up to 300 per cent would have been enough to put their business in the red.

"Thankfully, there is SVDP 2.0, and we are looking to do the proper disclosures (for YA2022) now – especially as we've also received a 'love letter' from IRB in the past year," the executive added.

Such voluntary disclosures are precisely what SVDP 2.0 hopes to encourage, industry players said.

The scheme follows a similar programme in 2018, which imposed some penalties and ran from November 2018 to September 2019. It drew some RM7.9 billion in additional taxes from about 286,000 taxpayers.

SVDP 2.0, announced in February during Malaysia's Budget 2023, is expected to bring in more than RM10 billion in additional taxes.