DEMOGRAPHIC FACTORS AND AWARENESS ON THE SELF-ASSESSMENT SYSTEM OF TAXATION: A STUDY ON SALARIED INDIVIDUAL TAXPAYER IN THE MANUFACTURING INDUSTRY

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ABSTRACT

This study examines the level of awareness on self-assessment system of taxation among salaried individual taxpayers in manufacturing sectors. A survey was conducted by distributing questionnaires to salaried taxpayers in manufacturing companies selected in the Klang Valley.

The objectives of this study are to identify the demographic characteristics of salaried individual taxpayers, establish the level of awareness on self-assessment system and explore the potential relationship between the levels of awareness in relation to the demographic characteristics of taxpayers.

The results showed that salaried taxpayers have good knowledge and understanding on the common tax treatment (rebates and reliefs). They also acquired good knowledge on the types of taxable income and their rights. However, on the level of understanding and knowledge on the uncommon tax treatment (e.g. rebates on levy and tax credit on dividend) and type of taxable income (e.g. pension and annuities) shows an unfavourable result.

The results from this study indicates that some respondents are unaware of the self-assessment system would take place for salaried individual by the year 2004. This could be due to the limited exposure by the Inland Revenue Board (IRB) on the new system or lack of initiatives taken by taxpayers in getting the information. The 'wait until last minute' attitude could be one of the reasons why the taxpayers are still unaware of the new system. Therefore, the study suggests that both IRB and taxpayers should bilaterally play an active role to ensure the success of the new system.

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INTRODUCTION

1.0 INTRODUCTION AND BACKGROUND OF THE STUDY

Self-assessment is the manner in which a taxpayer works out and pays his own income tax. This is a system whereby the taxpayer is given the responsibility to compute his own tax liability. The move to self-assessment, despite the fact that it is a worldwide trend, has implicitly reconfirmed the government's determination to maintain the lowest possible administration costs (Cheung and Mak, 1999).

Self-assessment is a changed process from the formal assessment system assessed by the Inland Revenue Board (IRB). The previous assessment system required taxpayers to declare their incomes in the tax Return Form (EA), then submit the forms to the IRB and the IRB will then raise the assessment. The Notice of Assessment (TI) is sent to each taxpayer and payment is remitted as tax raised in the Notice of Assessment.

The process of self-assessment system is similar to the former system except that the notice of assessment is not be sent to taxpayers. Instead, the taxpayers will have to compute their own tax liability and forward a full payment when filing for their tax returns (Year of Assessment). Also, the taxpayers are required to make an estimate the amount of tax to be paid for the current year and pay monthly installments during the year, based on the estimate.

This change is aimed at relieving the increasing workload of the IRB. This change will allow the IRB to concentrate their responsibilities on areas that emphasize on high tax risks and revenues. Self-assessment is designed to achieve the IRB efficiency. It will save the IRB's money but cost taxpayers more (Richards, 1991). This will have a significant impact on taxpayers who must now equip themselves in ensuring a full