CHAPTER FOUR

ANALYSIS OF RESULT

4.1 The Impact of Personal Income Tax Policy on Poverty Level

In analysing the impact of the personal income tax policy on poverty level, several assumptions are used. They are:

i. Maximum net income (income chargeable for tax) received by individuals is RM 25,000 per month (i.e. RM 300,000 per year)

ii. Income group is divided into five income classes:
   - Group A: Less than RM 2,500
   - Group B: RM 2,501 - RM 10,000
   - Group C: RM 10,001 - RM 50,000
   - Group D: RM 50,001 - RM 100,000
   - Group E: More than RM 100,000

iii. The regression analysis satisfies all Classical Linear Regression Model (CLRM) assumptions:
    a. The error term \( u \) has a zero mean value; that is \( E(u) = 0 \)
    b. Homoscedasticity, that is the variance of \( u \), is constant:
       \[ \text{var}(u_i) = \sigma^2 \]
c. No autocorrelation exists between the error terms $u_i$ and $u_j$:

$$\text{cov}(u_i, u_j), i \neq j$$

d. No exact collinearity or exact linear relationship exists between two explanatory variables

4.1.1 *Regression Interpretation*\(^3\)

Model A:

$$\text{Poverty} = \beta_1 + \beta_2 \text{TRA} + \beta_3 \text{TRB} + \beta_4 \text{TRBC} + \beta_5 \text{TRD} + \beta_6 \text{TRE} + \varepsilon$$

$$\hat{\text{Poverty}} = -15 + 171.20(\text{TRA}) + 28.35(\text{TRB}) - 62.45(\text{TRC}) + 130.3(\text{TRD}) - 10.1(\text{TRE})$$

$$\begin{array}{cccc}
(1226.3) & (308) & (448.53) & (462.4) & (298.21) \\
\end{array}$$

$$R^2 = 0.95 \quad F - \text{Stat} = 57.34 \quad DW = 2.14$$

$\beta_2$ - Holding other variables constant, a one percent increase of the average marginal tax rates of group A will result in an increase of the poverty rate of one hundred and seventy one percent on average.

$\beta_1$ - Holding other variables constant, a one percent increase of the average marginal tax rates of group B will result in an increase of the poverty rate of twenty eight percent on average.

\(^3\) Details E-views output in Appendix C
\( \beta_4 \) - Holding other variables constant, a one percent increase of the average marginal tax rates of group C will result in a decrease of the poverty rate of sixty two percent on average.

\( \beta_5 \) - Holding other variables constant, a one percent increase of the average marginal tax rates of group D will result in an increase of the poverty rate of one hundred and thirty percent on average.

\( \beta_6 \) - Holding other variables constant, a one percent increase of the average marginal tax rate of group E will result in a decrease of the poverty rate of ten percent on average.

4.1.2 **Hypothesis Testing**

4.1.2.a **Significance of Regression Model**

\( H_0 \) : Model is not significant

\[ \Rightarrow \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0 \]

\( H_a \) : Model is significant

\[ \Rightarrow \text{at least one } \beta_i \neq 0; i = 2 - 6 \]

*Rejection region:* Reject \( H_0 \) if \( F > F_{\alpha, k-1, n-k} \) for a \( \alpha \) level of test

\[ F = 57.34 \quad F_{0.05,5,15} = 2.90 \]

*Decision:* Reject \( H_0 \) at 5 % significance level
Conclusion: Model A is significant to explain the linear relationship between poverty level and marginal tax rates.

Below are scatter plots of the dependent variable on each of the independent variables. Generally it can be concluded that as tax rates for all income groups increase, the level of poverty increases too. And there are several fixed points of the tax rates that will lead to a continuing of the increase of the poverty level.

Graph 1: Scatter Plot showing the relationship between poverty and TRA
Graph 2: Scatter Plot showing the relationship between poverty and TRB

Graph 3: Scatter Plot showing the relationship between poverty and TRC
Graph 4: Scatter Plot showing the relationship between poverty and TRD

Graph 5: Scatter Plot showing the relationship between poverty and TRE
4.1.2.b **Individual Regression Coefficients**

Null Hypothesis - **Absolute poverty remains unchanged with changes of the marginal tax rates**

Analysis is conducted by testing the null hypothesis against an alternative hypothesis. Rejection of the null hypothesis means that absolute poverty does change with the changes of the marginal tax rates. Thus, the interpretation of the regression coefficients explaining the relationship between marginal tax rates and poverty level can be accepted.

