



HSS ADVISORY SDN BHD
(722956-M)

TAX AUDIT FRAMEWORK

Effective Date: 1 May 2022



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Table of Contents

1. What is a Tax Audit?
 2. Objectives of a Tax Audit
 3. Selection of Cases
 4. Tax Audit Implementation
 5. Appeals
-

Abbreviation:

IRBM = Inland Revenue Board Malaysia

ITA = Income Tax Act 1967

TAFs = Tax Audit Framework



1. What is a Tax Audit?





What is a Tax Audit?

- A taxpayer may be selected for tax audit at any time.
- In case the taxpayer has been selected for audit it does not mean that the taxpayer has committed an offence.
- An audit involves reviewing a taxpayer' business records and financial affairs to make sure that the right amount of income should be declared and the right amount of tax paid according to the law.



What is a Tax Audit?

Type of Audits

Desk Audit

Field Audit

- Conducted at the **IRBM's**
office

- Conducted at the
taxpayer's office

2. Objectives of A Tax Audit





Objective of A Tax Audit

- An approach by the IRBM to **educate** as well as to **create awareness** / **provide exposure** to the taxpayer on his rights and responsibilities of the ITA.

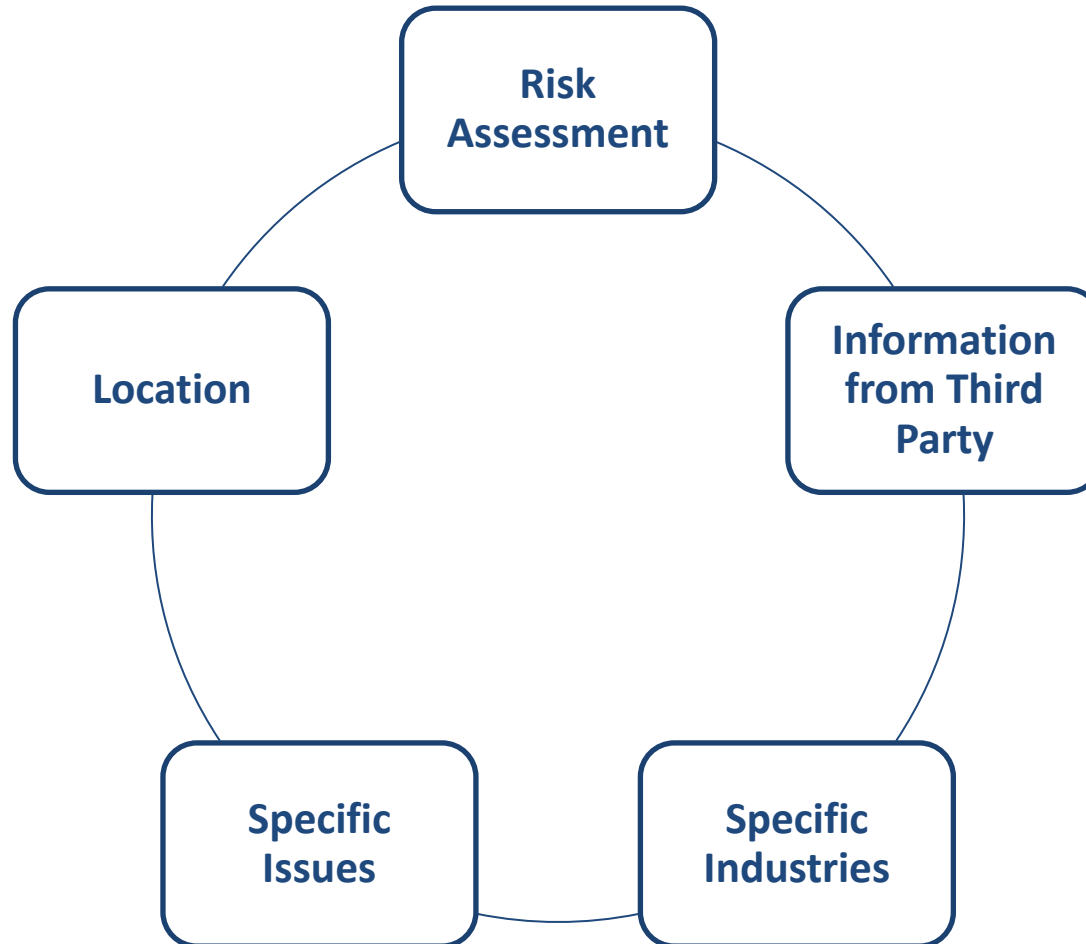


3. Selection of Cases





Selection of Cases





4. Tax Audit Implementation





Tax Audit Implementation

1. Initial Audit Action
2. Audit Visit
3. Duration of Field Audit Visit
4. Record Review / Examination
5. Audit Settlement
6. Voluntary Disclosure



Tax Audit Implementation

1. Initial Audit Action

- A *Surat Memohon Dokumen and Maklumat* (Request for Documents and Information Letter) will be issued to the taxpayer;
- Method: official e-mail through the official domain @hasil.gov.my, fax or mail.
- The taxpayer is required to submit documents or provide feedback within 14 days calendar days from the date of letter issued.
- If fails to do so, the audit action will be resumed using the appropriate method.



