

LEMBAGA HASIL DALAM NEGERI



MALAYSIA

**LAPORAN
TAHUNAN**

2001

**ANNUAL
REPORT**

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To Provide

LEMBAGA HASIL DALAM NEGERI

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friendly
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Pledge LHDN



We, the officers of the Lembaga Hasil Dalam Negeri Malaysia, pledge that we will,

- Focus our energy and efforts to achieve the objectives of our organization;
- Collect taxes according to the laws of the country;
- Instill public trust in the fairness and excellence of our tax administration;
- Encourage the public to pay the correct amount of taxes voluntarily.

And are determined to,

- Provide friendly, helpful and satisfying service;
- Carry out our duties with efficiency, quality and effectiveness;
- Uphold the values of trustworthiness, honesty, full responsibility and a positive outlook;
- Forever strive to improve the image of the Lembaga Hasil Dalam Negeri Malaysia.



Corporate Culture

VISION

- LHDN is recognized as the foremost tax administration in the region and the best government agency in the country;
- Creation of a just, transparent and respectable tax management system;
- LHDN management is always sensitive to the welfare of its employees, provides career advancement opportunities for each employee and recognizes individual excellence;
- Officers and staff members of LHDN are committed towards achieving excellence in work and efficiency in service to clients;
- The public has a high degree of confidence in the fairness of the country's tax system.

MISSION

The LHDN is committed towards collecting taxes with fairness, efficiency and integrity, at a justifiable cost while providing excellent service to its clients.

This mission will be achieved by:-

- Developing a skilled, efficient workforce and striving constantly to enhance the level of professionalism to face challenges in an ever-changing environment;
- Upgrading tax administration while simplifying tax laws;
- Offering friendly, fair and consistent service all the time;
- Nurturing public consciousness towards producing responsible taxpayers;
- Encourage voluntary tax compliance.

CORPORATE OBJECTIVES

General Objective

To create and implement an effective, just and fair tax management system.

Operational Objectives

- To collect taxes without imposing excessive burden on the public while incurring minimal cost to the government;
- To instill public trust in the fairness and excellence of the present tax system;
- To encourage the public to voluntarily pay their taxes.

QUALITY POLICY

We are committed to providing service of quality professionally to our clients. We shall ensure that our officers and staff work towards excellence. Based on these principles and guided by the Pledge of the Lembaga Hasil Dalam Negeri Malaysia, we shall make quality service our way of life.



Chairman's Message

THE MOMENTUM IN ECONOMIC GROWTH GAINED over the last two years experienced a setback as a result of the unexpected global economic decline, especially in the United States and Japan. Following this slowdown, the Lembaga Hasil Dalam Negeri Malaysia (LHDN) had mobilised activities to ensure effective collection of direct taxes, as well as to increase the level of voluntary compliance amongst taxpayers.

In line with this move, the LHDN had intensified and broadened the following programmes nationwide:

- Education and publicity, customer service, business survey and tax audit;
- Decentralisation of the function of collection to branches, payment through banks, and the updating of ledgers and employers' files; and
- Prosecution, intelligence gathering and investigation.

These programmes represented “the presence of the LHDN in society”. It has had a positive impact on the level of voluntary compliance amongst the taxpayers, widened the tax base, decreased tax revenue leakage, and increased the country's revenue collection.

2001 has also been a year full of challenges for the LHDN, with the implementation of the Current Year Assessment (STTS) and Self Assessment System (STS). This year, the LHDN has undertaken the following tasks:

- Update and monitor of the STS system and work processes for company taxpayers; and
- Preparation of the STS legislation, system and work processes for taxpayers other than companies, to be implemented in 2004.

The LHDN's success in collecting a total of RM41.79 billion in taxes, making up 52.53% of the Federal Government Revenue, is indeed a matter of great pride. This excellent performance must be maintained and the diligent efforts of the staff of the LHDN must be enhanced further. I express my deepest appreciation to all the staff of the LHDN for their effort, contribution and commitment in intensifying and increasing the country's revenue collection.

TAN SRI DR. SAMSUDIN BIN HITAM
Chairman, Lembaga Hasil Dalam Negeri



Executive Review



THE YEAR 2001 SAW A 43.29 PERCENT RISE in direct tax collection, as compared to the previous year. This enabled the LHDN to increase its contribution to the Federal Government Revenue by 52.53 percent. An effective and proactive tax management approach, together with various strategic initiatives introduced during the year, has made possible this excellent revenue performance.

TAX COLLECTION AND ASSESSMENT PERFORMANCE

The LHDN successfully collected a total of RM41.79 billion, as against the collection of RM29.17 billion in the previous year.

- Company income tax remains the main contributor to revenue, representing 51.64 percent versus 47.93 percent last year. This increase is due to:
 - the relaxation of tax instalment regulations by allowing part of the tax in the year of assessment 2000 to be paid in 2001
 - more efficient and effective debt management
- Petroleum income tax collection has also grown from RM6.01 billion last year to RM9.86 billion, as a result of significant increases in crude petroleum prices.
- For individual income tax, collection expanded at a rate of 19.27 percent, despite increases in tax rebate and family deduction. Beginning the year of assessment 2001, individual rebate has been raised from RM110 to RM350, personal education fee deduction raised from RM2,000 to RM5,000, and medical examination and book purchase deductions of RM500 each were introduced.
- Other main tax components such as stamp duty and real property gains tax dropped by 7.98 percent and 8.15 percent respectively from the previous year.

The number of registered files has increased from 3.78 million in 2000 to 4.00 million, or 5.84 percent higher. Meanwhile, the company file category grew by 16.04 percent. Publicity activities, the business survey and the schedular tax deduction (STD) scheme through employer are among the factors boosting the increase in individuals and companies registering with the LHDN.



The year 2001 marks the first year of assessment under the implementation of the Current Year Assessment (STTS) on the Income Tax Returns (ITR) for STTS for year of assessment 2000. Also, beginning STTS for year of assessment 2000, company taxpayers are required to submit their ITRs according to the date of their companies' closure of accounts. Meanwhile, other taxpayers will still follow the final ITR submission date on 31 May each year. Total ITR for STTS for year of assessment 2000 issued and received are 2,852,813 and 1,897,504 respectively. The number of ITR assessed in 2001 is 1,591,081, with the amount assessed totaling RM15,900,250,679, before deduction of tax repayments amounting to RM1,513,624,466.

TAX LEGISLATION

The 2002 Budget has focused on three main strategies, namely the strengthening of economic growth, diversification in sources of growth and the determination of wealth distribution. Its implementation involves changes to the tax legislation, which has a direct impact on the performance of tax assessment and collection.

Individual income tax rate is reduced by 1 to 2 percentage points for all income groups. The 29 percent ceiling rate is lowered to 28 percent while the taxable income level subject to this ceiling rate is raised from RM150,000 to RM250,000.

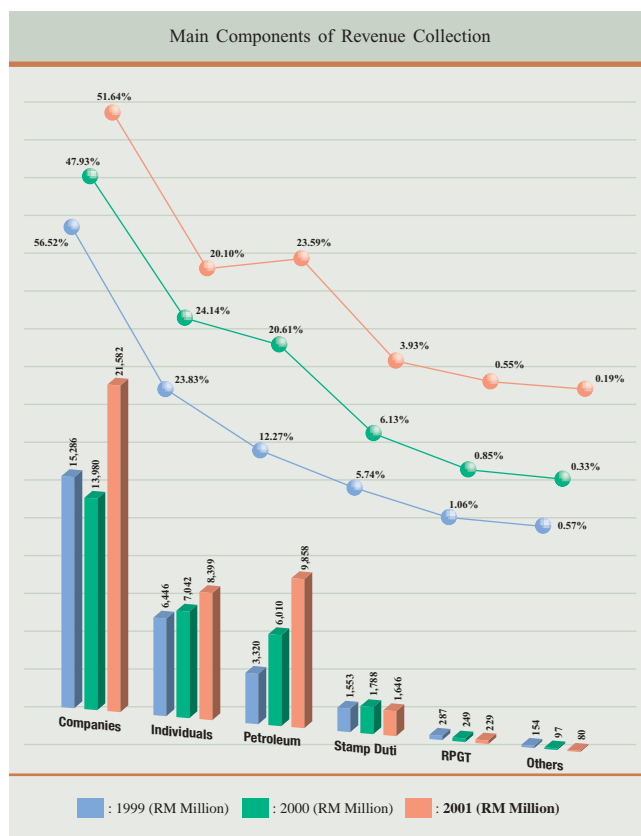
The commercial and industrial sectors are given several incentives, namely:

- Extension of the Reinvestment Allowance from 5 to 15 years.
- Widening of Industrial Building Allowance awards and increase in the annual allowance rate from 2 to 3 percent.
- Unlimited deduction for practical training expenses and bonus payments.
- Higher vehicle rent deduction limit to RM100,000.

The LHDN has also drafted the Self Assessment System (STS) legislation for individuals to be implemented in 2004. When approved, this financial bill (D. R. 47/2001) will be the basis for the implementation of STS on individual taxpayers and others (except companies).

ORGANISATIONAL MANAGEMENT

Overall administrative expenditure grew by 9.40 percent over 2000. Emolument, allowance and other interest payments to employees represent 67.09 percent of total overall management





Executive Review

expenses, or an increase of 16.34 percent from the previous year. However, the rate of increase in management costs (9.40 percent) is much lower than the rate of increase in revenue collection (43.29 percent). Therefore, the overall tax management performance, i.e. expenses incurred for every ringgit of tax collected, is better than the previous year's, a drop from 1.13 percent to 0.86 percent. Prudent spending practices shall continue, with focus on the implementation of STS, tax education for taxpayers and LHDN officers' training.

TRANSFORMATION AND HUMAN RESOURCE

The shifts in the tax management system to STTS and STS from the year 2000 required a review of the organisation and existing systems. The organisational restructure plan will be based on requirements arising from the implementation of STS and will be designed to meet the changes in management and the current economy. In realising the fact that strategic and organised planning is essential to ensure that the LHDN continues to achieve its vision to be the foremost tax administrator in this region, the LHDN Transformation Master Plan was created. Among others, the plan involves the rearrangement of structure and designations in the organisation to fulfill the needs and the enhancement of main responsibilities under the STS, namely audit, collection, customer service and enforcement.

CUSTOMER SERVICES

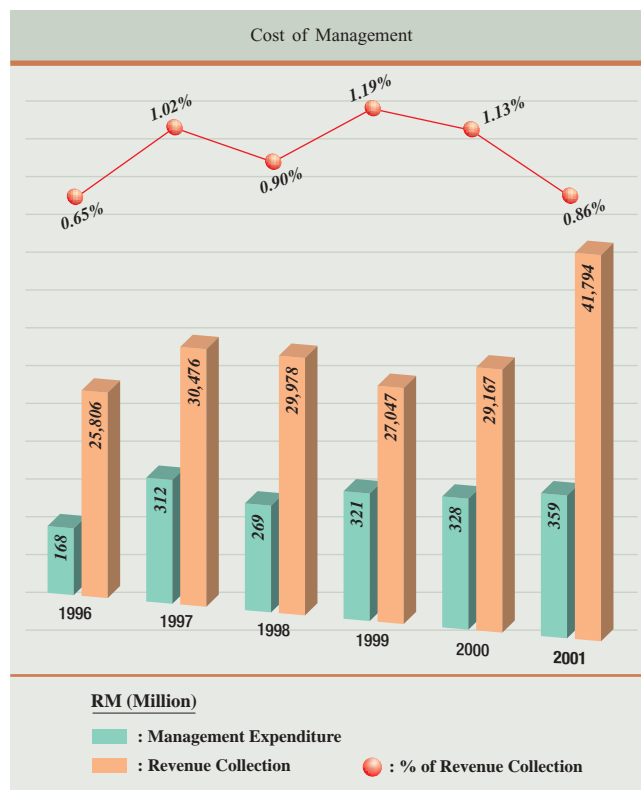
It is important for the LHDN to have a good image and to maintain public trust. In this regard, the LHDN has embarked on several initiatives to improve customer service at all 35 LHDN branches throughout the country.

- **Service counters**

Counter service continues to play a main role in resolving problems and fulfilling requests of taxpayers, LHDN's main customers, through friendly service in providing help and ensuring customer satisfaction. Customers' convenience and ease will continue to be top priority. In line with this, the LHDN has created local counter services and golden lounges at its branches to fulfill customers' ever-changing and challenging needs.

- **e-Services**

The LHDN continuously upgrades its utilisation of information and communication technology (ICT) in providing service to taxpayers. Hence, the LHDN has co-operated with Bank



Management cost stated is according to the audited accounts.

1996: cost stated for 10 months due to the establishment of LHDN on 1.3.1996.

2000: management cost was adjusted because of adjustments made to the cost and depreciation value of office equipments.

Bumiputra Commerce Bhd to introduce tax payment through the bank's portal, BizChannel, to facilitate remittance of employees' schedular tax deductions (STD) by employers to the LHDN. This electronic STD payment service (e-payment) is simpler, faster, safer and time-economical for employers who now no longer need to physically make payments at counters.





The LHDN has also introduced an electronic means for filling up tax forms (e-form C), one of the services in the e-service package through the LHDN portal, hasilnet.org.my. This service enables company taxpayers to fill up tax forms, detect mistakes while filling up and print tax forms, all of which are possible at the taxpayer's office or premises.

Apart from these, as an education program for taxpayers, a tax calculation software has been loaded on the LHDN portal as an initial step towards STS for individuals, to commence in 2004.



- **Tax Education**

Based on the concept of friendly, helpful and satisfactory service, the LHDN has planned various education activities to ensure that the implementation of the STS proceeds smoothly. Information dissemination programs have been actively conducted throughout 2001, where branches and the National Tax Academy have trained officers to become speakers to ensure that tax seminars and talks can soon be carried out throughout the country. During 2001, the LHDN has conducted STS courses for companies, provided training on how to complete Form C and Form R (section 108), organised seminars and talks to 12,268 customers comprising tax agents, accounts officers, company managers, taxpayers and those responsible for their company's finances for the purpose of providing training, exposure to the system and taxpayers' responsibilities under the STS.

The LHDN will continue implementing this program and in addition, initiate steps to plan education and awareness activities for individual taxpayers who will use the STS in 2004.



- **Business Survey**

The business survey operation (street survey) was carried out simultaneously throughout the country over three days for the first time on 21 June 2001. This integrated and systematic operation will continue as a monthly LHDN activity with the aim of providing guidance and education to taxpayers on their responsibilities. In addition, this operation will help the LHDN identify new and potential taxpayers especially among small business owners. In year 2001, 18,211 premises were visited and 3,616 new files were registered.

ACKNOWLEDGEMENT

On behalf of the LHDN, I would like to record my thanks and appreciation to former Board members Y. Bhg. Tan Sri Samsudin bin Osman and Y. Bhg. Dato' Zaitun Zawiyah binti Puteh, and at the same time welcome Y. Bhg. Tan Sri Jamaludin bin Hj. Ahmad Damanhuri and Y. Bhg. Dato' Noraini binti Abdul Rahman who have joined us to take over the Board members' responsibilities on 1 February and 1 October respectively.

Next, I would like to take this opportunity to also thank the Members of the Board for their advice, guidance and dedication. To the staff of the LHDN who have demonstrated diligence in their work through outstanding performance, well done and thank you, and I hope that you will continue to serve with quality and excellence. Finally, thank you to all taxpayers, because you have contributed towards the development of our country.

DATO' ZAINOL ABIDIN BIN ABD. RASHID

Chief Executive/Director General of Hasil Dalam Negeri



Board Members

Sitting from left to right :

Dr. Mohamed Ariff bin Abdul Kareem

Tan Sri Dr. Samsudin bin Hitam

Tan Sri Jamaluddin bin Hj. Ahmad Damanhuri

Standing from left to right :

Datin Dr. Umi Kalsum binti Mohd Noh

Datuk Siti Maslamah binti Osman

Datuk Siti Hadzar binti Mohd. Ismail

Dato' Noraini binti Abdul Rahman

Corporate Information

ESTABLISHMENT

Inland Revenue Board of Malaysia was formed on March 1, 1996 in accordance with the Inland Revenue Board of Malaysia Act 1995 (ACT 533). Following the formation of the Board, an agency agreement was signed between the Government of Malaysia and the Board on December 31, 1998.

FUNCTIONS

The functions of the Board are:

To act as agent of the Government and to provide services in administering, assessing, collecting and enforcing payment of income tax, real property gains tax, estate duty, stamp duties and such other taxes.

To advise the Government on matters relating to taxation and to liaise with the appropriate ministries and statutory bodies on such matters.

To participate in meetings, discussions and agreements in or outside Malaysia in respect of matters relating to taxation.

To act as collection agent on behalf of any lending body for the recovery of loans due for repayment to that body under any written law.

To perform such other function as are conferred on the Board by any other written law.



RESPONSIBILITIES

The LHDN is responsible to the Government in administering the following laws:

- Income Tax Act 1967;
- Petroleum (Income Tax) Act 1967;
- Real Property Gains Tax Act 1976;
- Stamp Act 1949;
- Labuan Offshore Business Activity Act 1990;
- Promotion of Investments Act 1986;
- Betting and Sweepstake Duties Act 1948

The LHDN also observes the Double Taxation Agreements signed between the Government of Malaysia and other countries as well as laws relating to its functions.

- Federal Constitution
- Companies Act 1965
- Bankruptcy Act 1967
- Court of Judicature Act 1964
- Interpretation Act 1948 and 1967
- Government Proceeding Act 1956
- Limitation Act 1953
- Inland Revenue Board of Malaysia Act 1995
- National Land Code 1965
- Criminal Proceeding Code

- Penal Code
- Rules of High Court 1980
- Subordinate Court Rules 1980
- Companies Winding-Up Rules 1965

The LHDN also administers repealed acts for past years cases such as Supplementary Income Tax Act (1967), Cinematographic Film Hire Duty Act 1965, Share Transfer Tax Act (Land Based Companies) 1984, Estate Duty Enactment 1941, Land Speculation Tax Act 1974, Finance Act 1965 (No.2/1965) and Investment Incentive Act 1968.