**Table 2: Hypothesis Testing for Model A**

<table>
<thead>
<tr>
<th>$H_0$</th>
<th>$H_0$</th>
<th>$H_0$</th>
<th>$H_0$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\beta_2 = 0$</td>
<td>$\beta_3 = 0$</td>
<td>$\beta_4 = 0$</td>
<td>$\beta_5 = 0$</td>
</tr>
<tr>
<td>$H_a : \beta_2 \neq 0$</td>
<td>$H_a : \beta_3 \neq 0$</td>
<td>$H_a : \beta_4 \neq 0$</td>
<td>$H_a : \beta_5 \neq 0$</td>
</tr>
<tr>
<td>$t = 0.28$</td>
<td>$t = 0.19$</td>
<td>$t = -0.37$</td>
<td>$t = 0.39$</td>
</tr>
</tbody>
</table>

$H_0 : \beta_6 = 0$

$H_a : \beta_6 \neq 0$

$t = -0.13$

$t_{0.025,15} = 2.131$

$-t_{0.025,15} = -2.131$
Rejection region: Reject $H_0$ if $t < -t_{0.025,15}$ or $t > t_{0.025,15}$

Decision: Do not reject $H_0$ at 5% significance level for all $\beta_s$

Conclusion: In the case of Malaysian personal income tax policy, the theory proposed by Kanbur, Keen, & Tuomala (1991) could not be used in this analysis. Poverty level and marginal tax rates have no exact linear relationship. Hence, if government decides to decrease or increase tax rates, the new ruling may not effect poverty level. There could be other factors that affect the poverty level and not necessarily the tax rates.

The conclusion above was derived under the three classical assumptions. Would the result be different if each of the assumption is relaxed?

4.1.3 Relaxing the Classical Assumptions

Homoscedasticity

Relaxing this assumption means that the variance of $u_i; \sigma_i^2$ varies from observation to observation. This problem is called heteroscedasticity where variance $u_i$ is no longer constant. If problem of heteroscedasticity exists, the model needs to be corrected so that the estimators obtained are BLUE (Best Linear Unbiased Estimator).
Testing of this problem is done using White’s Heteroscedasticity Test.

White’s Heteroscedasticity Test (no cross term):

$$\hat{u}^2 = \beta_1 + \beta_2 TRA + \beta_3 TRA^2 + \beta_4 TRB + \beta_5 TRB^2 + \beta_6 TRC + \beta_7 TRC^2 + \varepsilon$$
$$\hat{u}^2 = -105 - 1847(TRA) + 7089(TRA^2) - 1052(TRB) + 8241(TRB^2) + 1531(TRC)$$
$$-3170(TRC^2)$$
$$\begin{array}{c}
2749 \\
30657 \\
1492 \\
7804 \\
2817 \\
5686 \\
\end{array}
$$

$$R^2 = 0.396 \quad F - Stat = 1.53 \quad DW = 2.41$$

$$H_0 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = \beta_7 = 0 \Rightarrow \text{homo scedasticity}$$

$$H_a = \text{at least one } \beta_i \text{ not equals zero, } i = 2 - 7$$

Test Statistic: $$nR^2 \approx \chi^2_{a;p}$$

$$nR^2 = 8.316 \quad \chi^2_{0.05,60} = 12.57$$

**Rejection region:** Reject $$H_0$$ if $$nR^2 > \chi^2_{0.05,6}$$

**Decision:** Do not reject $$H_0$$ at 5% significance level because $$nR^2 < \chi^2_{0.05,6}$$

**Conclusion:** There is not enough evidence to conclude that heteroscedasticity exists in model A. Thus, it can be concluded that model A is free from the problem of heteroscedasticity and that its variance is constant.
No Auto-correlation

