

Chapter 12

Intelligent Taxpayers System (iTax) for Smart Personal Income-Tax Documentation and Audit Compliance: Accepted or Rejected

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ABSTRACT

Tax-planning is a crucial element in personal financial management as it allows taxpayers to make the best use of various tax exemptions, deductions, and benefits allocated by the government to minimise tax liability. This preliminary research aims to study the demographic profile on the acceptance of electronic-documents management on early document preparation for individual taxpayers. To accomplish this objective, the researchers have prepared a set of questionnaires for collecting the demographic data of the taxpayers and their willingness to have the electronic documentation for individual income tax. In response to various complaints from the taxpayers who have failed to provide documents as requested by the Inland Revenue Board (IRB), this research has developed a systematic financial tool to assist them using a proper record-keeping platform, known as Intelligent Taxpayers (iTax). The questionnaires have been distributed and analysed among the 200 respondents working at a higher learning institution. The results show that 94% of the respondents need a systematic record-keeping tool. Therefore, this study recommends that the taxpayers learn more about the electronic-document-management system to be better at income-tax documentation.

Key Words: e-filing, financial-planning system, personal tax audit, tax-planning

1. INTRODUCTION

Individuals' incomes are taxed once a year in Malaysia. The earnings in the current year will be measured and taxed in the assessment year, which is the following year. Practically, individuals with an annual employment income of RM25,501 (after EPF deduction) are required to file a tax return, (Palil, Malek, & Jaguli, 2016). The taxpayers need to fill in the e-filing or a manual form before submitting it to the IRB on or before April 30th of each year, especially for residents who do not have business income. However,

those who have business income must submit their tax return on or before June 30th of each year. According to Section 82 of the Income Tax Act (ITA) 1967, one of taxpayers' duties is to maintain records for audit purposes for seven years. The IRBM (2015) has stated that the seven-year term is calculated from the end of the tax year, in which the Income Tax Return Form (ITRF) is filed.

Any taxpayers can be selected for audit at any time (IRBM, 2015). The tax exemption claimed by individuals in the self-assessment system requires them to efficiently manage receipts and invoices so that the audit process can run smoothly. Besides, the individuals must also present the evidence at the required time when the Inland Revenue Board (IRB) needs to examine the originality of the taxpayers' claims. The records and documents do not have to be physically stored; instead, they can be scanned, copied, and stored in computer or phone memory, or a cloud computing service. However, a major problem when being audited emerges when it is time to locate all the documents or proofs needed by the IRB within the stipulated time. This is because some of the proofs may have been misplaced, destroyed, worn-out, or unretrievable. Hence, it is appropriate for the records and documents to be uploaded into a digital systematic storing system to avoid losing them.

A tax audit typically examines a tax return by the IRB to verify that income and deductions are both accurate. The main objectives of the tax audit are to encourage voluntary compliance with the tax laws and regulations and ensure that a higher tax compliance rate is achieved under the self-assessment system. In this regard, an audit officer is required to ensure that the correct income information has been reported, together with the right amount of tax that has been paid, which has followed the tax laws and regulations. Basically, audit cases are selected through a computerised system based on risk-analysis criteria. Apart from that, the cases have also been selected based on information received from third parties (Surendra, 2020).

Wan Alias (2020) has reported that there is a group of laid-off taxpayers who have expressed dissatisfaction over being penalised when they have failed to attach required documents. Audits were conducted several years after employees had resigned, and it is learned that the majority of the employees have failed to submit the essential documents for tax relief. Essentially, a taxpayer who fails to prove claims made faces a penalty of up to 45 per cent of the tax reliefs claimed. It has been established that those who have paid tax annually and even received excess tax have been reimbursed; however, they are now required to declare it once by submitting old documents which have lost ink, faded, rotted, or been eaten by termites (Rangkuti, 2018). This has been shown in public opinion, yet, the IRB has continued to allow people to make mistakes when administering e-filing by not asking for documents directly. Nevertheless, the IRB has advised the taxpayers to file a police report if supporting documents for a tax relief are lost to avoid any penalties. The IRB will consider circumstances pertaining to the destruction of the documents if a disaster or an out-of-control situation has caused it (Wan Alias, 2020).