ADDRESS

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BOARD OF DIRECTORS' MEETING

The board held six meetings in the year 2001.



Board Members



TAN SRI DR. SAMSUDIN BIN HITAM
P.S.M.,D.P.M.T.,D.P.M.P.,J.S.M.,K.M.N.,A.M.N.

Tan Sri Dr. Samsudin bin Hitam currently holds the post of Treasury Secretary-General in the Ministry of Finance, Malaysia. He was appointed as Chairman of the Board on 4 June 2000. Apart from LHDN, Tan Sri Dr. Samsudin is also the chairman of Pensions' Trust Fund Council and serves as a board member and Panel of Advisers to the Central Bank Malaysia.



**TAN SRI JAMALUDDIN BIN
HJ. AHMAD DAMANHURI**

P.S.M.,S.P.M.P.,D.G.P.N.,D.M.P.N.,D.P.M.P.,K.M.N.

Tan Sri Jamaluddin bin Hj. Ahmad Damanhuri was appointed a board member on 1 February 2001, replacing Tan Sri Samsudin bin Osman as Director-General of Public Services Department. Among the positions held by Tan Sri Jamaluddin in the past are State Secretary of Perlis, State Secretary of Pulau Pinang and Secretary-General of Home Ministry prior to his appointment to this position.



**DATO' NORAINI BINTI
ABDUL RAHMAN**

D.S.D.K.,J.S.M.,K.M.N.

Dato' Noraini binti Abdul Rahman is the Deputy Head 1, of the International and Advisory Division in the Attorney General's office. Dato' Noraini was appointed a member of the Board on 1 October 2001 replacing Dato' Zaitun Zawiyah binti Puteh.



**DATUK SITI MASLAMAH BINTI
OSMAN**

P.J.N.,J.S.M.,K.M.N.

Datuk Siti Maslamah binti Osman has been holding the post of Accountant General, Malaysia since 27 October 2000 and was appointed to the Board on the same date. Datuk Siti Maslamah is also a member of the Board of Universiti Kebangsaan Malaysia, Teachers' Provident Fund, Financial Reporting Foundation, Malaysian Accounting Standards Board, Light Rail Transit System and council member of the Malaysian Institute of Accountants.

**DATUK SITI HADZAR BINTI
MOHD. ISMAIL**

P.J.N.,J.S.M.,K.M.N.

Datuk Siti Hadzar binti Mohd Ismail currently holds the position of Deputy Secretary General of Treasury (Policy) in the Ministry of Finance. She was appointed a board member on 1 July 2000, representing the Ministry of Finance. Datuk Siti Hadzar is also a board member of the Securities' Commission, Employees' Provident Fund, Malaysian International Shipping Corporation Bhd and National Container Bhd.



Board MEMBERS



**DR. MOHAMED ARIF BIN
ABDUL KAREEM**

J.S.M.

Dr. Mohamed Arif bin Abdul Kareem, Executive Director of the Institute of Economic Research Malaysia, is a specialist in international economics. He was appointed to the Board since 1 March 1996. Dr. Mohamed Arif is also a board member of National Productivity Corporation, Social Security Organisation and a steering committee member of the National Research and Scientific Progress Council, Intensified Research Priority Area, Ministry of International Trade and Industry and Ministry of Domestic Trade and Consumer Affairs.

**DATIN DR. UMI KALSUM BINTI
MOHD NOH**

K.M.N.

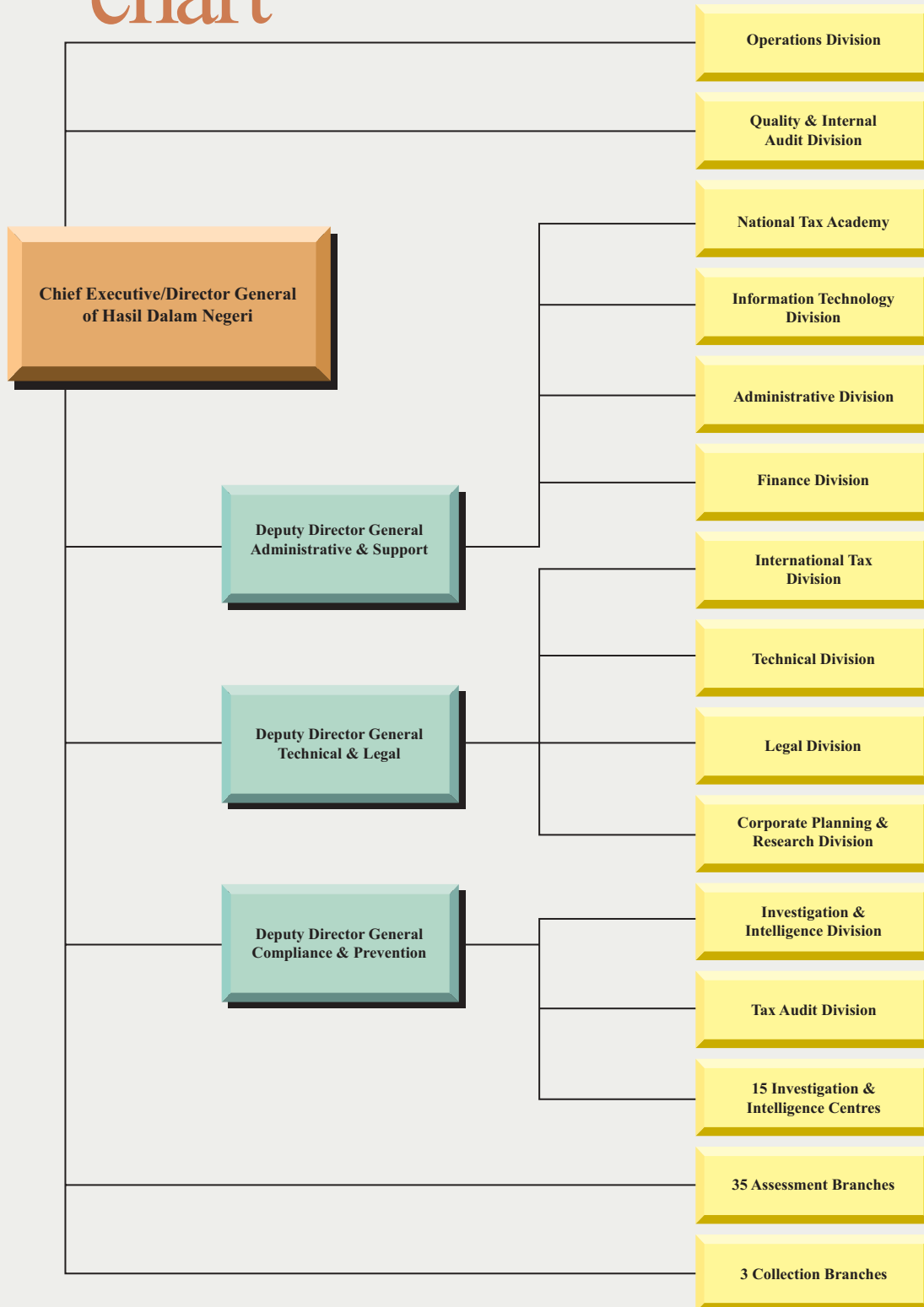
Datin Dr. Umi Kalsum binti Mohd Noh, is a private consultant, currently serving as Chief Executive of Dimensi Tuah Sdn. Bhd. Datin Dr. Umi Kalsum was appointed as member of the board since 1 March 1997. She is also a director in EON Bank Group and Kosijaya Didactic Sdn. Bhd.



Board
MEMBERS



organisational chart





Executive Management



DATO' ZAINOL ABIDIN BIN ABD. RASHID D.S.D.K., K.M.N.

Chief Executive/Director General of Hasil Dalam Negeri

Dato' Zainol Abidin bin Abd. Rashid was born in 1946 in Alor Setar, Kedah. He holds a Masters Degree in Development Economics from the University of Boston, a Bachelor of Economics (Hons) and a Diploma in Public Administration from the University of Malaya. He started his career as an Administrative and Diplomatic Officer in 1970. He first served at the Ministry of Rural Development and consequently at INTAN. In 1980, he was assigned as Development Officer for the state of Kedah and later transferred to Sabah as an officer for SINAR. Following his assignment in Sabah, he was appointed the Deputy Secretary of the Economic Division. In mid- 1989, he held the post of Section Director of Human Resources in the Economic Planning Unit of the Prime Minister's Department. In 1994 he was transferred to the Ministry of Finance, Manpower Department as Director and later assumed the position of Secretary General in the Ministry of Human Resources. He was subsequently appointed Chief Executive/Director General of Hasil Dalam Negeri on 1 August 2000, a post he holds to date.



DATO' HAJI ABU HASSAN BIN HJ. MD. AKHIR D.P.M.P.,S.M.P.,K.M.N.

Deputy Director General, Management & Support

Dato' Haji Abu Hassan bin Hj. Md. Akhir was born in 1949 in Alor Setar, Kedah. He holds a Bachelor of Arts (Hons) degree from the University of Malaya. He started service at the LHDN in 1973 as Assessment Officer and his career highlights include holding the posts of Branch Director for Ipoh and Sabah, as well as the posts of Assistant Director General in the International Tax Division and the Technical Division. Dato' Haji Abu Hassan was appointed Deputy Director General in 1994.



LIM HENG HOW J.S.M.,K.M.N.

Deputy Director General, Technical & Legal

Lim Heng How was born in 1946 in Kuala Lumpur. He holds a Bachelor of Analytical Economics (Hons) degree from the University of Malaya and started his service with the LHDN in 1969 as an Assessment Officer. His career in the LHDN includes heading the Investigation and Intelligence Centers in Kuala Lumpur, Ipoh and Shah Alam and undertaking the responsibilities of Assistant Director General in the Investigation & Intelligence Division, as well as in the Operations Division. Lim Heng How was appointed Deputy Director General in 1994.



HASMAH BINTI ABDULLAH J.S.M.,K.M.N.

Deputy Director General, Compliance and Prevention

Hasmah binti Abdullah was born in 1951 in Sitiawan, Perak and holds a Bachelor of Arts (Hons) degree from the University of Malaya. She started service with the LHDN in 1973 as an Assessment Officer, and has held the post of Director of the Kuala Lumpur Assessment Branch and the National Tax Academy, as well as Assistant Director General of the Petroleum Unit, Technical Division and Operations Division. Hasmah Abdullah was appointed Deputy Director General in 2001.

**1 MOHD SAIAN BIN HJ. RIDZUAN**

K.M.N.,A.M.N.

Operations Division

Plans, manages and develops the operations system of various types of taxation, providing work procedures and processes, programmes, as well as guidelines for the assessment and collection programmes. Sets policies, regulations, standards and control systems pertaining to tax assessment, collection and audit programmes.

2 LIM GAIK HWA K.M.N.,A.M.N.

Internal Audit & Quality Division

Reviews the implementation of the planning, supervision, directive and control functions based on management policy, directives and regulations. Ensures reliability and effectiveness of the internal control and monitoring systems of the operations, as well as evaluates the benefits and effective utilisation of resources. Studies information on finance, systems, asset protection, organisational progress and programme execution.

3 AB. RAHIM BIN ABDULLAH K.M.N.,D.J.N.

National Tax Academy

Continuously develops skilled work force and enhances the workforce's professionalism through service training, specialisation and self-development in local and international environments. Increases awareness and public knowledge towards voluntary compliance through tax education programmes.

Senior Management

4 MD. GHAZALI BIN MD. YUSOP K.M.N.

Information Technology Division

Enhances the capabilities, effectiveness and efficiency of the organisation in tax administration through the application of information technology. Processes, updates, stores and facilitates retrieval of taxpayers' data and information.

5 SITI NORMAH BINTI HJ. MOHD BAKI

Administration Division

Plans, develops, manages and sets organisational policies and regulations on human resources, asset, logistics, inventory, emolument, maintenance, benefits and facilities for staff.

6 ZAKARIA BIN A. SAMAD A.M.N.

Finance Division

Provides and administers financial and accounting services for the organisation, encompassing the preparation of budgets, annual financial statements, budget controls and investments.



**7 MOHD. ZAID BIN ISMAIL** K.M.N.

International Tax Division

Assists and advises the Government on matters pertaining to Double Taxation Agreements and taxation issues of Labuan IOFC. Manages and coordinates international conferences, foreign delegates' visits and staff's visits abroad. Assists in data and information exchange with foreign tax organisations. Functions as the Asian Regional CATA Director.

**8 NIK ESAH BINTI NIK MAHMOOD** A.M.N.

Technical Division

Sets policies and provides interpretation on taxation issues through issuance of public rulings, guidelines, technical directives and technical circulars. Offers advice and opinion to the Government, other agencies and taxpayers on tax matters. Reviews and drafts taxation bills, orders and practices.

**9 SALMAH BINTI KASIM**

Legal Division

Administers lawsuits and tax appeals at court and Income Tax Special Commissioner levels. Provides advice, opinion and interpretations regarding tax laws, Double Taxation Agreements, as well as management agreements and contracts. Drafts taxation bills, orders and practices.

10 DR SITI MARIAM BINTI CHE AYUB

Corporate Planning and Research Division

Prepares organisational strategic planning. Reviews tax policies and systems, sources of additional revenue and the implication of proposed amendments of yearly budgets. Analyses the impact of change or renewal in tax policies and systems. Publishes books, guides and reports for the LHDN, Government and the public.

11 NG YEW HOON A.M.N.

Investigation and Intelligence Division

Sets and prepares policies, guidelines and work processes for enforcement programmes through civil and criminal investigation activities. Suggests solutions for referral investigation cases; checking, as well as offering suggestions or approving all investigation cases.

12 CHE OMAR BIN ABDUL RAHAMAN

Tax Audit Division

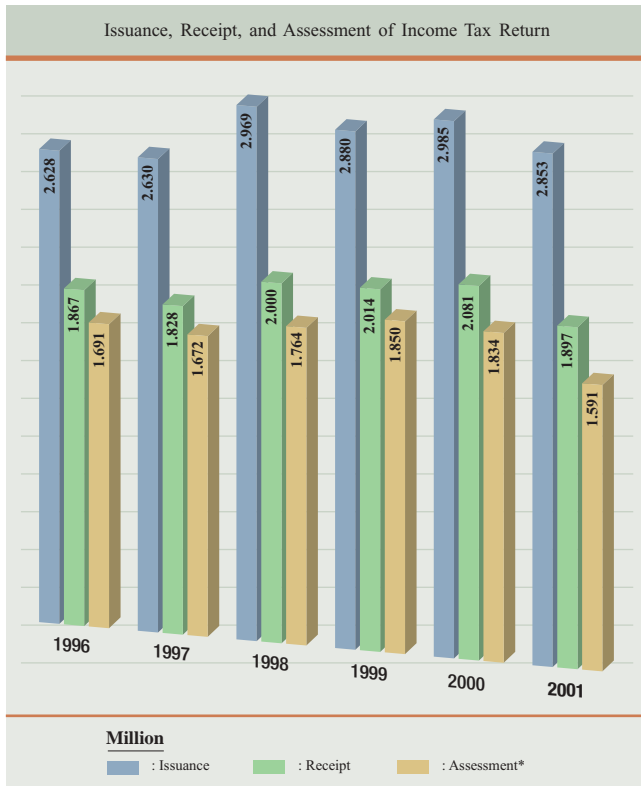
Sets and prepares policies, procedures and work processes for tax audit and business survey activities, and monitors the implementation of those activities. Determines the case selection system for tax audit, and carries out compliance studies and tax payment detection for the purpose of expanding the tax base.

Senior Management



Operations

Processing of Income Tax Return



* Exclude wife assessment

** Amended due to the change in the system whereby data is reviewed and reconciled

The main activities in the processing of Income Tax Returns (ITR) under the Current Year Assessment (STTS) for year of assessment 2000 were the issuance, receipt and assessment of ITRs.

- **Issuance of ITR**

ITR for corporate taxpayers are issued in 4 stages, i.e. in April 2000, July 2000, October 2000 and January 2001, whilst the income tax return issue date for taxpayers other than corporations was on 24 February 2001.

- **Receipt of ITR**

Submission of company taxpayers' ITR were to be made within a period of eight months from the date of closure of accounts. For taxpayers other than corporations, ITR were to be submitted on or before 31 May 2001.

- **Assessment of ITR**

Assessments raised in the year 2001 were tax payable for year of assessment 2000 (STTS), which were assessments on income earned within the basis period ending in the year 2000. The assessment process for the corporation ITR began immediately after receipt of the relevant forms, whereas income tax return assessment for taxpayers other than corporations commenced in April 2001. Beginning this year, the basis of income tax assessment (with the exception of petroleum income tax) changed from assessment based on preceding year to the current year (STTS). This meant that income received in the basis period 2000 (STTS) was assessed for the year of assessment 2000. Beginning this year also, all categories of tax returns were fully processed with the aid of a computerised system called INTACT SG, OG and C.

Against the previous year, issued ITR dropped by 4.43 percent while 83.85 percent of received ITR have been assessed. Income tax assessments raised in 2001 totaled RM15,900,250,679.





Operations

Collection

INCOME TAX

Income tax is collected from taxpayers comprising individuals, companies, co-operative societies, trusts, clubs, associations and Hindu joint families who are assessed under the provision of the main act, which is the Income Tax Act 1967 and the Petroleum (Income Tax) Act 1967.

