THE EFFECTIVENESS OF MALAYSIAN PERSONAL INCOME TAX POLICY
(1977 – 1997)

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ABSTRACT

This research aims to evaluate the effectiveness of the Malaysian Personal Income Tax Policy for the year 1977 – 1997. The areas of concentration are tax burden, poverty level, savings incentives, progressivity index and Inland Revenue Board’s objectives. The methodologies to accomplish the mission are regression analysis, mathematical calculation, and index of progressivity. The research concludes that there is no significant relationship to explain any kind of relationship between the tax rates and the poverty level. Another finding shows that Malaysian personal income tax policy seems to be a good policy to induce private savings. Regression analysis, both under the Classical Linear Regression Model assumptions and relaxation of the assumptions, shows that there is a significant positive relationship between private savings and interests being exempt from taxes. The findings of this research confirm the Inland Revenue Board’s statement that Malaysia is practising a progressive personal income tax policy. From the analysis, it can be concluded that the degree of progressivity is very mild that it does not burden taxpayers. This research also reveals that the objectives set up by the Inland Revenue Board has yet to be accomplished. Inland Revenue Board needs to further improve the current situation. In short, the research concludes that Malaysia is not practising an effective personal income tax policy.
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