The presence of auto-correlation will be tested using the Durbin-Watson test. The model needs to be tested against the problem of auto-correlation to ensure that the coefficient estimators are efficient and not biased.

\[ d = 2.14 \]
\[ p = 1 - \frac{d}{2} = 1 - \frac{2.14}{2} = -0.07 \]
\[ n = 21 \]
\[ k' = 5 \]
\[ d_i = 0.829 \]
\[ d_u = 1.964 \]
\[ 4 - d_i = 3.171 \]
\[ 4 - d_u = 2.036 \]

Test statistic:  
\[ H_0 : p = 0 \Rightarrow \text{no autocorrelation} \]
\[ H_a : p < 0 \Rightarrow \text{negative autocorrelation} \]

Rejection region: Reject \( H_0 \) if \( d > 4 - d_i \)

Decision: Do not reject \( H_0 \) at 5 \% significance level

Conclusion: Even though the null hypothesis is not rejected, it cannot be concluded that the model is free from the problem of auto-correlation. This is so because \( d \) lies in the indecisive region, between 4-\( d_u \) and 4-\( d_i \).

In model A, the existence of auto-correlation could not be detected.
No Multi-collinearity

It is vital to detect whether problem of multi-collinearity exists. A high multi-collinearity in a model makes the sample of data compatible with a diverse set of hypothesis and the problem of accepting a false hypothesis increases. Multi-collinearity also makes the confidence interval for prediction of that population (in this analysis poverty level) large and data cannot be relied upon in making prediction. Though it is possible to estimate the regression coefficients, the estimated coefficients may not be precise as they are accompanied with such large standard errors. Consequently, if problem of multi-collinearity exists, a remedial measure needs to be abreast of to ensure that the model could be used to produce the desired outcome.

The most classic symptom of multi-collinearity is high $R^2$ but few significant $t$ ratios. In model A, $R^2$ equals 0.95 which is considered high and hypothesis testing shows that none of the individual $t$ tests show that that the slope coefficients are statistically different from zero.

Multi-collinearity does exist but it should not be a block to interpreting the data obtained. According to Gujarati, (1999) if the goal of the research is to study the model to predict or forecast the future means value of the dependent variable, collinearity per se may not be a bad situation. And this is what the
model is trying to achieve, to predict what the poverty level would be with the changes of the tax rates. As multi-collinearity is not considered as a big problem in this model, there is no need of a remedial measure to correct the model.

4.2 The Impact of Personal Income Tax Policy on Savings Level

4.2.1 Limitation of analysis:

As data on household savings are not available, this analysis will use the data on the macro level that is the private savings. According to the Central Bank of Malaysia, private savings is the residual of the formula: Private Savings = Gross National Savings - Public Savings. The Central Bank defines public savings as the operating surplus (current surplus) of the Federal Government, Local Governments, Statutory Bodies and Non Financial Public Enterprises. Thus, household savings could be considered as part of the private savings.

4.2.2 Assumptions

Classical Linear Regression Model Assumptions:

i. Homoscedasticity

ii. No Autocorrelation

iii. No Multi-collinearity
4.2.3 **Regression Interpretation**

Model B:

\[ P\hat{S} = \beta_1 + \beta_2 FS + \varepsilon \]

\[ P\hat{S} = 7075.64 + 4.76(FS) \]

\[(4.55)\]

\[ R^2 = 0.52 \quad F - Stat = 20.67 \quad DW = 0.49 \]

\[ \beta_2 - \text{A one ringgit increase on interest in respect of savings being exempt from tax would result in an increase of four ringgit and seventy six cents of private savings on average.} \]

4.2.4 **Hypothesis Testing**

4.2.3.a **Significance of Regression Model**

\[ H_0 : \text{Model is not significant} \]

\[ \Rightarrow \beta_2 = 0 \]

\[ H_a : \text{Model is significant} \]

\[ \Rightarrow \beta_1 \neq 0 \]

---

4 Details E-views output in Appendix D
Rejection region: Reject $H_0$ if $F > F_{x, k-1,n-k}$ for a $\alpha$ level of test

$F = 20.67 \quad F_{0.05,1,20} = 4.35$

Decision: Reject $H_0$ at 5% significance level

Conclusion: Model B is significant to explain the relationship between private savings and interests with respect to savings being exempt from tax.