Assessment and Collection of Income Tax		
	2000	2001
Number of assessments*	1,913,064	2,227,920
Net amount assessed	RM 10,202,238,453	RM 25,828,510,783
Grand total collection**	RM 27,119,237,275	RM 39,905,372,188
Less: Repayment	RM 2,181,015,217	RM 1,531,624,466
Net total collection	RM 24,938,222,058	RM 38,373,747,722

* Includes wife assessment

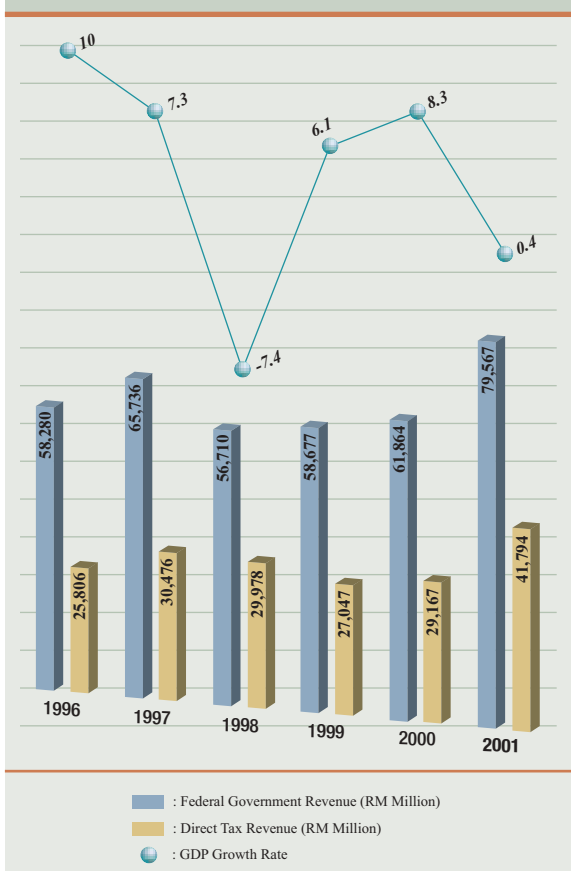
** Includes withholding tax

OTHER TAXES

Besides income tax, the LHDN also assesses and collects stamp duties, real property gains tax, Labuan offshore business activity tax, estate duties and registration of businesses.

Collection of other taxes		
Classification of Tax	2000	2001
Stamp duty	RM 1,788,180,690	RM 1,645,504,007
Real property gains tax (RPGT)	RM 248,872,635	RM 228,578,715
Labuan offshore business activities tax (IOFC)	RM 7,968,361	RM 12,614,903
Estate duty	RM 2,284,550	RM 2,071,828
Business registration	RM 160,833	RM 254,050
Total collection	RM 2,047,467,069	RM 1,889,023,503

Contribution of Direct Taxes to the Federal Government Revenue and GDP Growth Rate



Generally, taxes are collected through the estimated instalments scheme, schedular tax deductions (STD) scheme, issuance of notices of assessment, stamping and debt management programmes.

- This year, corporation income tax was collected through:
 - tax estimate instalment scheme, payable at the beginning of the second month during the basis period for years of assessment 2001 and 2002;
 - balance of tax payable for years of assessment 2000 (STTS) and 2001 if assessed value exceeds estimated payments; and
 - tax estimate instalment scheme for the year of assessment 2000 (STTS) whereby payment of instalments is extended to this year to reduce the financial burdens of companies, brought about by the overlapping of instalments over the transition period during the changeover from the preceding year basis of assessment to the current year (STTS).
- Salaried individual income tax was collected through:
 - schedular tax deductions (STD) scheme for the year of assessment 2001 based on salary received (pay as you earn) that are remitted by employers; and
 - balance of tax payable for the year of assessment 2000 (STTS) if the assessed value exceeds STD payments.
- For income tax of taxpayers other than companies and salaried individuals, tax was collected through:
 - tax estimate instalments scheme for the year of assessment 2001; and
 - balance of tax payable for the year of assessment 2000 (STTS) if assessed value exceeds instalments.
- For petroleum income tax, the preceding year basis of assessment is still in use whereby taxes are paid within a period of 30 days from the issue date of the notice of assessment, except for companies with an approved instalment payment plan. The same applies for real property gains tax

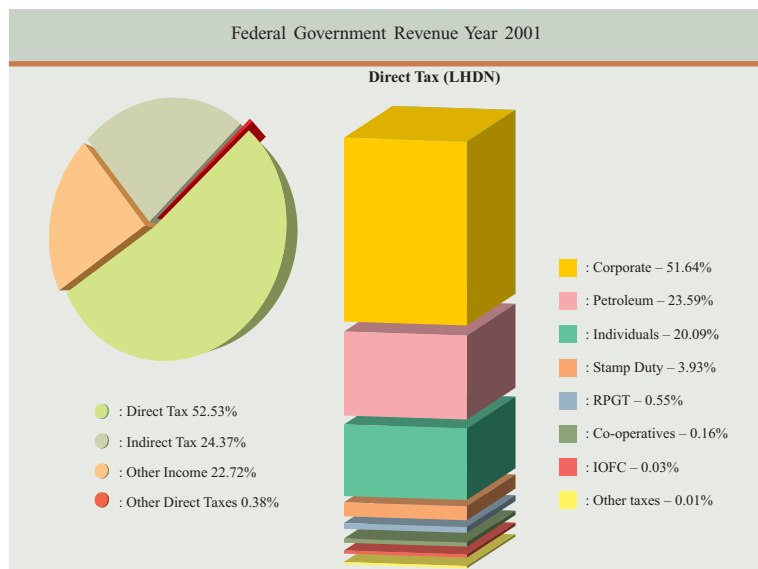


paid upon issuance of the notice of assessment to the disposers of property. Stamp duties, on the other hand, are collected through the stamping of instruments or documents to be enforced.

- Through the debt management programme, the LHDN has enhanced the collection of taxes vide the activities of ledger clean-ups as well as control of taxpayers' accounts to reduce the number and amount of unpaid taxes as well as to ensure that accounts remain active. In 2001, 28.99 percent of unpaid taxes were settled.

Efficient and effective programmes comprising payment schemes, tax assessment and debt management resulted in a very encouraging tax collection improvement of 43.29 percent over the previous year.

Direct taxes contributed 52.53 percent to the Federal Government Revenue in 2001, an increase of 5.38 percent over 2000. Despite the fall in the GDP growth rate in 2001, collection of direct taxes improved from RM29,167 million in 2000 to RM41,794 million. Petroleum income tax achieved the highest increase in collections, an impressive 64.03 percent from 2000, followed by company income tax, which improved by 54.38 percent.





Operations

Compliance and Prevention

EXTERNAL AUDIT

Tax audit programmes comprising field audits and desk audits play important roles under the Self Assessment System (STS) to encourage voluntary tax compliance amongst taxpayers. Field audits involve reviewing business records at the taxpayer's premises whilst desk audits involve the review of business records in the office. In 2001, 1,604 audits were completed, generating RM51.25 million in taxes and penalties. This represented an improvement of 23.76 percent over the previous year's tax and penalty amounts.

BUSINESS SURVEY

The LHDN has focused on the programme of enlarging the tax base vide business survey. The purpose of this activity is to:

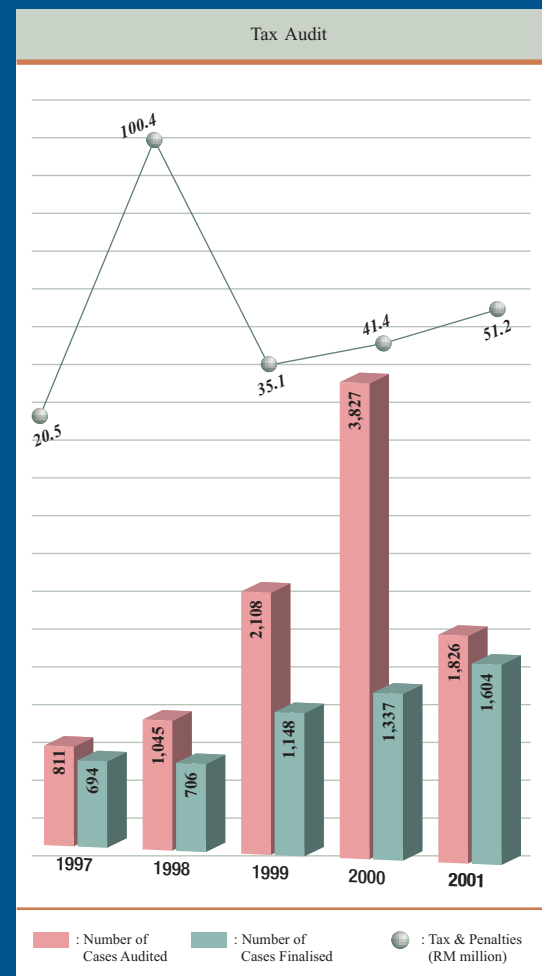
- identify new taxpayers,
- obtain additional information on existing taxpayers,
- review the implementation of the schedular tax deductions and instalment schemes,
- provide advisory service with regard to record-keeping, preparation of accounts as well as tax laws and regulations that must be complied with,
- propose cases to be audited.

INVESTIGATION

Enforcement programmes through the process of investigation and intelligence gathering are continuously enhanced, as they are the most effective activities to address tax evasion. The number of completed investigations increased 11.3 percent over 2000, and on the average, this netted back taxes of RM531,094.00 per case.



Street survey operation

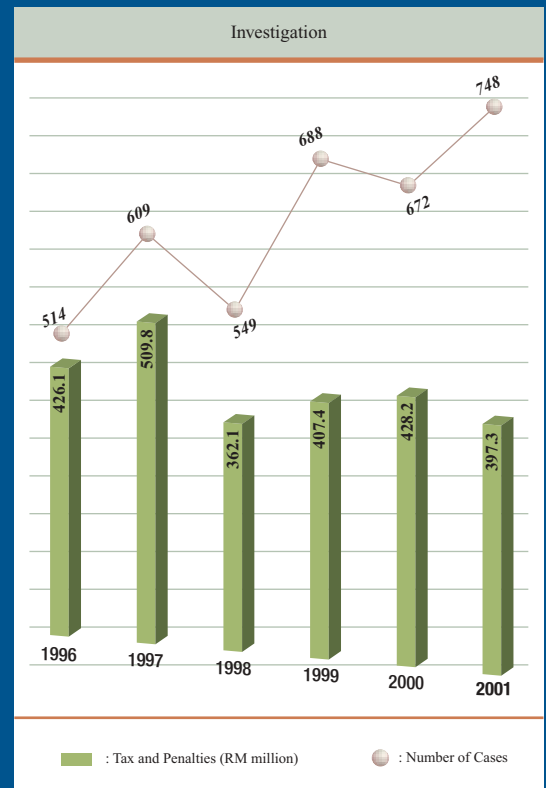
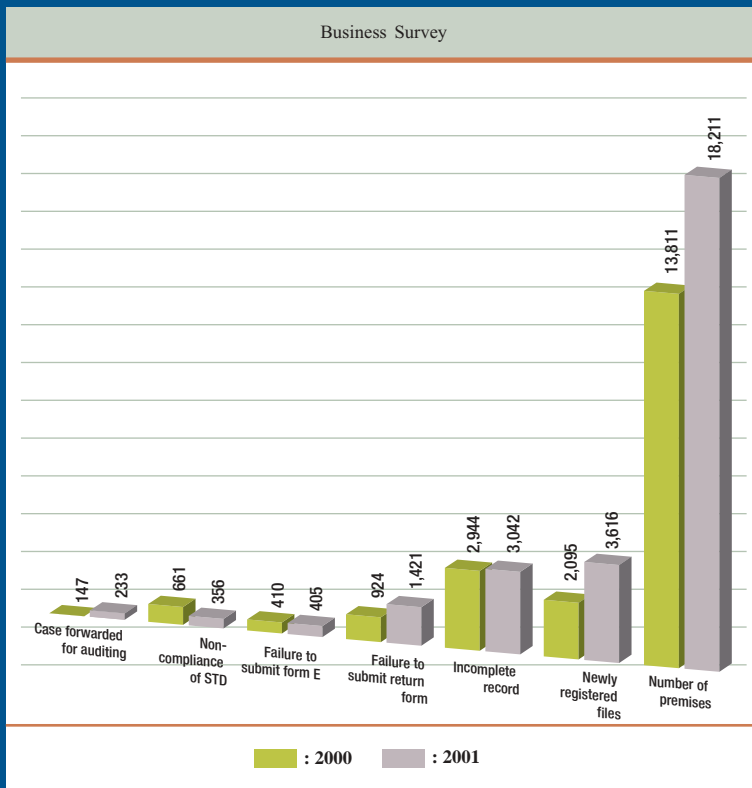




Verifying accounts and business documents at taxpayer's premises



Advisory service to taxpayers



Compliance and Prevention



Operations

Customer Service

Customer service has been imbued into the work culture of the LHDN personnel in order to realise the mission of excellence in customer service aimed at improving the level of taxpayers' voluntary compliance and tax awareness among the public. The crux of this programme is in the concept of 'friendly, helpful and satisfying' service to customers. Under the STS, customer service is the main function of the organisation in addition to audit, collection and enforcement programmes.

■ Public Relations

The main objective of public relations is to maintain and enhance the LHDN's image by ensuring good relations between the LHDN and the public. It is imperative that every division, branch, centre and unit makes it their main responsibility to achieve this objective and incorporate it in their duties and tasks. A special head office unit was established to coordinate public relations activities at branch level so that the function and responsibility is in line with the desires and image of the LHDN. This unit ensures that taxpayers are provided with accurate and timely information, on top of friendly service, when dealing with any LHDN office in the country.

Throughout 2001, the LHDN stepped up the activities of:

- Tax education by giving talks and explanations via radio and television at Radio Televisyen Malaysia (RTM) and System Televisyen Malaysia Berhad (TV3);
- Tax education by giving talks and explanations in seminars and workshops on specific taxation topics;

- Publication and distribution of public rulings, booklets, brochures and concise explanatory notes free of charge;
- Publicity through posters and newspaper advertisements on crucial dates in the taxation calendar; and
- Periodic issuance of press statements, articles and features on taxation in magazines.

■ Short Term Training/Courses

To ensure that taxpayers and tax agents comply with current tax provisions, particularly the implementation of the STS, the LHDN conducted the following short-term training and courses:

• 'Training of Trainers' course

Attended by 40 tax agents, this course was intended to provide an understanding of:

- the STS concept encompassing the aspect of change in legislature;
- the STS work processes and systems; and
- status and latest developments on the STS.

Another purpose of this course was to establish a network between tax agents and the LHDN.

• Tax education programme

Attended by 12,268 participants, this course was intended to provide an understanding of:

- the tax system in general
- income tax assessment for company and sole-proprietor taxpayers
- rights and responsibilities of taxpayers and employers.





www.hasilnet.org.my

■ **LHDN Website and E-mail**

In enhancing the communications and information channel to customers, the LHDN has provided a website: <http://www.hasilnet.org.my> and an e-mail address: lhdn@hasilnet.org.my to the public and taxpayers who wish to obtain information on taxation or wish to contact the LHDN to make enquiries or seek clarification. In 2001, the LHDN received 4,944 e-mails from taxpayers who wished to obtain additional information, enquire the status of their taxes and to lodge complaints. The LHDN website was visited by 278,855 visitors throughout 2001 and this number is expected to increase in the coming years.

Website and E-mail Facilities		
	2000	2001
Number of Mails	3,190	4,944
Number of Hits	119,308	278,855

■ **Call Centre**

The Call Centre was established under the control of the Processing Centre to facilitate the implementation of the STS by ensuring that each taxpayer comply with taxation laws and voluntarily “assess, pay and file”. The centre’s main task is to provide advisory service to taxpayers, tax agents, and staff of LHDN on tax assessment and payment under the STS.

The average daily calls for the first 3 months since its establishment in October until December 2001 was 30. Most of the calls received were from tax agents and company representatives who wished to obtain information with regard to using forms R and C as well as the regulations for payment by monthly instalment under the STS.

First three month services	
Service	Number
Number of Calls	1,411
Number of Interviews	36
Total	1,447





Operations

■ 'Taxpayer Service Week' (MPPC)

The MPPC is an annual activity to improve the public's level of understanding and awareness of taxpayers' rights and responsibilities. The MPPC counters are opened throughout the country particularly at the hub of crowds like shopping centres, with the aim of providing assistance and resolving tax problems faced by the visitors.



MPPC Service Counters					
Year	Number of Counters	Number of Visitors	Number of Talks	Number of Participants	Number of Services
2000	565	73,054	46	1,806	102,339
2001	726	79,574	106	3,052	119,230

Collection Agent

On 1 July 1997, the LHDN was appointed the collection agent for the National Higher Education Fund Corporation (NHEFC) to collect repayments of educational loans from students who have completed their studies or who have gained employment, whichever earlier. The LHDN is responsible for issuing the payment order to borrowers upon receipt of the relevant information on the borrowers from the NHEFC. Borrowers are given a period of between 10 to 20 years to fully settle their loans in instalments. The LHDN commenced the operation of collecting repayment of educational loans on 1 August 1999 and up to 2001, it has managed to collect RM7.25 million from 4,335 borrowers.



