

# PERSPECTIVE OF INLAND REVENUE BOARD OF MALAYSIA : COMBATING TAX EVASION

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- **INTRODUCTION : HISTORICAL BACKGROUND**
- **ORGANISATION STRUCTURE AND ENFORCEMENT FUNCTIONS**
- **COMBATING TAX EVASION STRATEGY**
  - **OPERATING CONTEXT**
  - **SHAPING INTERNAL CAPABILITIES**
  - **RISK AREAS AND TAX EVASION INVESTIGATION OUTCOMES**
- **INVESTIGATION METHODS**
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  - **INDIRECT METHODS**
- **INVESTIGATION PROCESS**
  - **CIVIL INVESTIGATION**
  - **CRIMINAL INVESTIGATION**
- **FUTURE ENFORCEMENT NEEDS**

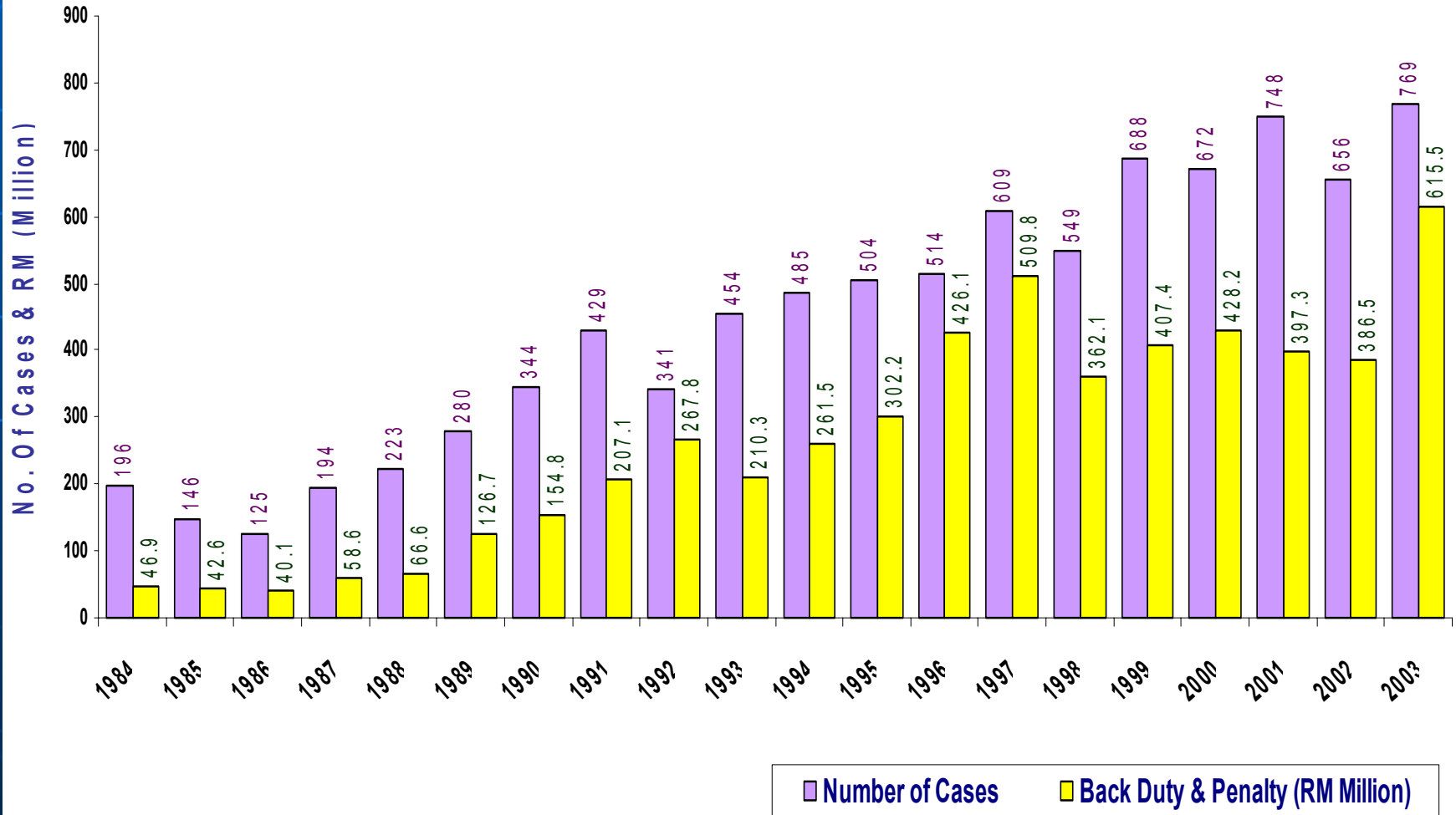
## HISTORICAL BACKGROUND – TAX EVASION FUNCTION