A preliminary study has been conducted based on this problem. Therefore, a systematic approach of proof documentation has been implemented, namely Intelligent Taxpayers (iTax), which may overcome the said problem. The ultimate usage of iTax would be benefited the most by auditees as they would not be experiencing the same drawback again. However, the knowledge itself is still insufficient for the success of the process if the system is not used simultaneously.

Moreover, the finding of this study can also provide relevant inputs to the IRB to assist them in developing a more structured and specific enforcement strategy. Proactive steps need to be taken to provide knowledge and understanding of proper and orderly

record-keeping practices and, at the same time, help the taxpayers to reduce unexpected risks during audits (Hasnida Ibrahim, 2018).

Research Questions

- d. Is there a need for a digital record-keeping system?
- e. What are the specific features of the system needed?

Research Objectives

- f. To introduce a digital record-keeping system.
- g. To test the features developed in the system.
- h. To get feedback from potential users.

2. LITERATURE REVIEW

In 1996, the Multimedia Super Corridor (MSC) marked the first step towards the electronic government (EG) in Malaysia. The MSC has aimed to transform Malaysia into an intellectual nation, where many government departments and organisations have started to convert and store documents electronically. This development has led to the creation of electronic records. This has impacted many ministries and departments and the delivery of a wide range of electronic services, for instance, registration of births, registration of school, filing of tax returns, and many more (Johare, 2001).

E-filing of income taxes is an e-government service that has been introduced in many countries, including Malaysia, to allow taxpayers to file their tax returns electronically to a tax authority (Che Azmi, Kamarulzaman, & Abdul Hamid, 2012). In Malaysia, e-filing was introduced in 2006 to ensure an efficient tax-collection process (Abdul Rahim, Ahmad, Abdul Aziz, Che Abdul Hamid, & Md Nen, 2012). The Inland Revenue Board (IRB) has introduced a very efficient e-filing system for the tax-collection system. Though, there has been no record-keeping system for individual tax-auditing to compensate for tax-audit activities, such as tax declaration, tax return, and tax audit. This loop has emerged from a need for a proper record-keeping system to prepare individual taxpayers for tax-auditing. Therefore, a digital record-keeping system should be introduced in this digital era.

In the digitalisation era, the use of online systems in daily activities is essential in various sectors. For example, online banking is a term that refers to a secure website provided by a bank to conduct business or financial transactions and provide other financial services. Industry performance has been enhanced and revolutionised by information technology (Omar Ali, Wan Marzuki, Mohd Said, Abdul Manaf, & Adenan, 2020). Kittanah, Saharfalehawadabujarour, and Amman-Jordan (2016) have stated a relationship between the quality of performance and electronic documents, where the study has shown that the performance evaluation is positive by workers because of the electronic documents system. This is because electronic documentation has helped to facilitate the electronic authentication process significantly. Digital record-keeping is a significant step forward for making information easy to search for, find, retrieve, and edit in a much convenient and effortless way. Files are never removed from their locations because they are all digitally recorded, hence, lost files become a thing of the past. In addition, another consideration is that going digital means that it is much easier to create data backups which can be stored in cloud storage or off-site in other secure locations. Approaching digital data storage with care, ensuring that they are all backed up correctly, and becoming that much easier to recover from accidental data loss are the distinct features of this digital record-keeping system. Lee (2016), who has conducted a study on the implementation of electronic tax-

invoicing, has found that the system has helped Korea to lower tax-compliance costs and raise the transparency of business transactions. The results have revealed that 69.4 per cent of respondents have agreed or strongly agreed with the fact that the mandatory electronic tax-invoicing has contributed towards curbing the value-added tax evasion by raising transaction transparency. About 72.9 per cent have agreed or strongly agreed that it has improved the taxpayer service by facilitating the convenience of tax-filing or automating the issuance of invoices.

In lieu of this situation, this research has been conducted to analyse the need for digital electronic record-keeping, which is Intelligent Taxpayers System (iTax) for Smart Personal Income-Tax Documentation and Audit Compliance.