Tax Audit Implementation

1. Initial Audit Action

- For field audit, a *Surat Pemberitahuan Lawatan Pematuhan* (Compliance Visit Notification Letter) will be issued to the taxpayer at least 14 calendar days prior to the date of visit.

- The letter shall contain the following details:
 - Date of visit;
 - Records that should be made available;
 - Year of Assessment to be audited;
 - Name of the audit officer; and
 - Duration of the audit visit.



Tax Audit Implementation

2. Audit Visit

- It's only applicable to a **FIELD AUDIT** activity;
- The audit examination can be performed in the following places;
 - a) Business premises of the taxpayer / tax agent;
 - b) IRBM's office;
 - c) Other appropriate places as agreed upon by both parties.



Tax Audit Implementation

4. Record Review / Examination

- Under provisions of **section 80** of ITA, the audit officer is allowed to have full access to the taxpayer's record.
- In general, the records are as follows:
 - **Business records**; and
 - **Records other than business records** (eg: bank statement, credit card statement; asset ownership; family/ personal expenses; other matters as provided for under section 79 of the ITA)



Tax Audit Implementation

4. Record Review / Examination

- Sections 82 and 82A of the ITA require the taxpayer to maintain sufficient and complete records.
- Failure to comply with subsections 82(1), 82(2) and 82(5) of the ITA, it is an offence under section 119A of the ITA.

Section 119A (Failure to keep records) – The IRBM can choose to compound an offence prior to prosecution / conviction



Tax Audit Implementation

5. Audit Settlement

- The taxpayer shall be notified in writing through the *Surat Penemuan Semakan Kes* (Case Review Findings Letter), it consists of:
 - The audit issues raised; and
 - The reason and rationale of the issued raised.

- Taxpayer is given 18 days of calendar days from the date of letter issued to provide feedback and clarification regarding the audit findings.



Tax Audit Implementation

5. Audit Settlement

- If the taxpayer is dissatisfied with the audit findings, he must appeal within 18 days by submitting additional documents to support his objection.
- If no objection is received within 18 days, the taxpayer is deemed to have agreed to the audit findings.



Tax Audit Implementation

5. Audit Settlement

- The tax audit must be completed within 90 calendar days from the commencement of the audit visit date or date of the Determination of Commencement of Case Settlement Period Letter.
- If the case can not be resolved within 90 days, the taxpayers will be notified by the IRBM
- Completed audit cases will not be re-audited for the same year of assessment and issue unless there is other issues or new information are received from third party, a re-audit may be carried out.



Tax Audit Implementation

5. Audit Settlement

- In the event of an understatement or omission of any income as a result of the audit findings, penalty may be imposed under subsection 113(2) of the ITA equivalent to the undercharged tax amount (**100%**).



Tax Audit Implementation

5. Audit Settlement

- However, for the purposes of TAFs, penalty imposed under subsection 113(2) of the ITA is as follows:

Offence	Rate
1 st Offence	15%
2 nd Offence	30%
3 rd and subsequent Offence	45%



Tax Audit Implementation

6. Voluntary Disclosure

- The taxpayer can make voluntary disclosure after the due date for submitting income tax return in writing before the audit action commences.
- IRBM emphasize that voluntary disclosure are only applicable to taxpayers who have submitted their tax returns.



Tax Audit Implementation

6. Voluntary Disclosure

- Under the IRB's TAFs 2022, the penalty rate for voluntary disclosure is **15%**. If the taxpayer has made an initial voluntary disclosure using the revised tax return form and subsequently makes an additional voluntary **within 6 months from the due date for furnishing return**, the penalty rate for voluntary disclose is **10%**.



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Reintroduction of Voluntary Disclosure

PERIOD: 1/6/2023 – 31/5/2024

0% PENALTY



Existing Legislation

Under the IRB's Tax Audit Framework 2022, the penalty rate for voluntary disclosure is **15%**. If the taxpayer has made an initial voluntary disclosure using the revised tax return form and subsequently makes an additional voluntary **within 6 months from the due date for furnishing return, the penalty rate for voluntary disclose is 10%.**

Proposed Legislation

The government will offer **100% waiver of penalty** for voluntary disclosures made during the period from **1 June 2023 to 31 May 2024**



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APPEALS



Appeals

- Taxpayers who is dissatisfied with the Notice of Assessment / Notification of Non-chargeability, may submit an appeal to the Special Commissioners of Income Tax **within 30 days** after service of the notifications.
- All appeals against the assessment shall be made through a completed **Form Q** to the respective Branch Director.



Source:

- *Lembaga Hasil Dalam Negeri Malaysia, “Rangka Kerja Audit Cukai Tarikh Kuat Kuasa: 01 Mei 2022”, 1 May 2022*



Disclaimer

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THE END

For enquiries and clarification, please refer to:

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