- ❑ TAX EVASION INVESTIGATION STARTED IN 1952
- ❑ STARTED IN MAJOR BRANCH OFFICES – EXTENDED TO ALL OFFICES
- ❑ FOCUS OF INVESTIGATION – PRMIARY INDUSTRIES, AGRICULTURE, WHOLE SALE AND RETAIL
- ❑ RECORD KEEPING POOR – NET WORTH METHOD USED
- ❑ TRAINING AND POLICIES :
  - ❑ OJT BY BRITISH TAX OFFICERS
  - ❑ FOLLOWED PROCEDURES/POLICIES
  - ❑ PECUNIARY SETTLEMENT OF CASES

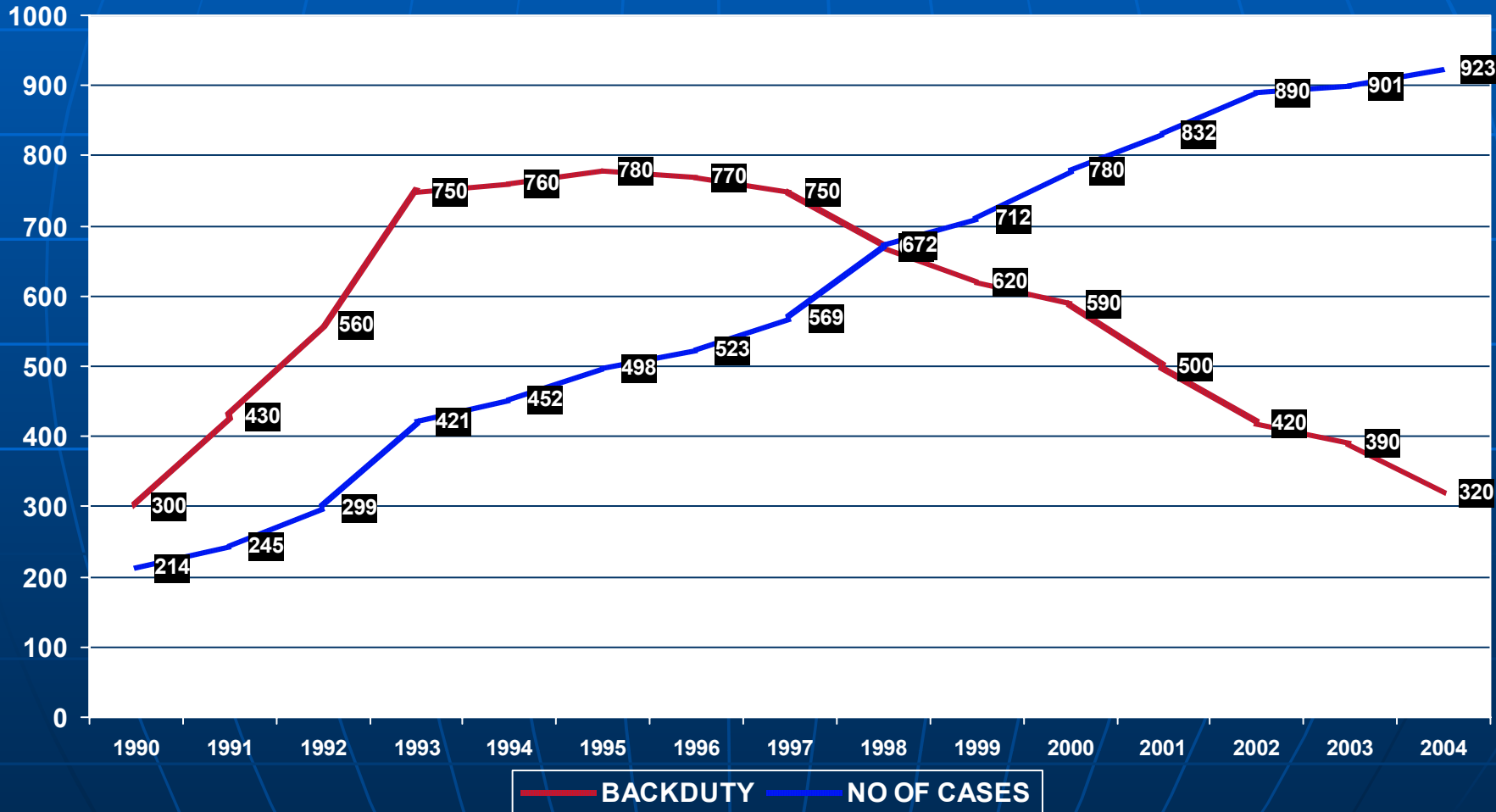
## ORGANISATIONAL STRUCTURE

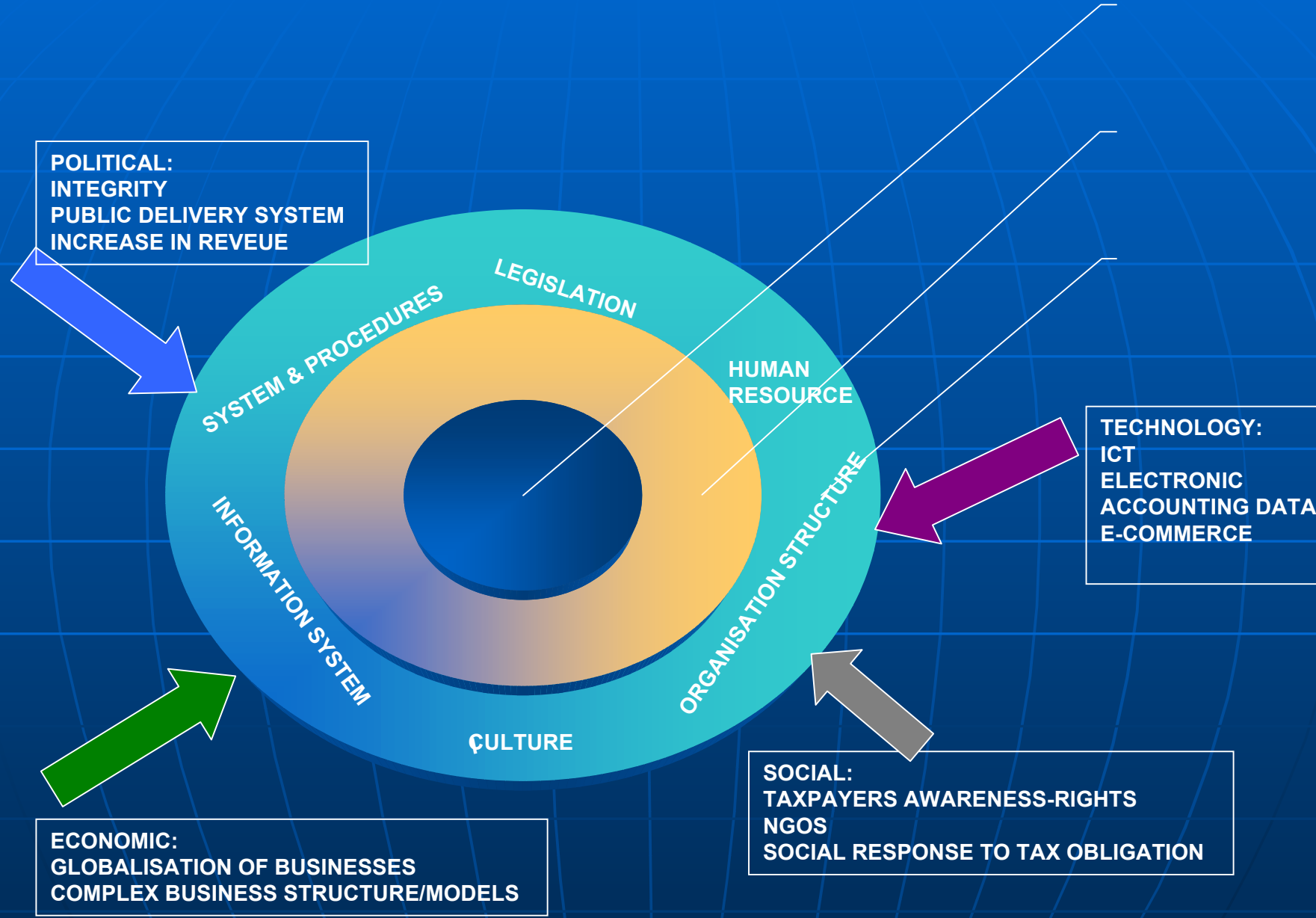


INVESTIGATION: NUMBER OF CASES AND AMOUNT OF BACK DUTY SETTLED  
FROM THE YEAR OF 1984 TO 2003



DESIRED INVESTIGATION OUTCOME TREND





**POLITICAL:**  
INTEGRITY  
PUBLIC DELIVERY SYSTEM  
INCREASE IN REVEUE

SYSTEM & PROCEDURES  
LEGISLATION  
HUMAN RESOURCE  
INFORMATION SYSTEM  
ORGANISATION STRUCTURE  
CULTURE

**TECHNOLOGY:**  
ICT  
ELECTRONIC  
ACCOUNTING DATA  
E-COMMERCE

**ECONOMIC:**  
GLOBALISATION OF BUSINESSES  
COMPLEX BUSINESS STRUCTURE/MODELS

**SOCIAL:**  
TAXPAYERS AWARENESS-RIGHTS  
NGOS  
SOCIAL RESPONSE TO TAX OBLIGATION

## STRATEGY IN COMBATING TAX EVASION

### DRIVING FORCES - REDESIGN NEW STRATEGY:

- ❑ INTRODUCTION OF THE SELF ASSESSMENT SYSTEM
  - ❑ CORPORATE TAXPAYERS – 2001
  - ❑ OTHERS 2004 – FILING REQUIREMENT IN 2005
- ❑ OPERATING CONTEXT – SCAN OPERATING ENVIRONMENT
- ❑ POLITICAL
  - ❑ INTEGRITY
  - ❑ PUBLIC SECTOR DELIVERY SYSTEM
  - ❑ INCREASE REVENUE COLLECTION