Scatter plot showing the relationship between private savings and interest from savings being exempt from tax is presented in the graph below. The graph shows a positive relationship between the variables that private savings increase with the increase of the interests from savings being exempt from tax.

Graph 6: Scatter Plot showing the relationship between private savings and interests being exempt from tax
4.2.3.b Individual Regression Coefficient

Null Hypothesis: Private savings remain unchanged with changes in interests (with respect to savings) being exempt from tax

Table 3: Hypothesis Testing for Model B

\[
\begin{align*}
H_0 & : \beta_2 = 0 \\
Ha & : \beta_2 \neq 0 \\
t & = 4.54 \\
t_{0.025,20} & = 2.086 \\
-t_{0.025,20} & = -2.086
\end{align*}
\]

*Rejection region:* Reject $H_0$ if $t < -t_{0.025,15}$ or $t > t_{0.025,15}$

*Decision:* Reject $H_0$ at 5% significance level for $\beta_2$

*Conclusion:* There is a strong evidence to believe that private savings do change with changes in interests with respect to savings being exempt from tax. In this case, the more interests from savings are exempt from tax the more people would save.
4.2.4 Relaxing the Classical Assumptions

Homoscedasticity

The presence of heteroscedasticity will be tested using White's Heteroscedasticity Test.

White's Heteroscedasticity Test (No Cross Term)

\[ \hat{u}^2 = \beta_1 + \beta_2 FS + \beta_3 FS^2 \varepsilon \]
\[ \hat{u}^2 = -14275891 + 27907.72(FS) + 2.13FS^2 \]

\[
\begin{align*}
(282130.2) & \quad (48.36) \\
R^2 & = 0.323 \quad F - Stat = 4.29 \quad DW = 1.26
\end{align*}
\]

\[ H_0 = \beta_2 = \beta_3 = 0 \Rightarrow \text{homoscedasticity} \]
\[ H_a = \beta_2 \neq 0 \text{or } \beta_3 \neq 0 \]

Test Statistic: \( nR^2 \approx \chi^2_{\alpha,p} \)

\[ nR^2 = 6.783 \quad \chi^2_{0.05;2} = 5.99 \]

Rejection region: Reject \( H_0 \) if \( nR^2 > \chi^2_{0.05;p} \)

Decision: Reject \( H_0 \) at 5% significance level

Conclusion: There is not enough evidence to conclude that heteroscedasticity does not exist in model B.
As a remedial measure to correct the problem of heteroscedasticity, the method of generalised least squares (GLS) is used. Since $\sigma^2$ is unknown, it is presumed that the error variance depends on some variable $FS$. As the functional form is unknown three models are regressed to test for the significant $t_s$ of $\alpha_2, \beta_2$, and $\gamma_2$. The goal is to pick an equation with significant $t_s$ and high $R^2$.

\textit{Equation 4.2.4.a.1 - the error variance is proportional to }\text{FS}
\begin{align*}
\hat{u}_i &= \alpha_1 + \alpha_2 FS \\
 t &= 3.011 \quad R^2 = 0.323
\end{align*}

\textit{Equation 4.2.4.a.2 - the error variance is proportional to }\text{FS}^2
\begin{align*}
\hat{u}_i &= \beta_1 + \beta_2 FS^2 \\
 t &= 3.009 \quad R^2 = 0.322
\end{align*}

\textit{Equation 4.2.4.a.3 - the error variance is proportional to }\text{FS}^3
\begin{align*}
\hat{u}_i &= \gamma_1 + \gamma_2 FS^3 \\
 t &= 3.006 \quad R^2 = 0.321
\end{align*}

The $t$ values for $\alpha_2, \beta_2$, and $\gamma_2$ are all significance but equation 4.2.4.a.1 has the highest $R^2$ value compared with the other two equations. Thus, it is assumed that the error variance is proportional to $FS$, $E(u_i^2) = \sigma^2 FS$, and the transformed error term is $\frac{u_i}{FS_i}$.
The GLS model:

\[ \frac{P \hat{S}_{it}}{\sqrt{FS}_{it}} = \beta_1 \frac{1}{\sqrt{FS}} + \beta_2 \frac{FS_{it}}{\sqrt{FS}_{it}} + \varepsilon \]

\[ P \hat{S}^* = 347.18 + 1.293 FS^* \]

(1.66)

\[ R^2 = 0.03 \quad F - Stat = 0.60 \quad DW = 0.809 \]

By running White’s Heteroscedasticity test, there should no longer be any problem of heteroscedasticity.