3. METHODOLOGY

A purposive sampling method has been used to select respondents. A preliminary questionnaires survey has been distributed among the staff at a higher education institution in Terengganu, and 108 responses have been gathered.

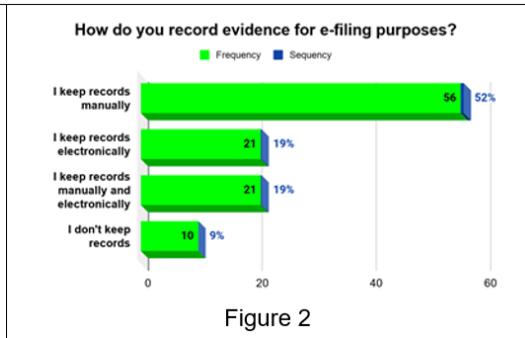
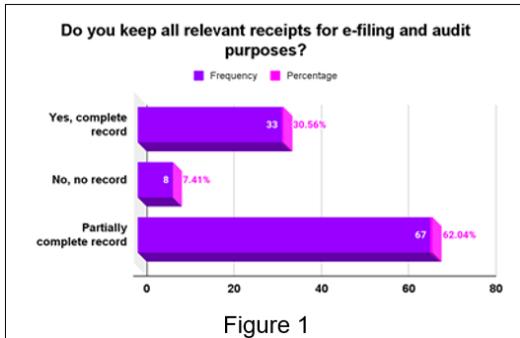
3. RESULTS ANALYSIS

Table 1: Demographic Profile

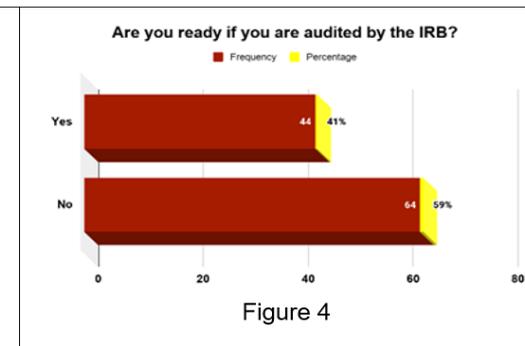
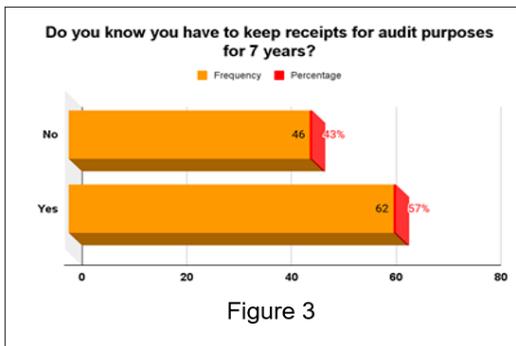
Factor	Description	Frequency	Percentage (%)
Gender	Male	26	24
	Female	82	76
Age	Below 26 years old	0	0
	27-36 years old	18	16.7
	37-46 years old	58	53.7
	47-56 years old	27	25
	57 years old and above	5	4.6
Monthly Income	RM1,200-RM3,000	2	1.9
	RM3,001-RM5,000	9	8.3
	RM5,001-RM7,000	29	26.9
	RM7,001-RM9,000	48	44.4
	RM9,001-RM11,000	14	13
	RM11,001 and above	6	5.6
Job Category	Top Management	3	2.8
	Professional/Academic Staff	100	92.6
	Supporting Staff	5	4.6

Source: Researchers' Analysis (2021)