Payment Received By Borrowers				
Year/Period	Number of Borrowers	Total Borrowers	Annual Payment (RM)	Total Payment (RM)
1 August – 31 December 1999	209	209	30,359.01	30,359.01
2000	1,463	1,672	1,513,421.41	1,543,780.42
2001	2,663	4,335	5,702,502.21	7,246,282.63



Foreign Relations

As tax adviser to the government, the LHDN, through Double Taxation Agreements (DTAs), assists the government stimulate growth of outbound and inbound investments, and in addition protects the tax base to prevent national revenue outflow through the determination of imbalanced taxing rights. Tax systems are also becoming more complicated and challenging in the globalisation era, specifically from the aspect of electronic commerce (e-commerce), which crosses national borders and deviates far from traditional modes of trade. The LHDN's role is to ensure that Malaysia is capable of taking on the challenge of this new mode of trade from the aspect of taxation. Therefore, the DTA must be reviewed from time to time, depending on the circumstances, to fulfill both the requirements of the nation and international tax systems.

DOUBLE TAXATION AGREEMENT

The DTA was created to address the problem of different countries taxing the same income twice. Until 2001, a total of 46 DTAs are in force, 8 gazetted (not yet in force), 11 concluded and 14 still in the midst of negotiation. During 2001, Malaysia held DTA renegotiations with 9 countries, namely Germany,

Laos, Seychelles, Croatia, Chile, Australia, Saudi Arabia, Portugal and Norway. These countries are among the 14 countries where the DTAs are still under negotiation.

VISIT

In 2001, the LHDN acted as host to visiting delegates from four countries and the OECD. In addition, senior LHDN officers visited two countries to establish strategic alliance regarding tax issues.



A visit by the Vietnamese delegates

Foreign delegations visits to LHDN

Date	Visitors	Visitors	Venue
22 February 2001	Senior officials of the National Tax Agency (NTA), Japan	4	National Tax Academy (NTA), Bangi
14 – 16 March 2001	OECD Global Forum Mission To Malaysia	3	Jalan Duta, Kuala Lumpur
20 March 2001	Senior officials of the Ministry of Finance and Economy of Mongolia	18	Jalan Duta, Kuala Lumpur
26 June 2001	Sri Lanka Salary's Commission 2000	6	Jalan Duta, Kuala Lumpur
25 September 2001	Senior officials from Brunei Darussalam	1	Jalan Duta, Kuala Lumpur

LHDN's delegation overseas

Date	Visits	Visitors	Venue
19 February 2001	Visit to the Inland Revenue Authority of Singapore (IRAS)	10	Singapore
7 – 8 June 2001	Visit to the Massachusetts Department of Revenue	3	Boston, Massachusetts, USA

Foreign



DTAs In Force

- United States of America (Limited Agreement)
- Saudi Arabia (Limited Agreement)
- Argentina (Limited Agreement)
- Australia
- Austria
- Bangladesh
- Netherlands
- Belgium
- Chinese Taipei (tax exemption order)
- Denmark
- United Arab Emirates
- Fiji
- Philippines
- Finland
- Hungary
- India
- Indonesia
- Ireland
- Italy
- Japan (New Agreement)
- Germany
- Jordan
- Canada
- South Korea
- Malta
- Mauritius
- Mongolia
- New Zealand
- Norway
- Pakistan
- Papua New Guinea
- France
- Czech Republic
- People's Republic of China
- Romania
- Russia
- Singapore
- Sri Lanka (New Agreement)
- Sweden
- Switzerland
- Thailand
- Turkey
- United Kingdom (New Agreement)
- Uzbekistan
- Vietnam

DTAs Gazetted

- Albania
- Bahrain
- Kyrgyzstan
- Egypt
- Myanmar
- Namibia
- Sudan
- Zimbabwe

Relations



DTAs Concluded

- South Africa
- Brunei Darussalam
- India (New Agreement)
- Iran
- Kazakstan
- Kuwait
- Luxembourg
- Morocco
- Oman
- Singapore (New Agreement)
- Sweden (New Agreement)

DTAs Under Negotiations

- Saudi Arabia (New Agreement)
- Brazil
- Chile
- Croatia
- Finland (New Agreement)
- Germany (New Agreement)
- Laos
- Mexico
- Norway
- Portugal
- Spain
- Seychelles
- Uruguay
- Venezuela



Foreign Relations



THE 31ST STUDY GROUP ON ASIAN TAX ADMINISTRATION AND RESEARCH (SGATAR) CONFERENCE

The LHDN was given the honour to host the 31st SGATAR Conference in Kuala Lumpur, held from 4 to 9 November 2001. The conference was attended by 65 delegates from among members of SGATAR comprising tax administrators from Australia, Chinese Taipei, The Philippines, Hong Kong (Special Administrative Region), Indonesia, Japan, Korea, New Zealand, The People's Republic of China, Singapore, Thailand and the host, Malaysia. Also attending the conference were 6 foreign observers from Brunei Darussalam, Vietnam, The Philippines and the United States, plus 39 local observers. Topics of discussion put forward in the conference were:

1. Debt Management – Issue and Resolution
2. Creating A Paperless Environment in Tax Administration
3. Taxation Issues Regarding The Determination Of Profit In Cross-Border Transactions

This conference also made the decision to hold a meeting between heads of training institutions from among SGATAR members, to be held for the first time in Kuala Lumpur from 25 to 27 March 2002. The 32nd SGATAR Conference for year 2002 will be held in Thailand followed by Korea in 2003. Meanwhile, the 4th Working Level meeting will be held in Japan in 2002.

In the context of globalisation, many tax issues that were previously domestic has now changed in dimension to become international. Therefore, the SGATAR Conference has very much benefited members in addressing tax issues, which are evolving over time and in tandem with global economic conditions.

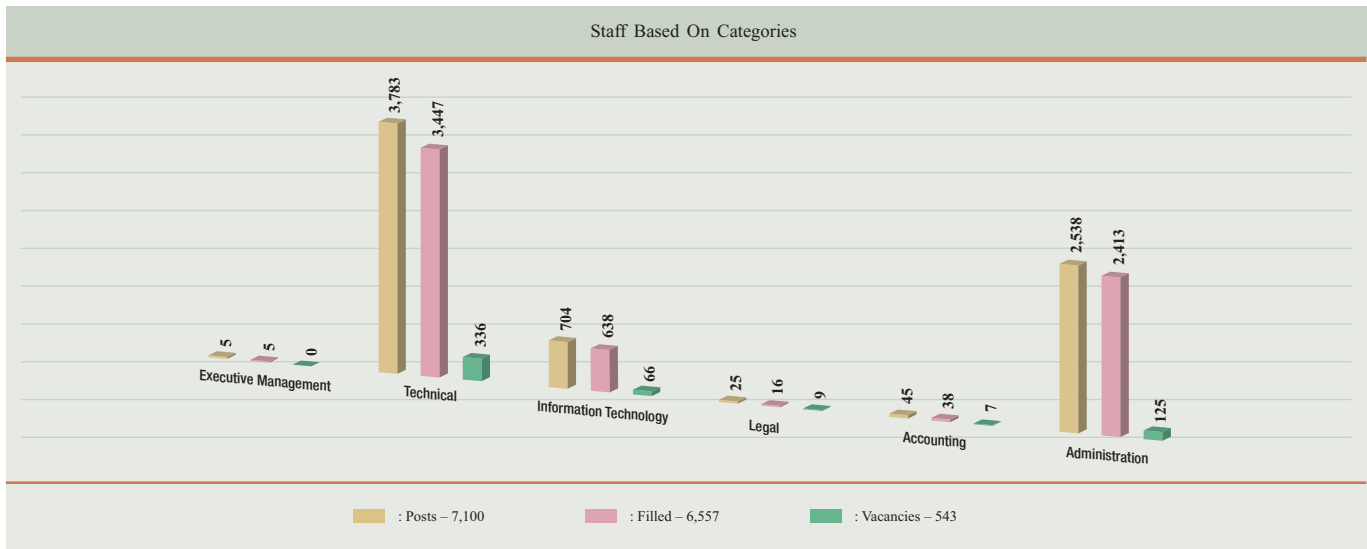


Delegates of the 31st SGATAR Conference



Human Resource

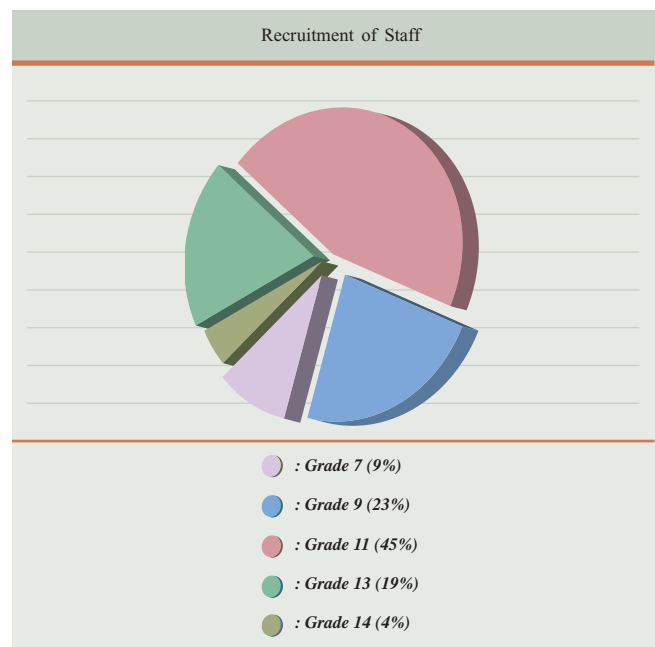
Work Force



The number of posts in 2001 totals 7,100, out of which 6,557 have been filled while 543 are still vacant. The vacancies consist of staff of different grades and categories.

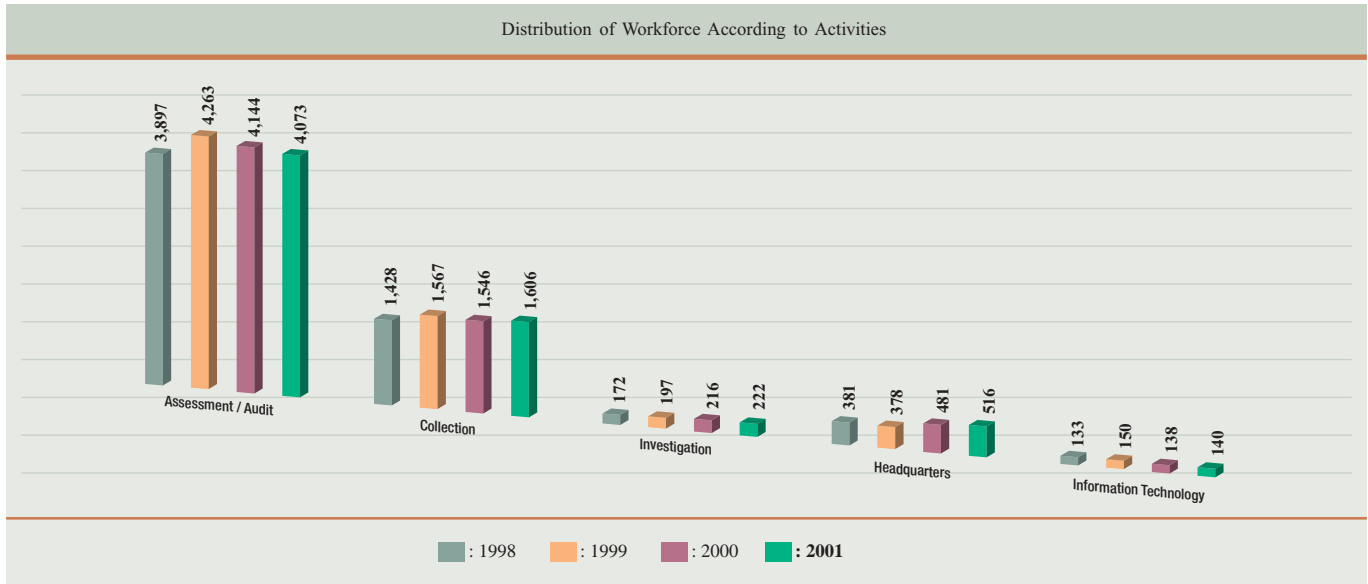
In 2001, 184 new staff were recruited by LHDN to fill up vacancies for the post of Executive Assessment Officer (Grade 7), Assistant Executive Assessment Officer (Grade 9), Administrative Assistant (Grade 11) and General Assistant (Grade 13 and 14).

Besides that, the LHDN created 455 additional posts for Executive Assessment Officer (Grade 7). A total of 3,335 candidates were called to sit for the entrance examination of which, 430 passed the examination and were chosen to attend the assessment workshop. Out of the 430 candidates, 274 accepted the offer as Executive Assessment Officer (Grade 7). LHDN also recruited 344 temporary staff of various posts to assist in handling the increasing volume of work especially in the debt management process and in the issuance of tax returns.

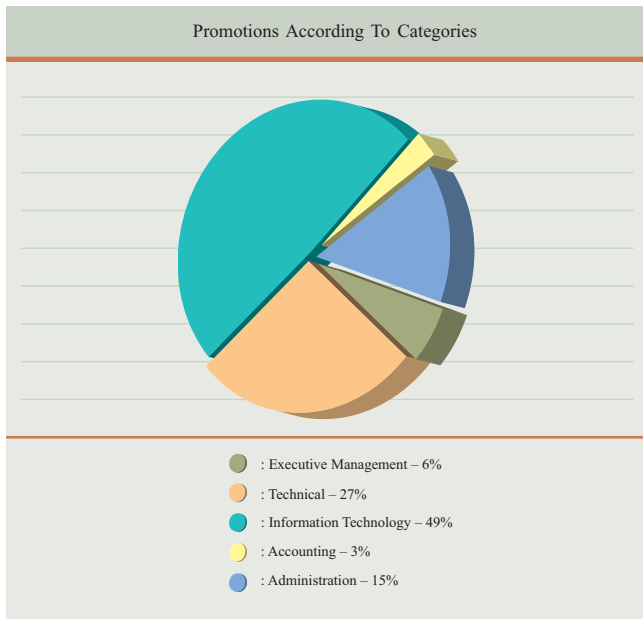




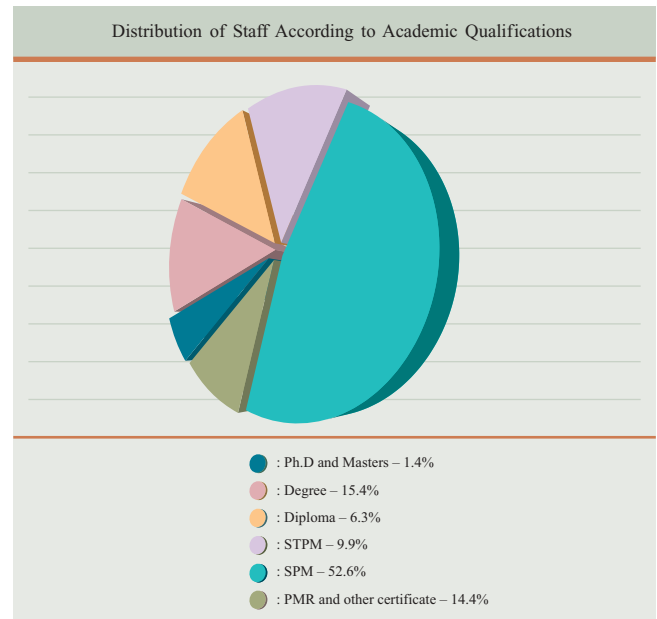
Human Resource



Distribution of work force is based on the needs and principal activities of the LHDN, which are assessing and collection of direct taxes for the country. As such, 62.1 per cent of the human resource are distributed for assessment activities and 24.5 per cent distributed for collection activities.



In 2001, 33 staff of various posts and grades were promoted (including acting for a higher post) to fill up vacancies and to meet current needs.



Other than providing comprehensive training to employees at all levels, the LHDN also provides them with opportunities to further their studies locally and internationally in various fields. In 2001, four officers were sent to further their studies at the Masters and the Doctor of Philosophy level.



Development

Training is an important factor towards attaining professionalism and expertise. The staff of the LHDN are given opportunities to attend technical and non-technical training, seminars and conferences held locally and abroad.

The main objectives in the development of the LHDN human resource are to:-

- Maintain and upgrade knowledge and exposure in current issues; and
- Develop career path

In order to achieve these objectives, the National Tax Academy (NTA) conducts programme in the form of courses, workshops, conferences and seminars as below:-

- a. Service Training;
- b. Specialisation and Self Development Training; and
- c. International Training

SERVICE TRAINING

Programmes that staff must undergo in service training are:-

- i. Pre service programme
This programme conducts pre service training for new officers. The courses are the Induction Course and the Preliminary Course. The objective of the programme is to equip the officers with the knowledge on basic accounting and taxation under the administration of the LHDN.
- ii. Advance programme
This programme conducts advanced training in accounts and laws. The objective of the programme is to equip the participants with analytical and practical skills in taxation and accounting.

Type of Programmes	Type of Courses	Category of Participants	No. of Participants
Pre service programme	General and specific induction	Executive Officer (Grade 7), Assistant Executive Officer (Grade 9), Administrative Assistants (Grade 11) and General Assistants (Grade 13 and 14)	201
	Preliminary training in law and accounting	Executive Officer (Grade 7) and Administrative Assistants (Assessment) (Grade 11)	231
Advanced training programme	Accounting	Executive Officer (Assessment) (Grade 7)	370

SPECIALISATION AND SELF DEVELOPMENT TRAINING

This programme conducts specialised training pertaining to taxation, accounting, auditing and management such as communication skills, leadership and negotiation skills. The objective of the programme is to equip the staff with sufficient knowledge and skills towards providing efficient and quality service.

Category of Courses	Category of Participants	No. of Participants
Core service	Executive Officer, Assistant Executive Officer and Administrative Assistant	537
Customer service	Executive Officer and Assistant Executive Officer	371
Information technology	Executive Officer	14
Management	Executive Officer, Assistant Executive Officer and Administrative Assistant	694



Human Resource

INTERNATIONAL TRAINING

This programme conducts international training in the form of courses, workshops, seminars and conferences, locally and abroad.