White’s Heteroscedasticity Test (no cross term)

\[ \hat{u}^*_{it} = \beta_1 + \beta_2 FS^* + \beta_3 FS^{2*} + \varepsilon \]

\[ \hat{u}^*_{it} = -50829.78 + 2807.38 FS^* - 22.398 FS^{2*} \]

\[ R^2 = 0.171 \quad F - Stat = 0.18 \quad DW = 1.52 \]

\( H_0 = \beta_2 = \beta_3 = 0 \Rightarrow \) homoscedasticity

\( H_a = \beta_2 \neq 0 \text{ or } \beta_3 \neq 0 \)

Test Statistic: \( nR^2 \approx \chi^2_{a,p} \)

\[ nR^2 = 3.591 \quad \chi^2_{0.05,2} = 5.99 \]

Rejection region: Reject \( H_0 \) if \( nR^2 > \chi^2_{0.05,6} \)

Decision: Do not reject \( H_0 \) at 5% significance level because \( nR^2 < \chi^2_{0.05,6} \)
Conclusion: There is not enough evidence to conclude that heteroscedasticity exists in model B. Thus, it can be concluded that model B is free from the problem of heteroscedasticity and that its variance is constant after the remedial measure.

The expected result confirms that heteroscedasticity problem has been eliminated. Comparing with original equation however, the results only differ in values but not in definition. The results show that a one-percent increase of the interests in respect of savings being exempt from tax will result in an increase of fiscal savings of one ringgit and twenty-nine cents on average.

No Autocorrelation

The presence of autocorrelation will be tested using the Durbin-Watson test.

\[ d = 0.49 \]
\[ p = 1 - \frac{d}{2} = 1 - \frac{0.49}{2} = 0.75 \]
\[ n = 21 \]
\[ k' = 1 \]
\[ d_t = 1.22 \]
\[ d_u = 1.42 \]

Test statistic: $H_0: p = 0 \Rightarrow \text{no autocorrelation}$

$H_a: p > 0 \Rightarrow \text{positive autocorrelation}$
Rejection region: Reject $H_0$ if $d < d_1$

Decision: Reject $H_0$ at 5% significance level

Conclusion: There is enough evidence to believe that there exists a positive autocorrelation in this model.

Remedial measure for this problem is the GLS method.

$$PS - \rho PS_{i-1} = \beta_1(1 - \rho) + \beta_2(FS_t - \rho FS_{i-1}) + (u_i - \rho u_{i-1})$$

The value of $\rho$ estimated using E-view is 0.99509

Substituting $\rho = 0.99509$ in the GLS equation above will result as the following:

$$P \hat{S}^* = \beta_1^* + \beta_2 F \hat{S}^* + \epsilon^*$$

$$P \hat{S}^* = 2227.193 + 0.482 F \hat{S}^*$$

(1.341)

$$\begin{align*}
R^2 &= 0.007 \quad F - Stat = 0.129 \quad d = 1.746
\end{align*}$$

$$d = 1.746$$

$$p = 1 - \frac{d}{2} = 1 - \frac{1.746}{2} = 0.127$$

$$n = 20$$

$$k' = 1$$

$$d_i = 0.952$$

$$d_u = 1.147$$

Test statistic: $H_0 : p = 0 \Rightarrow \text{no autocorrelation}$

$H_a : p > 0 \Rightarrow \text{positive autocorrelation}$
Rejection region: Reject $H_0$ if $d < d_1$.

Decision: Do not reject $H_0$ at 5% significance level

Conclusion: Under the GLS method, the problem of autocorrelation has been resolved.