**❑ ECONOMIC**

**❑ GLOBALISATION OF BUSINESSES**

**❑ COMPLEX AND SOPHISATED BUSINESS MODELS**

**❑ SOCIAL**

**❑ GREATER AWARENESS OF TAXPAYERS RIGHTS**

**❑ NGOS – MORE SENSITIVE AND VOCAL TO TAX ISSUES**

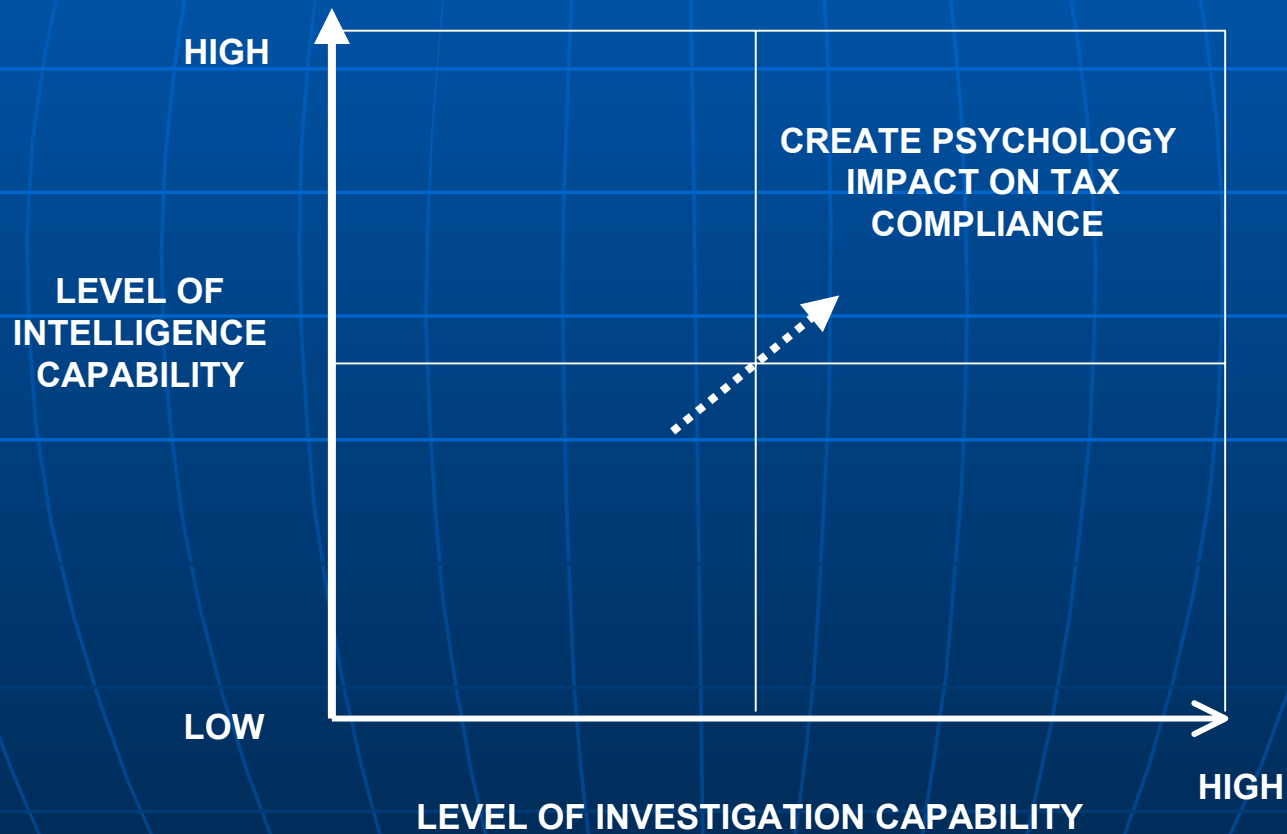
**❑ CULTURAL RESPONSE TO TAX OBLIGATION**