The objectives of the programme are to:-

- i. Expose the officers to international tax management; and
- ii. Upgrade knowledge and skills, and to establish international relations among the participating countries in order to allow exchange of ideas and information pertaining to taxation

Conferences/Seminar/Courses	Venue	No. of Participants	Sponsor
General tax administration course	NTA	26	Malaysian Technical Cooperation Programme
Tax modeling	Vienna, Austria	1	OECD
Exchange of information, Application of tax treaties: Special issues, Transfer pricing guidelines, Taxing electronic commerce and international tax evasion and avoidance (5 different courses)	Chonan, South Korea	6	OECD
Tax treaties and transfer pricing	Paris, France	3	OECD
Tax administration in an electronic world	Montreal, Canada	3	OECD/CATA/CIAT/IOTA/CREDAF
Issues in tax policy and administration	Singapore	1	IMF
Commonwealth tax inspectors course	London, United Kingdom	2	CATA/Inland Revenue U.K
31st SGATAR conference	Kuala Lumpur, Malaysia	39	SGATAR
21st CATA technical conference/workshop	Accra, Ghana	3	CATA
Regional conference on transfer pricing	Taipei, Chinese Taipei	2	Ministry of Finance, Chinese Taipei

Meeting	Venue	No. of Participants	Sponsor
CATA committee management meeting	London, United Kingdom	2	CATA
Asia/Pacific group on money laundering: 4th annual meeting	Kuala Lumpur, Malaysia	2	APG Secretariat, Australia
SGATAR transfer pricing working level meeting	Sydney, Australia	2	SGATAR
10th meeting of the Ad Hoc group of experts on international cooperation in tax matters	Geneva, Switzerland	1	UN
OECD TAG on monitoring the application of existing treaty norms for taxing business profits	Cape Town, South Africa	1	OECD



Workshop	Venue	No. of Participants	Sponsor
Workshop on taxation of international transactions and Transfer pricing	NTA, Malaysia	50 (25 per workshop)	CATA/OECD/LHDN
International treaties on the avoidance of double taxation	Ho Chi Minh City, Vietnam	2	German Foundation for International Development

In 2001, 645 members of the staff were awarded the Excellent Service Award and four officers were awarded by the State Governments/Sultans in recognition of their service.

Note:

- CATA – Commonwealth Association of Tax Administrators
- UN – United Nations
- IOTA – Intra-European Organisation of Tax Administrations
- IMF – International Monetary Fund
- CREDAF – Centre de Recontres et d’Etudes des Dirigeants des Administrations Fiscales
- OECD – Organisation for Economic Co-operation and Development
- SGATAR – Study Group on Asian Tax Administration and Research
- CIAT – Centro Interamericano de Administraciones Tributarias
- TAG – Technical Advisory Group
- APG – Asia Pacific Group





Information Technology System

Modernisation of Revenue System

The LHDN has implemented and structured a work system directed towards the utilisation of information and communication technology (ICT) to replace the manual-based work system, in several phases.

INTEGRATION OF ASSESSMENT AND COLLECTION SYSTEMS (INTACT) APPLICATION

In 2001, the LHDN fully used the INTACT system. This system is devised to integrate the assessment, collection, withholding taxes and real property gains tax systems, which were previously manually processed independently. Through this system, assessment and payment status, as well as taxpayers' information are centralised, and will allow taxpayers' tax information to be retrieved online.



COMPANY STS APPLICATION

The Company Self Assessment System (STS) was introduced to replace the INTACT system for corporate taxpayers. Under the STS, taxpayers will independently calculate the amount they will be taxed based on the concept of voluntary 'assess, pay and file'. The LHDN, on the other hand, will process tax returns, manage payment, audit and enforce laws.

In 2001, Phase I of the Company STS System application involving the collection and form processing functions underwent the process of development where 60 percent was developed. Phase II which involves the development of the audit function, prosecution, civil suit and e-filing is 50 percent complete. Phase I is expected to be fully implemented in March 2002, while Phase II in June 2002. The Company STS Application will provide systems for:

- Collection, involving the process of issuing tax estimation forms (CP 204), issuing payment slips (CP 207) and data entry of form CP 204.
- Processing of form C, involving the process of issuing, receiving and entry of company taxpayers' data.
- E-filing, involving the process of downloading, data entry and printing of form C.

The Company STS Application system will be completely developed by the end of 2002, and ready for implementation in early 2003.



OFFICE AUTOMATION (OA) APPLICATION

In improving the efficiency and effectiveness in the management of the LHDN, utilisation of ICT has been widened to include all staff through the office automation (OA) system. As at 2001, 5,340 users throughout the country have been registered as users of the OA facility, which provides the following applications:

- Stamp Duty collection report
- Revenue arrears system
- Schedular tax deduction form (CP 39) imaging system
- Bank balancing system (deposit)
- National Higher Education Fund Loan System

- Notification system for taxpayers intending to leave Malaysia (Section 104, Income Tax Act, 1967)
- Customer service system – call center
- File control system
- LHDN directory system

ICT INFRASTRUCTURE

The development and upgrading of the LHDN's ICT infrastructure is an on-going process, which requires phase-by-phase implementation according to priority. Among projects under development or enhancement are:

- Stamp Duty system; covering assessment, cashier and compound duty modules
- Download of schedular tax deduction (form CP 39) information through website
- Receipt issuance system under the INTACT program
- Website

The LHDN has implemented the tax payment system through Bank Bumiputera Commerce Berhad's portal. The LHDN has also provided a facility for filling up form C (e-filing) through a software which can be downloaded from the website for tax calculation and printing of form.





Self-Assessment System (STS)



The STS was initially imposed on company taxpayers in 2001, and will be extended to taxpayers other than companies in 2004. The basis of the STS introduced lies in voluntary compliance, and based on the concept of “self assess, pay and file”. The LHDN formulates strategies that make it easy and convenient for taxpayers to comply with taxation laws and regulations. Although the method of calculation under the STS is no different from the current provision, changes to work procedures and processes are necessary with respect to reporting, payment and assessment to ensure that taxpayers are able to perform the relevant tasks themselves with minimum help from tax agents or the LHDN. The STS strategies being implemented are:-

- Preparation of tax laws and procedures that are transparent and easily understood.
- Improvement of the service provided to taxpayers.
- Enhancement of the information system capabilities.
- Increase in compliance through tax audit, business survey, identification and investigation activities.
- Organisation restructures.



The main activities under the STS can be categorised into:

- Service and education before issuance of forms
- Management of forms and taxpayers’ accounts during submission of forms.
- Compliance and enforcement after submission of forms.

To ensure that these main activities can be efficiently and effectively carried out, work procedures and processes are prepared based on the utilisation of information technology.



Company Taxpayers

The computerised STS system application is being developed for company taxpayers. The main components in the application system are:-

- Company profile management and maintenance system.
- Tax collection management system.
- Tax assessment management system.
- Tax investigation and tax audit management system.
- Customer management system.

The completed first phase of system development include the company profile management and maintenance systems, encompassing the applications of registration, review and updating of company information. Fully completed applications under the tax collection management system are the tax estimate processing and the preparation of taxpayers' ledgers. The tax assessment management system that is currently being developed involves the applications of recording assessment information, review of tax return status and determination of penalty on reduction of tax estimates.

Besides providing laws and public rulings as well as developing the information technology system, the LHDN also provides the following facilities under the STS programme:-

- **Tax Education**
Conducts training on filling up Form C and Form R, and provides explanation on tax audit activities and customer service to taxpayers, accountants, tax agents and employees of companies. Overall, a total of 12,223 participants attended the tax education activities throughout the country.
- **Call Centre**
Provides additional services to taxpayers and tax agents in obtaining further information about the STS by establishing a call centre located at the LHDN's Processing Centre, Jalan Duta, Kuala Lumpur.



Public Rulings are provided as a guide for taxpayers regarding interpretation of applicable laws, policies and specific procedures. In 2001, seven Public Rulings were issued with regard to:

- Claims and the computation of capital allowances for plant and machinery.
 - Appeals against tax assessments.
 - Basis period for business and non-business sources for company taxpayers.
 - Basis period for business and non-business sources for taxpayers other than companies.
- **Processing Centre**
Provides a local collection and processing centre for all tax returns received throughout Malaysia, namely Form C, Form R, Form CP 204 and Form CP 205. This centralised processing shortens the process of registering and examining forms, and payment of tax instalments.
 - **Issuance Centre**
Centralises the issuance of all tax forms and letters to taxpayers.



Self-Assessment System (STS)

Taxpayers Other Than Companies

The implementation of the STS on taxpayer groups other than companies, comprising individuals, trusts, Hindu joint families, associations and clubs, shall commence in 2004. The STS for these groups shall apply a concept that is almost similar to the one implemented on the company taxpayer group. Under the system implementation plans, the LHDN is preparing drafts of bills to amend provisions under the current laws and introduce relevant new provisions. The aforesaid bill encompasses relevant issues pertinent to:-

- Basis period and year of assessment.
- Child relief claims.
- Submission of ITRs, including for partnerships.



- Tax assessment and issuance of notice of assessment.
- Tax payable.
- Payment of estimated tax.
- Special provisions
 - Estimates of tax payable year of assessment 2004.
 - Determination of basis period if the date of closure of accounts is changed.
- Transitional provisions are also available to taxpayers who annually close their accounts on dates other than 31 December.
 - Basis period for year of assessment 2003.
 - Determination of tax payable for year of assessment 2003.

Year 2002 Programme

For the year 2002, the LHDN plans to:-

- Continue the education programme for taxpayers and tax agents, particularly individual taxpayers.
- Provide ITRs for individual taxpayers, trusts, co-operatives and other relevant taxpayers.

- Complete the applications system and properly equip and train officers on the new system.
- Issue the relevant Public Ruling.
- Strengthen work processes in tax audits, business survey and customer service, as well as establishing relevant permanent units at all branches.





Amendments To The Tax Laws

Finance Act 2002 (Act 619)

Budget 2002, tabled on 19 October 2001 suggested a number of amendments to the Federal tax laws. The amended acts are the Income Tax Act 1967, Petroleum (Income Tax) Act 1967 and the Stamp Act 1949. The bills were approved and gazetted on 7 February 2002 under the Finance Act 2002 (Act 619).

AMENDMENTS TO THE INCOME TAX ACT 1967 AND PETROLEUM (INCOME TAX) ACT 1967

- Expenditure incurred on the provision of practical training by a company or businessperson is allowable as a business deduction.
- No restriction on bonus payment to employees.
- Expenses for rental of motor vehicle can be claimed up to RM100,000 if the motor vehicle rented is a new motor vehicle and the total cost does not exceed RM150,000.
- The responsibility of persons in performing all matters on behalf of a company or a body of persons required under the provision of the Income Tax Act 1967 is expanded to include the payment of taxes.
- The highest marginal tax rate for resident individuals and co-operative societies is reduced from 29 percent to 28 percent. The tax rate also changes for each range of chargeable income.
- Capital expenditure incurred on building used for hotel, airport or motor racing circuit is deemed as capital expenditure allowable on an industrial building.
- Incentive period for reinvestment allowance is extended from 5 years of assessment to 15 years of assessment (Amendment is applicable only for Income Tax Act 1967).





Amendments to the Tax Laws



AMENDMENTS TO THE STAMP ACT 1949

- The power to authorise compound of duty on document, cheques, contract notes and policies of insurance is transferred from the Ministry of Finance to the Collector.
- Anyone who is dissatisfied with an assessment raised by the Collector can apply to the Collector to review the assessment before the case is brought to the High Court.
- Anyone who is dissatisfied with the decision of the Collector, may within 21 days after the person is notified in writing of the decision, appeal against the decision to the High Court.
- The Collector is given the authority to reduce or remit penalties or the further amount payable without restriction to the amount of penalty involved.
- By substituting for the words “borrowing company in Malaysia approved by the Minister of Finance” the words “finance company licensed under the Banking and Financial Institutions Act 1989 (BAFIA) or under the Islamic Banking Act 1983 or a scheduled institution as defined under section 2 of the Banking and Financial Institutions Act 1989.”

Income Tax (Amendment) Act 2002 (Act A1151)

The amendment to the Act was introduced in tandem with the implementation of STS for taxpayers other than a company commencing from the year 2004. The related bills were approved and gazetted on 23 May 2002 under the Income Tax (Amendment) Act 2002 (Act A1151).

AMENDMENTS TO THE INCOME TAX ACT 1967

The amendment to the Income Tax Act 1967 laid down rulings and procedures in the implementation of STS for taxpayers other than a company. Among the rulings and procedures prepared are:-

- Determination of basis period;
- Deductions for children if two or more individuals make a claim;
- Submission of tax returns;
- Tax assessment and notice of assessment; and
- Determination of tax instalments and payment of tax.

Besides that, special provisions were introduced to:-

- Determine the estimates of tax payable in respect of a trust or co-operative society for year of assessment 2004; and
- Determine the basis period for year of assessment 2002 for taxpayers other than a company; trust body or co-operative society if the closing date for the business account is changed to other than 31 December in the basis year 2001.

Transitional provisions were also introduced for application during the transitional period (year of assessment 2003) for taxpayers other than a company, trust body or co-operative society that closes its business account on a date other than 31 December for basis year 2003.



Best Annual Report AWARD

Congratulations to the LHDN for winning the Best Annual Report Award For Statutory Bodies on 8 January 2002. The Chief Secretary to the Government, Y.Bhg. Tan Sri Samsudin bin Osman presented the award to Y.Bhg. Dato Haji Abu Hassan bin Hj. Md. Akhir, Deputy Director General of LHDN at the Tinta Kencana 2001 ceremony organised by Dewan Bahasa & Pustaka. The ceremony was held to honour and acknowledge the writer and its organization that produce excellent report in the national language. LHDN was selected as the recipient of the Best Annual Report Award in Bahasa Melayu category.

This award is given to statutory bodies that practise perfect usage of the national language in producing the annual reports. The evaluation is based on spelling, language notations, use of terminology, grammar and other aspects on reporting current issues concerning the statutory body. In their evaluation, Dewan Bahasa & Pustaka acknowledged a marked improvement in the usage of the national language in the annual report compared to the year before.





The Qurban & Akikah ceremony organised by the Persatuan Kebajikan Islam (PERKIS), in conjunction with the Hari Raya Aidil Adha was held at the precincts of the Federal Territory of Kuala Lumpur mosque. Ten cows were sacrificed on this occasion.

2 March 2001



The official opening of the 17th. Pusanita Annual General Meeting was held in Dewan Hasil, Blok 8A, Jalan Duta Kuala Lumpur.

8 March 2001



The CEO officiated the STS education program, i.e., the Introduction to Filing Company Tax Returns at the Pan Pacific Hotel, Kuala Lumpur. This program was implemented throughout the year in all branches of LHDN.

28 March 2001



News Flash



20 June 2001

Forty-four officers from Kluang branch were involved in the large scale Business Survey operations in the vicinity of Batu Pahat.



28 July 2001

The participants of the General Tax Administration Course visited the Johor Bahru branch. After a briefing, the participants visited a Malay traditional village to witness traditional dances, top spinning games, and savoured local fruits.



30 July 2001

Tax briefing over the radio at Miri RTM presented by two officers of the branch.



The Kuantan branch was given the honour to host the 29th. Pesta Sukan Hasil. The colourful opening ceremony was officiated by the acting State Secretary of Pahang, Y.B. Dato' Haji Abd. Rahim bin Abdul. A total of 847 staff participated, in which the South Zone was declared the overall champion.

14 September 2001



The 2002 Budget Briefing for LHDN officers at Putra World Trade Centre was delivered by Nik Esah binti Nik Mahmood, Head of Technical Division.

20 October 2001



Y.Bhg. Tan Sri Dato' Dr. Abdul Hamid Bin Othman, Religious Advisor to the YAB Prime Minister met the staff of Johor Bahru LHDN at a meet-the-leaders session.

23 October 2001



For The Year



30 October 2001

The Malam Hasil 2001 was held at the Putra World Trade Centre in Kuala Lumpur. One hundred and forty-nine officers who have served the LHDN for more than 25 years were honoured on this occasion.



4 November 2001

The CEO of LHDN presented a souvenir to Y.B. Dato' Chan Kong Choy in conjunction with the Opening Ceremony of the 31st. SGATAR Conference.



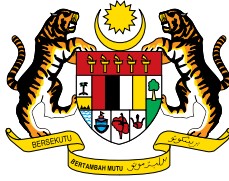
6 November 2001

In conjunction with the 2001 Quality Day at the Teluk Intan branch, a Tax Quiz for Secondary Schools in Hilir Perak was held in collaboration with the Hilir Perak District Education Office. Sekolah Menengah Kebangsaan St. Anthony emerged as the champion of the Quiz.

financial statements

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**CERTIFICATION OF THE AUDITOR GENERAL ON THE FINANCIAL
STATEMENTS OF THE INLAND REVENUE BOARD MALAYSIA FOR THE
YEAR ENDED 31 DECEMBER 2002**

I have audited the Balance Sheet of the Inland Revenue Board as at 31 December 2001, Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended. These financial statements are the responsibility of the management of the Inland Revenue Board. My responsibility is to express an opinion on these financial statements based on the audit carried out.

2. We conducted our audit in accordance with the Audit Act 1957 and the International Auditing Standards. These standards require that the audit be planned and performed so as to provide reasonable assurance that the financial statements of the Inland Revenue Board are free of material misstatements. An audit includes examining records, on test basis, evidence supporting the amounts, and ensuring sufficient disclosure in the financial statements. An audit also, includes assessing the accounting principles used as well as evaluating the financial statements presentation.

3. In my opinion, subject to paragraph 1 and 2 of the Auditor General Report, the financial statements are properly drawn up so as to give a true and fair view of the state of affairs of Inland Revenue Board as at 31 December 2001 and of the result of the operations, and cash flows for the year then ended.