With the correction of the autocorrelation problem, there seems to be no difference in definition derived from the model. The level of private savings will still be increased with the increased of the interests from savings being exempt from tax. The only difference is the values. Before the correction, the private savings value of increase was RM 4.76 whereas after the correction, the private savings value of increase is only RM 0.48 on average. This is because people do not automatically change their expenditure following any changes of the government policy. There will always be the lag of effect for the implementation of policies.

No Perfect Multi-collinearity

In this model, there is no problem of multi-collinearity because there is only one variable in the model that is the fiscal incentive for savings.
4.3 The Impact of Personal Income Tax Policy on Level of Progressivity and Tax Burden

The basis of this analysis is based on the progressivity index proposed by Daniel Suits. In doing so, the analysis is divided into years of different effective tax rates. From the year 1977 - 1997, the tax rates have been changed seven times. Therefore, the analysis covers seven different time frames namely 1977-1979, 1980-1984, 1985-1990, 1991-1992, 1993-1994, 1995-1996, and 1997.

A measure of tax progressivity shows the deviation of a given system from proportionality (Kakwani, 1977). Suits’ index states that for a proportion tax, the index, $S$, equals zero. The nearer the value of $S$ to zero the more equitable the distributions of tax burden among the taxpayers. The farther the value of $S$ from zero, the more non-equitable the distributions of tax burden among the taxpayers.

From the calculation, the indices of progressivity of the mentioning years are presented in table four.
Table 4: Index of Progressivity

<table>
<thead>
<tr>
<th>Years</th>
<th>Index of Progressivity, $S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977-1997</td>
<td>0.220</td>
</tr>
<tr>
<td>1980-1984</td>
<td>0.175</td>
</tr>
<tr>
<td>1985-1990</td>
<td>0.192</td>
</tr>
<tr>
<td>1991-1992</td>
<td>0.215</td>
</tr>
<tr>
<td>1993-1994</td>
<td>0.423</td>
</tr>
<tr>
<td>1995-1996</td>
<td>0.243</td>
</tr>
<tr>
<td>1997</td>
<td>0.214</td>
</tr>
</tbody>
</table>

The indices show that $S$ is greater than zero. The indices indicate that the personal income tax rate is progressive. Yet, the degree of progressivity shows that Malaysian personal income tax policy changed dramatically whenever the tax policy changed. Starting with $S = 0.220$, the index decreases to 0.175. The index moves nearer to zero meaning that it was more proportion but the rich is paying less because as their income increases their tax payment decreases.

The index of progressivity increases to 0.192 for year 1985 – 1990 and continues to increase to 0.423 for the year 1993 –1997. It shows that the index moves towards a more progressive tax and the richer are paying more as their income rises. Thus, this situation in one hand or another does lead to a more equitable distribution of tax burden. However, the index decreases again to 0.243 and 0.214 for the year 1995-1996 and 1997. Again, Malaysian personal
income tax policy is moving towards a proportional tax that could harm the poor and benefit the rich as the rich pay less as their income rises.

The tax burden in Malaysia neither favours the poor or the rich the entire time interval of the analysis. From 1985 to 1994, the policy does lessen the burden of the poor as the tax is more progressive and the rich pay more but as the year approaches 1997, the tax favours more of the rich for they are paying less as their income increases.

It is important to note that the level of progressivity is very mild that it has never reach half of the scale from zero to one. Thus, it can be summarised that the tax burden in Malaysia is quite low.

4.4 The Impact of Personal Income Tax Policy in Meeting IRB Objectives

As noted in Chapter One, the objectives set up by IRB are:

i. To establish and administer an efficient tax system that upholds justice and equity

ii. To assess and collect the correct amount of revenue as provided under the law in the most effective and efficient manner at minimum cost
iii. To instil public confidence in the fairness and integrity of the tax system

iv. To encourage voluntary compliance

IRB never actually lines out its definition of an efficient tax system. The income tax policy is certainly effective if IRB measures efficiency in terms of the amount of personal income taxes collected each year. The following table shows the amount of personal income tax collected for the year 1977 – 1997.