**❑ TECHNOLOGY**

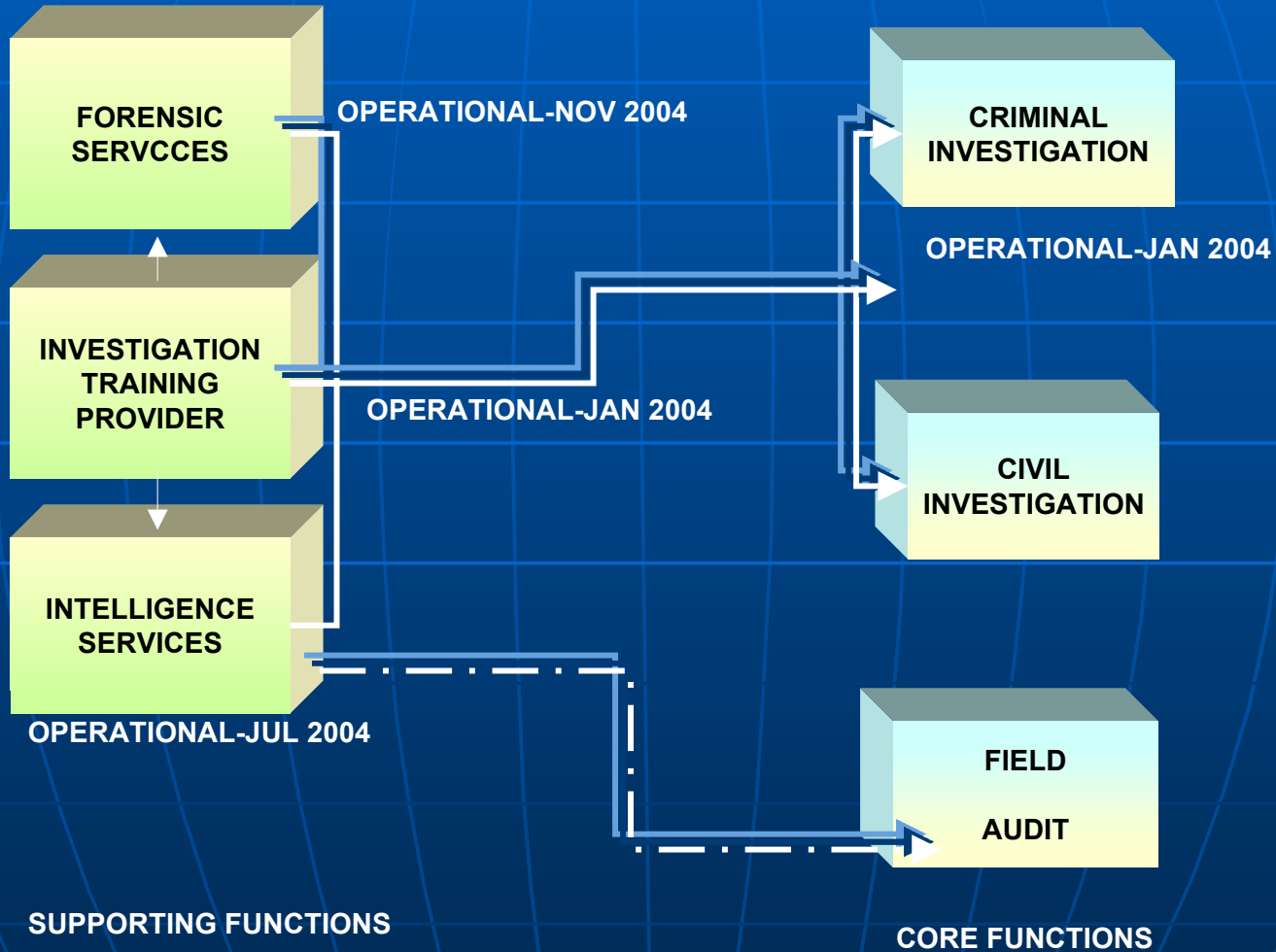
**❑ ACCOUNTING AND FINANCIAL TRANSACTIONS ELCECTRONICALLY RECORDED**

**❑ E – COMMERCE BUSINESS**

## COMBATING TAX EVASION STRATEGY



RESTRUCTURING FUNCTIONS



**☐ INTELLIGENCE DIVISION**

- **DEVELOPS STRATEGIC PLANS**
- **GATHERS, PROCESSS AND DESSIMINATES INFORMATION**
- **DEVELOPS POLICES, PROCEDURES AND GUIDELINES**
- **IDENTIFY RISKS**

**☐ CIVIL INVESTIGATION**

- **DEVELOPS POLICES, PROCEDURES AND GUIDELINES**
- **SETS ANNUAL WORK PLANS AND TARGETS**
- **REVIEWS AND APPROVES INVESTIGATION CASES**
- **MONITORS COMPLIANCE TO INVESTIGATION STANDARDS**

## □ CRIMINAL INVESTIGATION

- DEVELOPS POLICIES AND PROCEDURES
- CARRIES OUT CRIMINAL INVESTIGATION
- SUPERVISES CRIMINAL INVESTIGATION UNITS IN INVESTIGATION CENTRES
