

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Personal income tax is never a strange issue to be discussed among the taxpayers. The issue ranges from the amount of chargeable income, tax rates, penalties, avoidance of taxes, and also the efficiency of the tax system.

Efficiency is not only seen from how much IRB could collect taxes in one particular year. Efficiency is also not measured by the number of times the policy changes to meet the demand of the people. The more individuals have to pay taxes does not mean that the policy is not efficient, and the less taxes the individuals have to pay does not make the policy effective. One can never actually measure efficiency by looking at things through a glass of door, nor concluding a belief from coffee-stall conversations. If things are as simple as they seem to be, this study should never be allowed to be conducted at the very first instant.

This research aims to see whether the personal income tax policy actually lessens the burden of the people, contributes to the reduction of the poverty level, improves in the progressivity level, and encourages the incentive to save. If the personal income tax policy fulfil all the mentioned areas, then from the research done within the underlying assumptions and limitations of research, the personal income tax policy is efficient. But before any presumptions and conclusions are made, evaluation of the system through the analysis done is extremely vital.

In regard to the poverty level, the results show that the model does not suffer from any serious problem except for the problem of multi-collinearity. Although the model shows significant relationship between the marginal tax rates and the poverty level, individual regression coefficients do not show any significant in values of the coefficients. Hence, the ups and downs of poverty level have little or no relationship at all with the changes in the tax rates and marginal tax rates particularly. The study by Kanbur, Keen, and Tuomala (1991) that shows the significant relationship between marginal tax rates and poverty level cannot be rejected wholly. The theory remains and can be used as guidance in developing a better indicator of optimal income tax policy in alleviating poverty.

Much research shows that the existence of personal income tax has less or no effect on the level of savings. The finding however has never been done empirically but concluded from existing theory. Yes, it is really impossible to gain the data for household savings and this could deter the empirical analysis. However, study using private savings as an alternative does provide different findings from the previous research. The regression analysis shows that the individual coefficient is significant in explaining the relationship between level of private savings and the interests from savings being exempt from tax.

As the amount of interests from savings being exempt from tax increases, the amount of private savings increases as well. This result is achieved not only under the Classical Linear Regression assumptions but also under the GLS method to correct the problem of heteroscedasticity and autocorrelation.

The analysis of results proves that Malaysia's personal income tax policy is mildly progressive. As the policy changes, the index of progressivity changes to either towards more proportional tax or more progressive tax. With this movement, the tax burden moves as well, with one time favouring the poor and the other time favouring the rich. But never in the analysis shows that Malaysia is practising a regressive personal income tax or an extreme progressive income tax.

As a responsible body dealing with the personal income tax policy, IRB does a wonderful job in setting up objectives to be used as guidelines for day to day operations. Unfortunately, none of the objectives are actually accomplished. The role of IRB in trying to uphold justice and equity of the society through the income tax policy is ambiguous. The fairness and integrity of the income tax policy is hardly revealed to the public. The only thing that IRB actually accomplished is collecting more and more personal income taxes year by year. However, the increase in tax revenue generation is not a measure of efficiency. All in all, it can be concluded that Malaysia is yet to achieve an effective level of the personal income tax policy. The only positive impact the policy has is on the private savings level. There is much to be done to improve the current situation.

5.2 Recommendations

This research has come to its end and we already know that Malaysia's personal income tax policy could not be considered as effective. There are ways to ensure that the policy is effective. The following recommendations are directed towards achieving an effective level of personal income tax policy. The recommendations are hoped to at least help in covering the leaks in the current personal income tax policy.

1. Progressivity Level

Malaysian personal income tax policy should move to a better equitable distribution of tax burden. Currently the degree of progressivity does not even reach 0.50 index. The level of progressivity of the Malaysian personal income tax policy should reach at least 0.50 index. This is to ensure that the rich are going to pay more as their income rises. The dilemma now is to actually determine the tax rates that would produce the desired index of progressivity of at least 0.50 index. IRB could use Suits' index of progressivity used in this research to actually determine whether the future tax rates have an index of progressivity of at least 0.50.

We have moved to a better tax rates for the citizens. Starting with six- percent tax rate for the first RM 2,500 net income the tax rates had been reduced to zero percent for the first RM 2,500. Further reductions of the tax rates do not only help people to have extra money for expenditure and savings but also help in improving the level of efficiency of the Malaysian personal income tax policy.

2. IRB Objectives

The objectives set up by IRB are excellent and there appears to be no need of alterations. The only area that needs modification is IRB's approach in meeting the specified objectives. IRB on the other hand, is the legal party that acts on behalf of the government. Hence, IRB and the government have to work hand in hand to ensure that the objectives are met. At the same time, both parties have to ensure that the welfare of the people involved is not jeopardised.

As suggested in the previous section, IRB should consider on improving the level of progressivity. In addition, IRB could launch income tax awareness campaigns to increase public awareness towards the personal income tax policy. Some issues that ought to be raised in the campaigns include:

- Channels where the income tax revenue is directed to
- Impact of the personal income tax policy on nation's development and social welfare of the people
- Comparison of the tax policy with other countries
- Duties of IRB (besides collecting taxes)

The campaigns should also address on issues such as public responsibility, government's role, and IRB's mission towards accomplishing an efficient

personal income tax policy. It is important to note that campaigns by themselves are not enough to embed public's confidence on the policy. IRB and the government have to prove that the nation's development and individuals social welfare have increased with the implementation of the tax policy. One way of proving is by comparing the standards of living under the old and new personal income tax policy.

IRB itself has to conduct research and evaluate its system to ensure that the policy improves and moves towards a better tax policy. Nobody could understand the taxation system well enough than the people involving in the taxation procedures themselves.

3. Poverty Level and Savings Incentive

Regression analysis indicates that there appears to be no significant relationship between the tax policy and poverty level. Hence, no recommendation could be suggested at the moment. But it does not mean that we should totally diminish the notion that personal income tax policy could not eradicate poverty. It might be the case that only Malaysian personal income tax policy could not alleviate poverty. There is possibility that other countries' personal income tax policy could help eradicate poverty in their countries.

Perhaps, Malaysian personal income tax policy is not well developed that it could not help in alleviating poverty. In fact, it is concluded from the research that Malaysia is not practising an effective personal income tax policy.

In the case of saving incentive, the personal income tax policy seems to be a good policy. The current policy should be retained. However, further increase of the interests from savings being exempt from tax will not hurt but help in improving the savings rate in Malaysia.