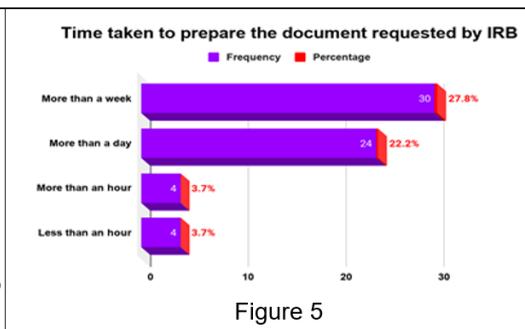
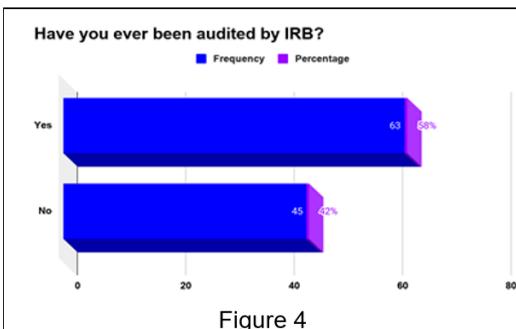
Based on the responses retrieved from the questionnaire (Table 1), it is found that the majority of the respondents (76%) are female and the remaining (24%) are male. More than half of the respondents (54%) come from the age range between 37 and 46 years old, followed by the range of 47 to 56 years old (25%). The majority of the respondents have a monthly income between RM7,001 and RM9,000 (44.4%). Almost all of the respondents (93%) are professional or academic staff.



In Figure 1, it is found that 62% of the respondents have retained only partial records for audit while 7.4% have not kept any records. In Figure 2, a total of 52% of the respondents have saved the supporting documents manually. In comparison, only 19% of the respondents have recorded the documents electronically using both methods; offline and cloud storage. In addition, Figure 2 indicated that more than 80% of the respondents requires an electronic version of their personal income tax records. The results from Figure 1 and Figure 2 suggesting the need for a more systematic record-keeping tool for personal income tax documents to ensure completion of records and easy access.



According to the questionnaire responses, surprisingly almost half of the respondents (43%) have not been aware that they must retain all the documents for audit purposes for seven years (Figure 3). However, 59% of the respondents are not ready to call for a tax audit because they have not had any proper record-keeping mechanisms (Figure 4).



As shown in Figure 4, it is discovered that 58% of the respondents have experienced being audited by the IRB while 21% have been audited more than once. Based on Figure 5, the process of completing an audit form is complicated for some people, as evidenced by 49%, which refers to 58 respondents who take more than an hour to complete it. Unexpectedly, 27% of them have taken more than a week. This outcome shows that almost half of the respondents have not had a proper record-keeping system because they need more than a week to gather supporting documents and proofs when requested by the IRB.

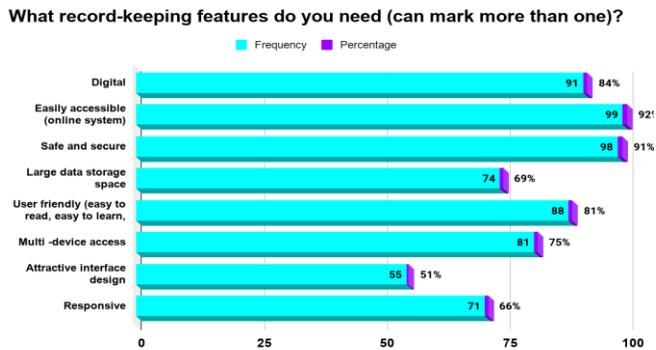


Figure 6

According to Figure 6, it is unveiled that most respondents have agreed that a sound record-keeping system should have features, such as being digital, easily accessible, safe and secure, and able to store a large amount of data. More than half of the respondents, circa 75% of them, need a multi-device access, 66% require responsive systems, and 51% demand to have attractive interface design features.

Among the suggestions given by the respondents, it has been stated that they need a user-friendly and smart digital record-keeping system. These responses are critical because they would facilitate them in compiling all supporting documents needed within a specified time given for the tax-audit purpose. Furthermore, the system would help the taxpayers to be well-organised and well-prepared for the future tax audit.

4. CONCLUSION

In conclusion, 94% of the respondents accepted the need for a systematic record-keeping tool for personal income tax records. The Intelligent Taxpayers System (iTax) would be able to help the individuals to have a systematic data-management and record-keeping system for personal income-tax documentation and audit fulfilment. As a result, the users of iTax could save time because this tool enhances accessibility to important information and documents on personal income tax, thus, relieving unnecessary stress and interruptions. Likewise, it may improve a better quality of life for individuals and societies.

Recommendation

In future, the system could be introduced to individual taxpayers and tax auditors with the updated features for small-medium enterprises.

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