4. Notwithstanding what has been abovementioned in paragraph 3, I would like to draw your attention to paragraph 3 of the Auditor General Report.


(DATUK DR. HADENAN BIN ABDUL JALIL)
AUDITOR GENERAL MALAYSIA

PUTRAJAYA
3 OCTOBER 2002



**AUDITOR GENERAL REPORT ON THE FINANCIAL STATEMENTS OF
THE INLAND REVENUE BOARD MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2002**

ASSETS

1. As reported in the Auditor General Report for the year ended 31 December 2000, included in the total assets which the Board acquired between the years 1956 until 1990 valued at RM3.49 million. The acquisition and the position of the Board's assets could not be verified. For the year 2001, the Inland Revenue Board had issued a circular on asset verification and until now the verification of the assets is still in progress. The report of the assets verification is yet to be prepared and the position of the assets cannot be confirmed.

2. The Board policy is to capitalize non-consumable items which cost at RM500 and above. Hence, the Board did not comply with the policy whereby, items cost less than RM500 had been capitalized causing the expenditure amounting to RM4.94 million.

OTHER FUNDS

3. Included in the other funds is the Conveyance Loan Fund amounting RM15 million. In the year 1997, the Board has received RM10 million endowment fund allocation from Treasury for the Conveyance Loan Fund. This fund has been increased from RM10 million to RM15 million with the approval of the Finance Committee of the Board. As the year 2001, the amount of the conveyance loan has exceeded the total amount of the fund by RM4.09. Nevertheless, the Committee had approved additional RM3 million of the fund on 23 April 2001, and RM12 million on 19 September 2002. These approvals have increased the fund amounted to RM30 million. Based on Term of References, the Committee has no power to approve the additional allocation for the fund.


(DATUK DR. HADENAN BIN ABDUL JALIL)
AUDITOR GENERAL MALAYSIA

PUTRAJAYA
3 OCTOBER 2002





Statement by the Chairman and a Member of the Inland Revenue Board

We, **TAN SRI DR. SAMSUDIN BIN HITAM** and **DATUK SITI MASLAMAH BINTI OSMAN** being the Chairman and one of the Members of the **INLAND REVENUE BOARD OF MALAYSIA**, do hereby state that, in the opinion of the Members, the accompanying Balance Sheet, Income Statement, Statement of Changes In Equity and Cash Flow Statement, together with the enclosed notes are drawn up so as to give a true and fair view of the state of affairs of the **INLAND REVENUE BOARD OF MALAYSIA** as at 31 December 2001 and of their results and changes in financial position for the year ended on that date.

On behalf of the Board,

Name : TAN SRI DR. SAMSUDIN BIN HITAM

Title : CHAIRMAN
INLAND REVENUE BOARD

Date : 23 SEPTEMBER 2002

Place : KUALA LUMPUR

DATUK SITI MASLAMAH BINTI OSMAN

MEMBER OF
THE INLAND REVENUE BOARD

20 SEPTEMBER 2002

KUALA LUMPUR



Declaration Signed by the Officer Primarily Responsible for the Financial Management of the Inland Revenue Board

I, **ZAKARIA BIN A. SAMAD** the officer primarily responsible for the financial management of the **INLAND REVENUE BOARD OF MALAYSIA**, do solemnly and sincerely declare that the accompanying Balance Sheet, Income Statement, Statement of Changes In Equity and Cash Flow Statement, together with the enclosed notes, to the best of my knowledge and belief, are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

Subscribed and solemnly declared)
by the abovenamed at)
Kuala Lumpur)
11 SEPTEMBER 2002)

ZAKARIA BIN A. SAMAD

Before me,

COMMISSIONER FOR OATHS



MOHD NOAR IBRAHIM
PESURUHJAYA SUMPAH
LEMBAGA HASIL DALAM NEGERI
KUALA LUMPUR



Balance Sheet

as at 31 December 2001

	Note	2001 RM	2000 RM
FIXED ASSETS			
Land, Furniture And Equipment	3	187,608,190	111,311,478
Loan To Employees	4	16,766,956	9,787,216
		204,375,146	121,098,694
CURRENT ASSETS			
Deposit And Prepaid		91,374	91,374
Loan To Employees	4	4,894,881	4,013,589
Payment Of Advances	5	9,066,909	3,789,852
Accrued Interest		32,658	239,342
Fixed Deposits And Short Term Investment	6	51,227,575	51,987,999
Cash And Bank Balances	7	5,141,341	19,230,976
		70,454,738	79,353,132
CURRENT LIABILITIES			
Sundry Creditors	8	11,436,119	13,282,792
Terms Loan	9	10,301,042	—
Provision For Audit Fee		45,636	58,235
		21,782,797	13,341,027
		48,671,941	66,012,105
NET CURRENT ASSETS			
		253,047,087	187,110,799
FUNDED BY:			
Development Fund	10	98,520,678	99,108,289
Trust Fund	11	704,224	651,258
Other Fund	12	36,000,000	36,000,000
Accumulated Surplus/(Deficit)	13	36,307,179	47,519,155
		171,532,081	183,278,702
LONG TERM LIABILITIES AND DEFERRED INCOME			
Terms Loan	9	79,598,958	—
Deferred Income	14	1,916,048	3,832,097
		81,515,006	3,832,097
		253,047,087	187,110,799

The accompanying notes to the accounts on pages 137 to 145 are an integral part of these accounts.



Income Statement

for the year ended 31 December 2001

	Note	2001 RM	2000 RM
Revenue	15	343,711,094	298,562,954
Other Operating Income		4,895	75,683
Staff Cost	16	(241,023,529)	(207,179,986)
Depreciation Of Land, Furniture And Equipment		(20,781,710)	(23,366,924)
Other Operating Expenditure		(97,028,994)	(97,829,237)
Surplus/(Deficit) From Operations		(15,118,244)	(29,737,510)
Finance Cost		(396,545)	—
Income From Investment And Loans		5,633,701	3,981,781
Current Surplus/(Deficit) Of Income		(9,881,088)	(25,755,729)

The accompanying notes to the accounts on pages 137 to 145 are an integral part of these accounts.



Statement of Changes in Equity

for the year ended 31 December 2001

	Development Fund RM	Trust Fund RM	Other Fund RM	Accumulated Surplus/ (Deficit) RM	Total RM
Balance as at 1st January 2000	89,021,742	522,412	36,000,000	72,687,439	198,231,593
Current Surplus/(Deficit)	10,086,547	128,846	—	(25,755,729)	(15,540,336)
Prior Year Adjustment	—	—	—	587,445	587,445
	10,086,547	128,846	—	(25,168,284)	(14,952,891)
Balance as at 31 December 2000	99,108,289	651,258	36,000,000	47,519,155	183,278,702
Current Surplus/(Deficit)	(587,611)	52,966	—	(9,881,088)	(10,415,733)
Prior Year Adjustment	—	—	—	(1,330,888)	(1,330,888)
	(587,611)	52,966	—	(11,211,976)	(11,746,621)
Balance as at 31 December 2001	98,520,678	704,224	36,000,000	36,307,179	171,532,081

The accompanying notes to the accounts on pages 137 to 145 are an integral part of these accounts.



Cash Flow Statement

for the year ended 31 December 2001

	Note	2001 RM	2000 RM
CASH FLOW FROM OPERATING ACTIVITIES			
Annual Fee And Other Income Received	17	343,715,989	299,157,400
Payment To Suppliers And Employees	18	(341,242,683)	(308,924,591)
NET CASH FROM OPERATING ACTIVITIES		2,473,306	(9,767,191)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchasing Of Land, Furniture And Equipment		(97,078,422)	(23,924,873)
Income From Investment And Loans		5,840,385	3,820,908
NET CASH FROM INVESTING ACTIVITIES		(91,238,037)	(20,103,965)
CASH FLOW FROM FINANCING ACTIVITIES			
Development Fund		(587,611)	10,086,547
Trust Fund		52,966	128,846
Terms Loan		89,900,000	—
Deferred Income		(1,916,049)	(1,916,049)
Staff Loan		(7,861,032)	(1,731,892)
Payment Of Advance		(5,277,057)	(3,412,532)
Finance Cost Paid		(396,545)	—
NET CASH FROM FINANCING ACTIVITIES		73,914,672	3,154,920
Net Increase/(Decrease) In Cash		(14,850,059)	(26,716,236)
Cash And Cash Equivalents At The Beginning Of The Period		71,218,975	97,935,211
Cash And Cash Equivalents At The End of The Period		56,368,916	71,218,975

The accompanying notes to the accounts on pages 137 to 145 are an integral part of these accounts.



Notes to the Account

for year ended 31 December 2001

1. PRINCIPAL ACTIVITIES

Inland Revenue Board (IRB) was incorporated on 1st March 1996 under Act 533 Lembaga Hasil Dalam Negeri Malaysia, 1995.

The Board acts as an agent to the government in providing services related to the administration, assessment, collection of and enforcement on the payment of income tax, tax on income from petroleum, real property gain tax, estate duty and stamp duty.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The account have been prepared under the historical cost convention and in accordance to the approved accounting standard.

(b) Fixed Assets and Depreciation

All fixed assets are accounted for at cost. Freehold Land and Work In Progress are not depreciated. Depreciation is calculated based on a straight-line basis from the time they are available for use over the estimated useful lives of the assets.

Rates of depreciation for fixed assets per year are as follows:-

Type of Fixed Assets	Depreciation Rate
Land – Leasehold	Period of lease
Building	2%
Office Equipment	20%
Furniture and Fittings	20%
Vehicles	20%
Facilities	20%
Other Fixed Assets	20%

(c) Recognition On Interest Income

Interest income from Conventional Banking Scheme is recognised on the accrual basis while profit from Al-Mudharabah is included in the Profit and Loss Account on the receipt basis.

(d) Foreign Currency Exchange

Items in Income Statement have been changed based on the exchange rate of the current transaction date. Difference in exchange rate is accounted in the Income Statement.



Notes to the Account

for year ended 31 December 2001

3. LAND, FURNITURE AND EQUIPMENT
3.1 LAND, FURNITURE AND EQUIPMENT 2001

	Land RM	Building RM	Office Equipment RM	Furniture & Fitting RM	Vehicle RM	Facilities RM	Other Fixed Assets RM	Total RM
Cost:								
1 January 2001	15,528,822	38,893,437	123,960,160	12,448,567	8,224,579	1,237,867	1,620,837	201,914,269
Add : Grant	—	—	—	—	—	—	—	—
Add : Purchases	2,257,500	78,950,501	14,910,157	3,192,444	1,224,582	620,653	49,339	101,205,176
Less : Adjustment	—	(25,588)	(38,975)	(50,370)	(6,046)	(9,740)	(98,443)	(229,162)
31 December 2001	17,786,322	117,818,350	138,831,342	15,590,641	9,443,115	1,848,780	1,571,733	302,890,283
Depreciation:								
1 January 2001	9,281	5,475,497	68,030,143	10,194,297	5,182,019	495,603	1,215,951	90,602,791
Add : Deferred Income Charges	—	—	1,916,049	—	—	—	—	1,916,049
Add : Current Charges	120,059	2,936,074	13,194,803	2,588,423	1,417,679	296,510	228,162	20,781,710
Less : Adjustment	380,708	(1,354)	1,752,291	(40,196)	(6,044)	(9,739)	(94,123)	1,981,543
31 December 2001	510,048	8,410,217	84,893,286	12,742,524	6,593,654	782,374	1,349,990	115,282,093
NBV at								
31 December 2001	17,276,274	109,408,133	53,938,056	2,848,117	2,849,461	1,066,406	221,743	187,608,190

Notes: NBV = Net Book Value



3. LAND, FURNITURE AND EQUIPMENT (cont'd.)
3.2 LAND, FURNITURE AND EQUIPMENT 2000

	Land RM	Building RM	Office Equipment RM	Furniture & Fitting RM	Vehicle RM	Facilities RM	Other Fixed Assets RM	Total RM
Cost:								
1 January 2000	6,400,000	38,201,934	101,386,469	10,596,325	6,689,912	930,151	1,491,277	165,696,068
Add : Grant	—	—	—	—	—	—	—	—
Add : Purchases	9,128,822	691,503	22,579,591	1,852,242	1,636,897	307,716	129,560	36,326,331
Less : Adjustment	—	—	(5,900)	—	(102,230)	—	—	(108,130)
31 December 2000	15,528,822	38,893,437	123,960,160	12,448,567	8,224,579	1,237,867	1,620,837	201,914,269
Depreciation:								
1 January 2000	7,361	2,835,330	49,204,543	8,145,360	3,983,527	315,103	930,991	65,422,215
Add : Deferred Income Charges	—	—	1,916,049	—	—	—	—	1,916,049
Add : Current Charges	1,920	2,640,167	16,909,719	2,048,937	1,300,721	180,500	284,960	23,366,924
Less : Adjustment	—	—	(168)	—	(102,229)	—	—	(102,397)
31 December 2000	9,281	5,475,497	68,030,143	10,194,297	5,182,019	495,603	1,215,951	90,602,791
NBV at								
31 December 2000	15,519,541	33,417,940	55,930,017	2,254,270	3,042,560	742,264	404,886	111,311,478

Notes: NBV = Net Book Value



Notes to the Account

for year ended 31 December 2001

4. LOANS TO EMPLOYEES

	2001 RM	2000 RM
Conveyance Loan	15,254,494	8,335,115
Computer Loan	1,512,462	1,452,101
	16,766,956	9,787,216
Total payments for Conveyance Loan and Computer Loan within 12 months (including in Current Assets):		
Conveyance Loan	3,835,389	2,892,825
Computer Loan	1,059,492	1,120,764
	4,894,881	4,013,589
	21,661,837	13,800,805

5. PAYMENT OF ADVANCES

	2001 RM	2000 RM
Staff Advances	50,004	43,336
Salary Advances	7,956,824	3,142,000
Sundry Advances	1,060,081	604,516
	9,066,909	3,789,852

6. FIXED DEPOSITS AND SHORT TERM INVESTMENT

	2001 RM	2000 RM
Licensed Finance Institutions	28,000,000	45,000,000
Licensed Banks	23,227,575	6,987,999
	51,227,575	51,987,999

**7. CASH AND BANK BALANCES****CASH**

	2001 RM	2000 RM
Branch Offices		
Headquarters/Branches	42,800	42,611
Total	42,800	42,611

BANK BALANCES

	2001 RM	2000 RM
Branch Offices		
Headquarters	4,180,123	18,872,742
Penang	141,553	32,928
Ipoh	237,898	4,373
Malacca	61,838	56,751
Johore Bahru	167,669	6,321
Kuala Terengganu	93,626	89,692
Kota Kinabalu	53,664	42,560
Kuching	162,170	82,998
Sub Total	5,098,541	19,188,365
Total	5,141,341	19,230,976

8. SUNDRY CREDITORS

	2001 RM	2000 RM
EPF	3,881,236	3,724,221
SOCSSO	162,504	151,081
Amount Due To Staff	51,143	12,813
Accrued Interest For Terms Loan	396,545	—
Deposits	70	70
Supply And Services	6,944,621	9,394,607
	11,436,119	13,282,792



Notes to the Account

for year ended 31 December 2001

9. TERMS LOAN

	2001 RM	2000 RM
Pensions Trust Fund Council	89,900,000	—
Total payment within 12 months (included in Current Liabilities)	(10,301,042)	—
Balance as at 31 December	79,598,958	—

Inland Revenue Board had received a loan from Pensions Trust Fund Council amounting to RM89.9 million to finance the purchased of four building which are Antap Plaza in Ipoh, Wisma Mercu Wawasan in Tawau, Wisma Hasil in Miri, Bangunan Wisma Perkeso in Kota Bharu and also a piece of land at Lot 2, Jalan 14/2, Seksyen 4, Bandar Baru Bangi, Selangor. Service charge for this loan is 7% on daily balance and paid within 8 years by instalment.

10. DEVELOPMENT FUND

	2001 RM	2000 RM
Balance as at 1 January	99,108,289	89,021,742
Annual Fee from Federal Government	9,750,000	14,235,000
Expenditure which does not form fixed assets	(10,337,611)	(4,148,453)
Balance as at 31 December	98,520,678	99,108,289

11. TRUST FUND

	2001 RM	2000 RM
Akademi Percukaian Negara	450,870	397,285
International Course of GTAC	128,490	129,109
International Course of BHUTAN	124,864	124,864
Balance as at 31 December	704,224	651,258

The trust fund of Akademi Percukaian Negara has been set up to account for all receipts and payments related to the welfare of courses participants, training activities, research and publications of the Akademi Percukaian Negara Malaysia.

The trust fund for International Courses represents the balance of allocation for the International Courses managed by Akademi Percukaian Negara Malaysia and ASEAN-Cooperation Unit.

**12. OTHER FUND**

	2001 RM	2000 RM
(a) Conveyance Loan	15,000,000	15,000,000
(b) Computer Loan	3,000,000	3,000,000
(c) Investment	18,000,000	18,000,000
	36,000,000	36,000,000

13. ACCUMULATED SURPLUS/(DEFICITS)

	2001 RM	2000 RM
Accumulated Surplus From Previous Year	47,519,155	72,687,439
Current Surplus/(Deficit) Of Income	(9,881,088)	(25,755,729)
Prior Year Adjustment	(1,330,888)	587,445
Accumulated Surplus Carried Forward	36,307,179	47,519,155

14. DEFERRED INCOME

Deferred Income is a government grant in terms of fixed assets which were acquired in 1996. Those fixed assets have been accounted in financial year 1998.