Table 4: Collected Personal Income Taxes for the Year 1977 -1997

<table>
<thead>
<tr>
<th>Year</th>
<th>Personal Income Taxes (Million Ringgit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>697.75</td>
</tr>
<tr>
<td>1978</td>
<td>799</td>
</tr>
<tr>
<td>1979</td>
<td>1,041</td>
</tr>
<tr>
<td>1980</td>
<td>983</td>
</tr>
<tr>
<td>1981</td>
<td>1,096</td>
</tr>
<tr>
<td>1982</td>
<td>1,362</td>
</tr>
<tr>
<td>1983</td>
<td>1,896</td>
</tr>
<tr>
<td>1984</td>
<td>2,027</td>
</tr>
<tr>
<td>1985</td>
<td>1,744</td>
</tr>
<tr>
<td>1986</td>
<td>1,797</td>
</tr>
<tr>
<td>1987</td>
<td>1,812</td>
</tr>
<tr>
<td>1988</td>
<td>1,083</td>
</tr>
<tr>
<td>1989</td>
<td>2,059</td>
</tr>
<tr>
<td>1990</td>
<td>2,667</td>
</tr>
<tr>
<td>1991</td>
<td>2,989</td>
</tr>
<tr>
<td>1992</td>
<td>3,441</td>
</tr>
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<td>1993</td>
<td>4,248</td>
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<tr>
<td>1994</td>
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</tr>
<tr>
<td>1995</td>
<td>6,203</td>
</tr>
<tr>
<td>1996</td>
<td>6,203</td>
</tr>
<tr>
<td>1997</td>
<td>6,531</td>
</tr>
</tbody>
</table>

The figure shows that the amount of personal income taxes collected increase year by year with exception for the year 1980, 1985, and 1988. However, efficiency is not measured by the value of tax collected.

The efficiency of the personal income tax policy as stated by IRB concerns on upholding justice, equity, fairness, and integrity of the system. However, looking back at section 4.3, the progressivity level of Malaysian personal income tax is very mild. The policy still favours the rich though not burdening the poor.

Malaysian personal income tax policy is certainly effective if it aims to protect the needs of the rich who are thought to contribute to the wealth of the nation. This so-called effective policy ignores the social welfare of the poor ironically thought to deplete the nation’s wealth. Hence, it does not matter if the poor are being taxed more or less because they will still need the hand of the government to survive.

This scenario however, does not depict the situation in Malaysia. It has been emphasised since the launched of the New Economic Policy, that poverty regardless of the races is to be eradicated. Malaysia is concerned in the welfare of the poor to improve their living conditions. There are various ways
to improve living conditions. One of the ways is inducing a higher income to
the people.

The poor will have higher net income for consumption, savings, and leisure
given that the taxes imposed on them are reduced. But from the year 1995,
Malaysia is moving towards a more proportional tax that could burden the
poor. Even though the tax collection satisfies the department's target does not
lead to an equitable distribution of tax burden. Hence, the tax policy has not
yet upholds justice and equity.

The fourth objective is actually impossible to accomplish and in my opinion
has never been accomplished. A rational individual would not pay for
something known to be free. Writing from experience, I will not pay taxes if I
know that I have the choice of not paying. Individuals pay income taxes
because they do not want to be held responsible for any penalties imposed on
them later on.

Voluntary compliance of paying taxes could be embedded in the heart of the
taxpayers if they are confident with the fairness and the integrity of the system.
Individuals know that personal income tax is on of the sources for government
revenue. But they do not actually know how much proportion of the personal
income taxes they paid actually contribute to the development of the nations and improve the social welfare of the people.

4.5 Summary of the Analysis of Results

Analysis of the results shows that Malaysian personal income tax policy is not an optimal policy to alleviate poverty. There exists no significant relationship between the marginal tax rates and poverty level. Results show that Malaysia is practising a good policy to encourage private savings. However, the level of progressivity is extremely mild that it never reach 0.50 index. Mild progressivity level means a mild tax burden to the people especially to the rich but still burdening the poor. In regard to meeting IRB’s objectives, none of the objective is actually accomplished except for being able to increase the amount of personal income tax collected year by year. All in all, at this point, Malaysian personal income tax policy could not be considered as efficient.