TAMS suggests setting up one-tier taxation system

TAX Advisory and Management Services Sdn Bhd (TAMS) has suggested the setting up of a one-tier corporate taxation system to put more cash into shareholders’ pockets.

TAMS executive director Yong Poh Chye said if such one-tier system was implemented, tax collected from corporate profits would be final while the dividends declared to shareholders would not be taxable.

"Dividends franked under the one-tier system encourages shareholders to use all their accumulated tax credit for consumption and investment, which in turn increases the multiplier effect in the Malaysian economy," he said in a statement.

He said that if the one-tier system was adopted, the Government could encourage companies to pay out dividends through franking of the tax credits, which would have been accumulated as early as 1948 under the Income Tax Ordinance.

"A company’s tax administrative work will be simplified with the one-tier system and it need not have to worry about its tax credit and chargeable income when declaring dividends," Yong said, adding that the one-tier system was being used in Hong Kong and would be implemented in Singapore next year.

He also said that the implementation of such a system would encourage Singaporean companies to declare Malaysian dividends and vice-versa, for companies need not worry about their tax credits in either country.

"By virtue of a joint statement between the two countries on June 9, 1997, a Singapore company can declare itself to be a Malaysian resident company and declare Malaysian dividends," he said.

Yong also suggested that Government reduced personal income tax rates from 28% to 26% and reduce the tax rates for all personal income bands to improve the social well-being of Malaysians.

"The Government should reduce the number of bands from nine to seven," he said, adding that the first chargeable income of RM5,000 be exempted from tax while any chargeable income in excess of RM150,000 be taxed at 26% instead of the present 28%.

Alternatively, the Government could consider increasing personal relief for Employees Provident Fund (EPF) and insurance premium payments from RM5,000 to RM7,000 each for husband and wife.

In what is seen to be Prime Minister Datuk Seri Dr Mahathir Mohamad’s last Budget as Finance Minister, Yong said Malaysians could expect some generous handouts beginning with the 900,000 or so government servants receiving some bonus payouts.