	2001 RM	2000 RM
Balance as at 1 January	3,832,097	5,748,146
Current Year Adjustment	(1,916,049)	(1,916,049)
Balance as at 31 December	1,916,048	3,832,097



Notes to the Account

for year ended 31 December 2001

15. REVENUE

Revenues are consists of the income from these sources:

	2001 RM	2000 RM
Annual Fee	343,409,900	297,864,600
Service and Service Payments	267,840	160,110
Sales of Others Printing Goods	19,274	32,940
Penalties	13,800	—
Refund of Expenditure	—	495,248
Refund of others Expenditure	—	2,411
Other Income	280	7,645
	343,711,094	298,562,954

16. STAFF COST

Staff cost are consist of:

	2001 RM	2000 RM
Emolument	170,566,795	158,862,846
Fixed Allowance	6,215,185	5,858,463
Statutory Contribution	35,874,754	33,927,166
Overtime Allowance	1,923,571	1,522,951
Other Allowances	26,443,224	7,008,560
	241,023,529	207,179,986

17. ANNUAL FEE AND OTHER INCOME RECEIVED

	2001 RM	2000 RM
Total Revenue (Note15)	343,711,094	298,562,954
Other Operating Income	4,895	75,683
Deposit and Prepaid	—	518,763
	343,715,989	299,157,400

**18. PAYMENT TO SUPPLIERS AND EMPLOYEES**

	2001 RM	2000 RM
Staff Cost (Note 16)	241,023,529	207,179,986
Other Operating Expenditure	97,028,994	97,829,237
Sundry Creditors	1,846,673	4,502,813
Provision for Audit Fee	12,599	—
Prior Year Adjustment	1,330,888	(587,445)
	341,242,683	308,924,591

19. CAPITAL COMMITMENT

	2001 RM	2000 RM
Approved and contracted	10,600,000	—
Approved but not yet contracted	—	—
	10,600,000	—

The Board has been approved to buy a piece of land of 4.9 acres at Lot 57, Section 45, Bandaraya Kuching, Sarawak in a direct purchase with PERNAS Properties Sdn. Bhd. at cost of RM10.6 million.

20. INCOME TAX

The Board, under section 127(3)(b) Income Tax Act 1957 are exempted from tax for the year assessment 1997 to the year onward. The exemption does not include the dividend income.

21. COMPARISON FIGURES

The comparison figures have been rearrange to suit the presentation of the account for the current year.

22. GENERAL INFORMATION

The Board at the end of the financial year has 6,528 staffs (2000: 6,401 staffs).



Appendices

I Amendments to the Law

A. Finance Act 2002 (Act 619)

Appendix 1	Income Tax Act (ITA) 1967
Appendix 2	Petroleum (Income Tax) Act 1967
Appendix 3	Stamp Act 1949

B. Income Tax (Amendment) Act 2002 (Act A1151)

Appendix 4	Income Tax Act 1967
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I) Amendments to the Law

A. Finance Act 2002 (Act 619)

APPENDIX 1

INCOME TAX ACT (ITA) 1967

1. *Practical Training – Section 34(6)(n)*

Expenditure incurred on the provision of practical training to a resident individual (not an employee of that person) is allowable as a business deduction. The practical training must be in relation to the business conducted by the company or businessperson. The amendment is effective from year of assessment 2002.

2. *Payment By Way Of Bonus – Section 39(1)(h)*

Effective from year of assessment 2002, the provision restricting bonus payment to two months wages or salary is abolished whereby bonus payment will be fully deductible as a business expense.

3. *Expenses For Rental Of A Motor Vehicle – Section 39(1)(k)*

Expenses for rental of a motor vehicle is increased to RM100,000 per vehicle if:-

- The vehicle is new and has not been used for any purpose; and
- The total cost of the vehicle does not exceed RM150,000.

The claim for rental of a motor vehicle is only allowable up to a maximum of RM50,000 if only one or both of the conditions are not fulfilled. The amendment is effective from year of assessment 2002.

4. *Responsibility On Behalf Of A Company Or Body Of Persons – Section 75(1)*

Responsibility of persons (directors, managers, secretary and treasurer) performing all matters required under the provision of the ITA 1967 on behalf of a company or body of persons (clubs, associations and Hindu joint family) is extended to include the payment of taxes for companies and body of persons notwithstanding anything to the contrary of this Act or any other written law. The amendment is effective from 8 February 2002.

5. *Reduction In Income Tax Rates For Individuals And Co-operative Societies-Schedule 1*

The highest marginal tax rate for resident individuals is reduced from 29% to 28% for chargeable income exceeding RM250,000. The tax rate also changes for each range of chargeable income. The income tax rate for non-resident individuals is reduced from 29% to 28%.

The highest marginal tax rate of 29% for co-operative societies is reduced to 28% for chargeable income exceeding RM500,000. The tax rate also changes for each range of chargeable income. The amendment to the tax rate is effective from year of assessment 2002.

6. *Industrial Building Allowance – New Paragraph 3A, Schedule 3*

i. Where a building is purchased from a person who constructed that building and the building has not been used by any person for any purpose prior to the purchase:-

- The purchaser shall be deemed to have constructed the building and to have incurred capital expenditure on the construction of that building;
- The purchase price of the building shall be deemed to be the capital expenditure incurred on the construction of that building; and
- The date of that purchase of the building shall be deemed to be the date of construction of that building.

The capital expenditure incurred by the person who constructed the building and the date of construction shall be disregarded. The purchaser shall be deemed to have constructed the building on the date of purchase and the qualifying capital expenditure is the purchase price of the building. The amendment is effective from year of assessment 2002.



Appendices

ii. Initial Allowance for an Industrial Building – Paragraph 12, Schedule 3

The purchaser of the industrial building shall be entitled to claim initial allowance for the industrial building. This amendment is effective from year of assessment 2002.

iii. Annual Allowance for Industrial Building – Paragraph 16, Schedule 3

Annual allowance rate for the construction or purchase of an industrial building is increased from 2% to 3% on the qualifying expenditure. The calculation of annual allowance for a purchase industrial building based on a permitted fraction is abolished.

However, if a person is enjoying a higher annual allowance for a purchased industrial building calculated based on the permitted fraction rather than the 3% rate, he is allowed to claim the higher allowance (special provision paragraph 16). The amendment is effective from year of assessment 2002.

iv. Adjustment from preceding year basis to current year basis (STTS) – Paragraph 5(1) & 5(1A), Schedule 3

Paragraph 5(1) is amended to update and to adjust the existing provisions to a new tax provision based on the current year basis (STTS).

The new paragraph 5(1A) is introduced to determine the qualifying building expenditure for a purchased building build before 1.1.2000 and used (after purchased) in the year of assessment 2000 (current year) and the following years of assessments.

The amendment is effective from 1.1.2000 for year of assessment 2000 (current year).

v. Building used for Hotel – Paragraph 37F, Schedule 3

A building or part thereof used for the purpose of a hotel and is registered with the Ministry of Culture, Arts and Tourism is deemed as an industrial building. The amendment is effective from year of assessment 2002.

vi. Airport – Paragraph 37G, Schedule 3

Capital expenditure incurred (in relation to the airport) on the construction, reconstruction, extension, improvement, or purchase of any building, runway, or ancillary structures is deemed as an industrial building. The amendment is effective from year of assessment 2001.

vii. Motor Racing Circuit – Paragraph 37H, Schedule 3

Capital expenditure incurred in relation to a motor racing circuit (approved by the Ministry of Finance) includes capital expenditure on the construction; reconstruction, extension, or improvement of that motor racing circuit or ancillary structures is deemed as an industrial building. The amendment is effective from year of assessment 2001.

7. Reinvestment Allowance (RA) – Schedule 7A

i. Extended period for reinvestment allowance – Paragraph 2

Promotion period is extended from 5 to 15 consecutive years commencing from the year the first investment is made. A company that has claimed RA from year of assessment 1998 is eligible to claim the incentive until year of assessment 2011. This amendment is effective from year of assessment 1998.

ii. Provision for tax evasion – Paragraph 1B

Capital expenditure incurred by the acquirer shall be deemed to be an amount equal to the amount of capital expenditure incurred by the disposer reduced by the amount of allowances on that asset that has been made or would have been made to the disposer under Schedule 3. The words asset, control, and disposer's final period are defined in the paragraph. The amendment is effective from year of assessment 2002.

**APPENDIX 2****PETROLEUM (INCOME TAX) ACT 1967**

The following law amendments to the Petroleum (Income Tax) Act 1967 arise from the amendments made on the Income Tax Act 1967. The related provisions are: -

1. Practical Training – Section 16(7H);
2. Bonus Payment – Section 18(1)(l);
3. Payment For Rental Of A Motor Vehicle – Section 18(1)(m);
4. Industrial Building Allowance – Schedule 2, Paragraph 3,3A,9,11,13,14 and 15.

APPENDIX 3**STAMP ACT 1949****1. Compound For The Payment Of Duty – Section 9(3)**

The power to authorise document, cheques, contract notes and policies of insurance is transferred to the Collector (formerly the authority was with the Ministry of Finance). The amendment is effective from 1 January 2002.

2. Notice Of Objection To The Stamp Duty Collector – Section 38A

The new provision outline the procedures allowing anyone who is dissatisfied with an assessment raised, to apply to the Collector to review the assessment before the case is brought to the High Court. The appeal should be made within 30 days after the date of the assessment or such other period as the Collector may allow. The amendment to the appeal provision is effective from 1 January 2002.

3. Appeals To The High Court – Section 39(1)

The new provision allows any person who is dissatisfied with the decision of the Collector under section 38A, may within 21 days after the person is notified in writing of the decision appeal against the decision to the High Court.

Any person, who wishes to file a notice of appeal with the High Court, must file a notice of appeal to the Collector within 21 days from the date of a notice of appeal. The amendment is effective from 1 January 2002.

4. Penalty For Late Stamping – Section 47A(2)

The Collector may, reduce or remit such penalty or the further amount payable under section 9(1)(c). This is to speed up the stamping process and ensure uniformity for penalty. The amendment is effective from 1 January 2002.

5. Definition Under Paragraph 27(d) and 32(c) First Schedule

By substituting for the words “borrowing company in Malaysia approved by the Minister of Finance” the words “finance company licensed under the Banking and Financial Institutions Act 1989 (BAFIA) or under the Islamic Banking Act 1983 or a scheduled institution as defined under section 2 of the Banking and Financial Institutions Act 1989”. This is in relation to the current situation where the finance company and the financial institutions are control by the Banking and Financial Institutions Act 1989 (BAFIA) or under the Islamic Banking Act 1983. The amendment is effective from 1 January 2002.



Appendices

B. Income Tax (Amendment) Act 2002 (Act A1151)

APPENDIX 4

INCOME TAX ACT 1967

1. *Basis Period – Section 21*

The basis period for a year of assessment of a person other than a company, trust body or co-operative society is the basis year (calendar year) for that year of assessment. The amendment is effective from year of assessment 2004.

2. *Deduction For Children – Section 48(4)*

If two or more individuals claim deductions for children as in the case of a husband and wife who are divorced or an adopted father with the biological father, each individual can claimed 50% of the deduction for the children without taking into consideration the total expenses incurred by the individuals on the children. The amendment is effective from year of assessment 2004.

3. *Submission Of The Income Tax Return (ITR) – Section 77*

Every taxpayer, other than a company, trust body or co-operative society is required to furnish to the Director General of LHDN an ITR not later than 30 April in the year following that year of assessment.

A taxpayer is required to submit an ITR if he has:-

- (a) Chargeable income for the year of assessment; or
- (b) No chargeable income for that year of assessment, but has chargeable income or has furnished an ITR or has been required under this Act to furnish an ITR, for the year of assessment immediately preceding that year of assessment.

For the purpose of this section, the ITR for a year of assessment shall:-

- (a) Specify the chargeable income and the amount of tax payable (if any) on that chargeable; and
- (b) Contain such particulars as may be required by the Director General.

The amendment is effective from year of assessment 2004.

4. *Furnishing Of Income Tax Return (ITR) – Section 77A*

Every company, trust body or co-operative society shall for each year of assessment furnish to the Director General an ITR within 6 months from the date following the close of the accounting period.

Where there is a change in the accounting period of a company, trust body or co-operative society such that the accounts are not closed on any date in a year, the ITR should be furnished within 6 months from the date following the close of the accounting period.

For the purposes of this section, an ITR for a year of assessment shall:-

- (a) Specify the chargeable income and the amount of tax payable (if any) on that chargeable income for that year; and
- (b) Contain such particulars as may be required by the Director General.

The amendment is effective from year of assessment 2004.

5. *Furnishing Of Income Tax Return By Partnership – Section 86*

The precedent partner (present in Malaysia) of a partnership, (if none, a lawyer, an agent or a manager) are responsible for furnishing a partnership return to the Director General not later than 30 April in the year following the year of assessment.

For the purposes of this subsection, an income tax return for a year of assessment shall:-

- (a) Specify the divisible income/loss as ascertained under the provisions of sections 55, 56, 57, 58 and 59.
- (b) Contain such information as is necessary to determine the statutory income from all sources of the partners of the partnership; and
- (c) Contain such particulars as may be required by the Director General.

If a partnership has been dissolved, the partners of the partnership immediately before the dissolution shall be deemed to continue to be partners. The amendment to the section is effective from year of assessment 2004.



6. Assessments And A Notice of Assessment – Section 90 And Section 96

Where a taxpayer has furnished an income tax return within the specified dateline:-

- (a) The Director General shall be deemed to have made an assessment on the day on which the income tax return is furnished;
- (b) The income tax return shall be deemed to be a notice of assessment; and
- (c) The deemed notice of assessment shall be deemed served on the person on the day on which the return is furnished to the Director General.

If the taxpayer has not furnished an income tax return within the specified dateline (30 April for a person other than a company, trust body or co-operative society and 6 months from the date following the close of the accounting period for a company, trust body or co-operative society), the Director General shall raise an assessment and the notice of assessment will be issued formally. The amendment to the sections is effective from year of assessment 2004.

7. Payment Of Tax Payable – Section 103 And Section 103A

A new section 103 substitutes section 103, so that the payment of tax under the self-assessment system applicable for a company is applicable for all taxpayers. Whilst section 103A relating to payment of tax payable by a company is amended by deleting the section. The amendment is effective from year of assessment 2004.

8. Payment Of Tax By Instalment By A Taxpayer Other Than A Company, Trust Body Or Co-operative Society – Section 107B

Every person, other than a company, trust body, or co-operative society, chargeable to tax for a year of assessment, shall make payment by instalments on account of tax (excluding tax in respect of gains or profits from an employment).

In the case of an individual whose income includes both incomes from employment and business, the tax payable in respect of income from business is the tax payable reduced by the amount of tax that is attributable to the gains or profits from an employment.

The formula to determine the amount attributable to the income in respect of gains or profits from an employment is:-

$$\frac{A}{B} \times C$$

Where A = statutory income in respect of gains or profits from an employment
B = total income
C = tax payable

All the amendments are effective from year of assessment 2004.

9. Payment Of Tax By Instalments By A Company – Section 107C

If the original tax estimate is revised, the instalment amount which is payable is determined by deducting the amount of tax payable (without taking into consideration whether instalment has been paid or not) from the revised estimate.

New Subsection 11(A)

Tax is collected in accordance with section 103 or the payment of tax being enforced in accordance with section 106 (recovery by suit) to a person to which section 107C is applicable. The amendment is effective from year of assessment 2001.

10. Determination Of Tax Credit – Section 108(14A)

Tax refunded or a refund of tax refers to:-

- (a) The difference between the amount of instalments that has been paid (section 107C) and the amount of tax payable (excluding any penalty imposed under section 112 or 113) for that year of assessment; or
- (b) The amount of tax payable discharged (excluding any penalty imposed under section 112 or 113) by virtue of the assessment that has been reduced or discharged.

The amendment is effective from year of assessment 2001.



Appendices

11. *Special Provisions*

(i) **Estimate of tax payable for the year of assessment 2004**

The estimate of tax payable for the year of assessment 2004 in respect of a trust body or co-operative society furnished to the Director General (30 days before the beginning of the basis period) shall not be less than the amount of tax payable for the year of assessment 2002 or, where the tax payable has not been determined, the tax payable for the year of assessment 2001. The amendment is effective for year of assessment 2004 only.

(ii) **Determination of basis period if there is a change in the accounting period**

Where a person, other than a company, trust body or co-operative society, has made up the accounts of his business for a period of twelve months ending on a day other than 31 December in the basis year 2001, the period which begins on the first day of the accounting period to 31 December 2002 is the basis period for the year of assessment 2002. The amendment is effective for year of assessment 2002 only.

12. *Transitional Provisions – Effective For The Year of Assessment 2003 Only*

This amendment is applicable to taxpayers other than a company, trust body and co-operative society.

(i) **Basis Period for the Year of Assessment 2003 – Section 29**

The basis year for the year of assessment 2003 shall constitute, in relation to a source of a person the basis period for that year of assessment.

Where a person has made up the accounts of his business for a period of twelve months ending on a day other than 31 December in the basis year 2003, the period which begins from the first day of the accounting period to 31 December 2003 shall constitute for that business of that person the basis period for year of assessment 2003.

(ii) **Determination of Tax Charge where Basis Period is More Than Twelve Months – Section 30**

- (a) The tax is charged for a period of 12 months and in respect of the remaining months.
- (b) The chargeable income for the period of 12 months is ascertained first by deducting the loss carried forward and the basis year loss and the relief under Section 46 to 49, ITA 1967, as if the basis period is the real basis period for year of assessment 2003. Tax is calculated using the scale rate.
- (c) The chargeable income for the remaining months is ascertained by deducting the unabsorbed loss carried forward and the relief under section 46 to 48, ITA 1967, based on the number of remaining months. Tax is calculated using the scale rate.

(iii) **Tax Rebate – Section 6A(2)**

- (a) The tax for the period of more than 12 months calculated base on paragraph ii(b) and ii(c) above is added together and the rebate RM350 (Section 6A(2)) is allowed if the chargeable income for the period does not exceed RM35,000.
- (b) Where a person has chargeable income, the rebate shall be increased by an amount (the rebate in the remaining months), and shall not exceed the amount of tax charged for the period.



II Tax Appeal Cases

APPENDIX 5

TAX APPEAL CASES HEARD BEFORE THE SPECIAL COMMISSIONER OF INCOME TAX (PKCP)

No.	Name of the Case	Issues	Decisions/Comments
1	H.N.M (PKCP 62/99)	Whether legal expenses incurred to obtained compensation for loss of employment is deductible under the ITA 1967.	Case postponed whilst waiting for decision of the case Sukumaran Vanugopal against (v) KPHDN (PKR 691) that will be heard in the High Court regarding the same issue.
2	P.C. Sdn. Bhd. (PKCP 67/99)	Whether compensation payment received by caveat holder (taxpayer) is taxable.	Based on the business activity of the taxpayer, the payment is revenue receipt and not capital receipt. Taxpayer's appeal denied by the PKCP. No further appealed made.
3	A.E. Sdn. Bhd. (PKCP 84/99)	Whether commission payment made to the service director is allowable as a deduction under section 33(1) ITA 1967 or bonus subjected to restriction under subsection 39(1)(h) ITA 1967.	Taxpayer's appeal denied by the PKCP, payment to the director is payment subjected to the restriction. No appeal filed to the High Court.
4	O.N.T.T (M) Sdn. Bhd. (PKCP 91/99)	Whether the adjusted loss in the exempt period can be carried forward after the period ends.	Decision in the case of KPHDN v MCIS (W-01-145-96) binds this case. The exemptions in relation to paragraph 12, Schedule 6 ITA 1967. Taxpayer's appeal allowed by the PKCP. No appeal filed to the High Court.
5	G. Sdn. Bhd. (PKCP 93/99)	Whether the disposal of real property is subjected to tax under Section 4(a) ITA 1967 or Real Property Gains Tax Act (RPGTA) 1976.	Profit from the disposal is income from the appellant's business and subjected to tax under section 4(a) ITA 1967. Taxpayer's appeal denied by the PKCP. No appeal filed to the High Court.
6	V.D Sdn. Bhd. (PKCP 96/99)	Whether the disposal of real property is subjected to tax under Section 4(a) ITA 1967 or RPGTA 1976.	The disposal of real property is subjected to tax under section 4(a) ITA 1967. This is deduced from the intention, background, and action by the taxpayer and the company's memorandum & association that does not authorized the purchase of land for investment purposes.
7	K.P.L.F.S. Sdn. Bhd. (PKCP 99/99)	Whether the ship owned by the taxpayer, falls under the meaning of ferry under section 54(a) ITA 1967.	Ship's voyage to Medan and Phuket does not fall under the meaning of ferry whilst voyage to Langkawi and Satun, Thailand falls under the meaning of ferry. No appeal filed by both parties.
8	F. Sdn. Bhd. (PKCP 8/2000)	Whether guarantee fee is allowable as a deduction under section 33(1) ITA 1967.	Taxpayer's appeal denied by the PKCP. Taxpayer appealed to the High Court.
9	S.P.C.S. Sdn. Bhd. (PKCP 59/99)	Whether taxpayer is eligible for investment tax credit under section 26(1) Investment Incentive Act 1968 on capital expenditure incurred before business commence.	Taxpayer's appeal denied by the PKCP. Taxpayer appealed to the High Court.



Appendices

No.	Name of the Case	Issues	Decisions/Comments
10	L.H.H (PKCP 2/2001)	Whether commission payment to taxpayer is allowed as a deduction under RPGTA 1976.	The payment is not an incidental cost allowable under paragraph 6(1)(a) Schedule 2 ITA 1967.
11	A.I.I. Inc (PKCP 15/99)	Whether:- <ul style="list-style-type: none"> Rider's premium is treated as general or life insurance. Service payment to a non-resident is subject to section 4A(ii) ITA 1967. 	<ul style="list-style-type: none"> Income from rider's premium is taxable as life insurance. No appeal filed to the High Court. Subjected to section 4A(ii) ITA 1967. No appeal filed to the High Court.
12	M.B.C. (PKCP 22/99)	Whether:- <ul style="list-style-type: none"> Taxpayer is subjected to tax under section 142 Legal Professional Act 1976. Taxpayer is a trading association under section 53 ITA 1967. Income from Compensation Fund is subjected to tax notwithstanding section 80(13) Legal Profession Act 1976 exempting the income. Capital allowance can be claimed if taxpayer is a trading association. 	Case postponed for decision to a later date.
13	C.W.S. (PKCP 3/2001)	Whether ex-gratia payment is assessed as compensation under section 13(1)(a) ITA 1967 or compensation payment due to lost of employment.	Taxpayer's appeal denied by PKCP. No appeal filed to the High Court.
14	Y.M.F. (PKCP 4/2001)	What is the acquisition price of the house received by taxpayer as payment for allowing the developer to develop the land?	The acquisition price used by the LHDN is maintained. Taxpayer appealed to the High Court.
15	T.M. Sdn. Bhd. (PKCP 13/2000)	Whether profit from disposal of real property is investment profit subjected to income tax under the ITA 1967.	The profit from the disposal of the asset is subjected to tax under the RPGTA 1976. The payment received by the taxpayer amounting to RM18,823,311.00 treated as compensation and part of the scheme to pay for the loss due to the acquisition of the land. The land is the only land owned by the taxpayer and no profits were derived from it. Taxpayer's appeal allowed. No appeal filed to the High Court.
16	M. Sdn. Bhd. (PKCP 1/1999)	Whether nett proceeds paid to the Sabah State Government is allowable under section 33 ITA 1967.	The nett proceeds payment is allowable expenses under section 33(1) ITA 1967. Taxpayer's appeal allowed.

APPENDIX 6

TAX APPEAL CASES HEARD BEFORE THE HIGH COURT

No.	Name of the Case	Issues	Decisions/Comments
1	S.P. Sdn. Bhd.	<ul style="list-style-type: none"> Whether Paragraph 34A(3) Schedule 2, RPGTA 1976 is effective at the time of acquisition of shares on 29.12.1994 and 16.1.1997. What is the legal standing and implication of bonus shares and whether it is subjected to paragraph, 34A, Schedule 2, RPGTA 1976 in the determination of acquisition price. 	Paragraph 34(A) revised through Act 578/1998 and effective from 27 October 1997 is applicable as disposal of land based company shares from that date without taking into consideration whether the chargeable asset is acquired before that date. Taxpayer withdraw the appeal from the High Court.



No.	Name of the Case	Issues	Decisions/Comments
2	L.C.C. (R2-14-07-2000)	Whether unilateral credit is deduction for income subjected to double taxation under paragraph 15, Schedule 7 ITA 1967.	Taxpayer's appeal allowed.
3	KHK DMB Sdn. Bhd. (R1-14-04-1999)	Whether leave passage from a director is allowable as a deduction under section 33 ITA 1967.	Taxpayer's appeal allowed with cost. Leave passage form part of the director's employment. No further appeal filed by LHDN.
4	S.U.E.P.P. Sdn. Bhd. (R2-14-03-2001)	Whether profit from disposal of asset is subjected to ITA 1967 or RPGTA 1976.	Part of the asset is subjected to tax under the ITA 1967 and the other part under the RPGTA 1976.
5	M.P.H. Sdn. Bhd. (R1-14-12-1998)	Whether income from dividend and interest received is from one source of income.	Taxpayer's appeal allowed. Income from interest and dividend is received from one source of income. LHDN appealed to the Court of Appeal.
6	H.S.G.	Whether compensation received under the separation scheme is exempted under paragraph 15(1)(a) or 15(1)(b) ITA 1967.	Taxpayer's appeal denied with cost. The High Court supported the decision of the PKCP that the compensation received is exempted under paragraph 15(1)(b) ITA 1967.

APPENDIX 7

TAX APPEAL CASES FILED IN THE COURT OF APPEAL

No.	Name of the Case	Issues	Decisions/Comments
1	B.H. Sdn. Bhd. (W-01-05-2001)	Whether profit from disposal of shares is income subjected to tax under RPGTA 1976.	Taxpayer is not an individual who used the company to obtained and disposed of the shares to evade real property gains tax. Taxpayer acquired the land before the shares. LHDN filed an appeal to the Court of Appeal – decision for hearing not yet made.
2	P.C. Sdn. Bhd.	Whether:- <ul style="list-style-type: none"> • The lot of land taken by the Government is trading stock at the time of acquisition. • If trading stock, whether compensation paid by the Government is income subjected to tax under section 4(a) ITA 1967. • The assessment should be raised in year of assessment 1996. 	The High Court allowed the taxpayer's appeal and LHDN appealed to the Court of Appeal – decision for hearing not yet made.
3	M.S.D.C. Sdn. Bhd. (W-01-63-2000)	Whether capital allowance is allowable for expenses on buildings and grounds used for driving lessons.	The High Court decided that capital allowance is allowable for buildings and grounds used for driving lessons. LHDN filed an appeal to the Court of Appeal – decision for hearing not yet made.



Appendices

III Tax Rates And Stamp Duty

INCOME TAX RATES FOR RESIDENT INDIVIDUALS FOR THE YEAR 2002

APPENDIX 8

Chargeable Income	RM	Tax rate (%)	Tax payable (RM)
On the first On the next	2,500 2,500	1	0 25
On the first On the next	5,000 5,000	3	25 150
On the first On the next	10,000 10,000	3	175 300
On the first On the next	20,000 15,000	7	475 1,050
On the first On the next	35,000 15,000	13	1,525 1,950
On the first On the next	50,000 20,000	19	3,475 3,800
On the first On the next	70,000 30,000	24	7,275 7,200
On the first On the next	100,000 50,000	27	14,475 13,500
On the first On the next	150,000 100,000	27	27,975 27,000
On the first Above	250,000 250,000	28	54,975

Income tax rate for non-resident individual is 28% (effective from year of assessment 2002) and for companies is 28% whilst for petroleum is 38% (effective from year of assessment 1998).

WITHHOLDING TAX RATES FOR NON-RESIDENT

APPENDIX 9

Types of income	Tax Rates
Royalties	10% (Effective from 28.10.1994)
Remuneration of public entertainer	15% (Effective from year of assessment 1973)
Interest	15% (Effective from 28.10.1994)
Special classes of income – technical fee, installation fee and rental of moveable property under section 4A ITA 1967	10% (Effective from 28.10.1994)
Service portion of contract payments by a contractor, consultant or professional	20% (Effective from 1.1.1983) [15% + 5%]



INCOME TAX RATES FOR CO-OPERATIVE SOCIETIES FOR THE YEAR 2002

APPENDIX 10

Chargeable Income	RM	Tax rate (%)	Tax Payable (RM)
On the first	20,000		0
On the next	10,000	3	300
On the first	30,000		300
On the next	10,000	6	600
On the first	40,000		900
On the next	10,000	9	900
On the first	50,000		1,800
On the next	25,000	12	3,000
On the first	75,000		4,800
On the next	25,000	16	4,000
On the first	100,000		8,800
On the next	50,000	20	10,000
On the first	150,000		18,800
On the next	100,000	23	23,000
On the first	250,000		41,800
On the next	100,000	26	26,000
On the first	350,000		67,800
On the next	150,000	26	39,000
On the first	500,000		106,800
Above	500,000	28	

REAL PROPERTY GAINS TAX (RPGT) RATES

APPENDIX 11

Disposal by persons other than companies effective from 27.10.1995

Category of disposal	Rate of tax
Disposal within two years after the date of acquisition of the chargeable asset	30%
Disposal in the third year after the date of acquisition of the chargeable asset	20%
Disposal in the fourth year after the date of acquisition of the chargeable asset	15%
Disposal in the fifth year after the date of acquisition of the chargeable asset	5%
Disposal in the sixth year after the date of acquisition of the chargeable asset or thereafter	Nil

In the case where the disposer is a company, the tax rate for disposal in the fifth year after the date of acquisition of the chargeable asset or thereafter is 5%.



Appendices

Disposal by an individual who is not a citizen and not a permanent resident effective from 17.10.1997

Category of disposal	Rate of Tax
Disposal within five years after the date of acquisition of the chargeable asset	30%
Disposal in the sixth year after the date of acquisition of the chargeable asset or thereafter	5%

STAMP DUTY RATES FOR CHARGEABLE INSTRUMENTS

APPENDIX 12

Type of Instrument	Duty payable
Affidavit, Statutory Declaration or Declaration in Writing on oath or affirmation	RM10 (Effective from 1.1.2001)
Agreement or Memorandum of Agreement Agreement or memorandum of agreement made under hand only, and not otherwise specially charged with any duty.	RM10 (Effective from 1.1.2001)
Articles of Association of a Company	RM100
Policy of Insurance For all insurance policies that are not exempted.	RM10 (Effective from 1.1.2001)
Power or Letter of Attorney	RM10
Promissory Note <ul style="list-style-type: none"> • Executed in favour of a bank, merchant bank or borrowing company in Malaysia approved by the Minister of Finance. • Others. 	RM10 RM10 (Effective from 1.1.2001)
Charge or Mortgage (including that under the Syariah), Bond, Covenant, Debenture (not being a marketable security) Being the principal security (except in certain circumstances) in respect of <ol style="list-style-type: none"> a. Where section 5A (loan and financing for the purposes of small business) applies – <ul style="list-style-type: none"> • For an amount not exceeding RM250,000 of the aggregate loans or aggregate financing. • For each additional RM1,000 or part thereof. b. Foreign currency loans or Syariah financing in currencies other than the ringgit c. In any other case 	RM1 for every RM1,000 or part thereof RM5 RM5 for every RM1,000 (or part thereof) but the total duty payable shall not exceed RM500 – (Effective from 1.1.2001) RM5 for each RM1,000 or part thereof – (Effective from 1.1.2001)



Contract Note

Description of Instrument	Duty payable
Relating to the sale of any shares, stock or marketable securities in companies incorporated in Malaysia or elsewhere.	RM1 for every RM1,000 or fractional part of RM1,000 of the value of any shares, stock or marketable securities.

Conveyance, Assignment or Transfer

Description of Instrument	Duty payable
Properties	For every RM100 or fractional part of RM100 of the amount of the money value of the consideration or the market value of the property, whichever is the greater – <ul style="list-style-type: none"> • RM1 on the first RM100,000 • RM2 on any amount in excess of RM100,000 but not exceeding RM500,000 • RM3 on any amount in excess of RM500,000 – (Effective from 1.1.2001)
Stock, Shares or Marketable securities, to be computed on the price or value thereof on the date of transfer, whichever is the greater.	RM3 for every RM1,000 or fractional part of RM1,000 – (Effective from 1.1.2001)

Lease or Agreement for Lease

Description of Instrument	Duty payable		
	where the lease is for a period		
	Not exceeding one year	Exceeding one but not exceeding three years	Exceeding three years or for any indefinite period
Without fine or premium when the average rent calculated for a whole year Does not exceed RM2,400	Nil	Nil	Nil
For every RM250 or part thereof in excess of RM2,400	RM1.00	RM2.00	RM4.00
In consideration of a fine or premium and without rent	The same duty as for a conveyance for a sum equal to the amount of such consideration		
In consideration of a fine or premium and reserving a rent	The same duty as for a conveyance on sale in consideration of the fine or premium and a lease for the rent		



Appendices

IV Statistics

APPENDIX 13

CONTRIBUTION OF DIRECT TAXES TO THE FEDERAL GOVERNMENT REVENUE

	1996 RM million	1997 RM million	1998 RM million	1999 RM million	2000 RM million	2001 RM million
Federal Government Revenue	58,280	65,736	56,710	58,677	61,864	79,567
Direct Taxes	25,806	30,476	29,978	27,047	29,167	41,794
Reviewed Forecast	24,853	29,600	30,016	26,910	29,808	34,256
GDP Growth Rate	10.0	7.3	-7.4	6.1	8.3	0.4

APPENDIX 14

PROCESSING OF INCOME TAX RETURNS (ITR)

	1996	1997	1998	1999	2000	2001
Issuance of ITR	2,628,000	2,629,933	2,969,146	2,879,501	2,984,988	2,852,813
Receipt of ITR	1,866,982	1,828,126	2,000,326	2,013,968	2,080,787	1,897,504
Assessment of ITR	1,691,141	1,671,907	1,763,957	1,849,738	1,833,551	1,591,081

APPENDIX 15

TAX COLLECTION BY CATEGORY

	1999 RM'000	2000 RM'000	2001 RM'000
Companies	15,286,782	13,980,398	21,582,400
Individual	6,446,552	7,042,003	8,399,270
Petroleum	3,319,589	6,010,166	9,858,226
Stamp Duty	1,552,926	1,788,181	1,645,504
Real Property Gains Tax (RPGT)	287,328	248,873	228,579
Co-operatives	141,894	86,671	65,476
Labuan Offshore Business Activities Tax (IOFC)	8,934	7,968	12,615
Other taxes	3,361	2,445	2,326
Total	27,047,366	29,166,705	41,794,396

APPENDIX 16

PERFORMANCE OF TAX AUDIT

	1997	1998	1999	2000	2001
Number of cases audited	811	1,045	2,108	3,827	1,826
Number of cases finalised	694	706	1,148	1,337	1,604
Tax and penalties (RM'000)	20,419	100,400	35,127	41,415	51,254

APPENDIX 17

PERFORMANCE OF INVESTIGATION

	1996	1997	1998	1999	2000	2001
Number of cases	514	609	549	688	672	748
Tax and penalties (RM'000)	426,066	509,785	362,063	407,363	428,138	397,258



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