- REVIEWS AND EXAMINES INVESTIGATION PAPERS BEFORE SUBMISSION FOR PROSECUTION.

## □ FORENSIC LABORATORY

- COMPUTER FORENSIC – ANALYSES AND RECOVERS ELECTRONIC FINANCIAL DATA
- PHONE FORENSIC – RECOVERS SHORT MESSAGES AND ELECTRONIC DATA IN PDAs, HANDPHONES AND SMART PHONES.
- PHOTOGRAPHY & IMAGING – TAKES PHOTOGRAPHS AT CRIME SCENES
- TRIAL ILLUSTRATION – PREPARES GRAPHICS TO ENHANCE EVIDENCE PRESENTATION IN COURTS

**☐ FORENSIC LABORATORY**

➤ **LABORATORY OPERATING MANAGEMENT SYSTEM – MANAGES AND MAINTAINS THE CHAIN OF EVIDENCE OF EXHIBITS IN THE LABORATORY.**

**☐ INVESTIGATION TRAINING CENTRE**

➤ **PREPARES TRAINING NEEDS ANALYSIS FOR ALL FUNCTIONS UNDER INVESTIGATION FUNCTIONS.**

➤ **DEVELOPS TRAINING MODULES**

➤ **TRAINS NEW RECRUITS – 12 WEEKS FORENSIC ACCOUNTING IN TAXATION BASIC PROGRAMME**

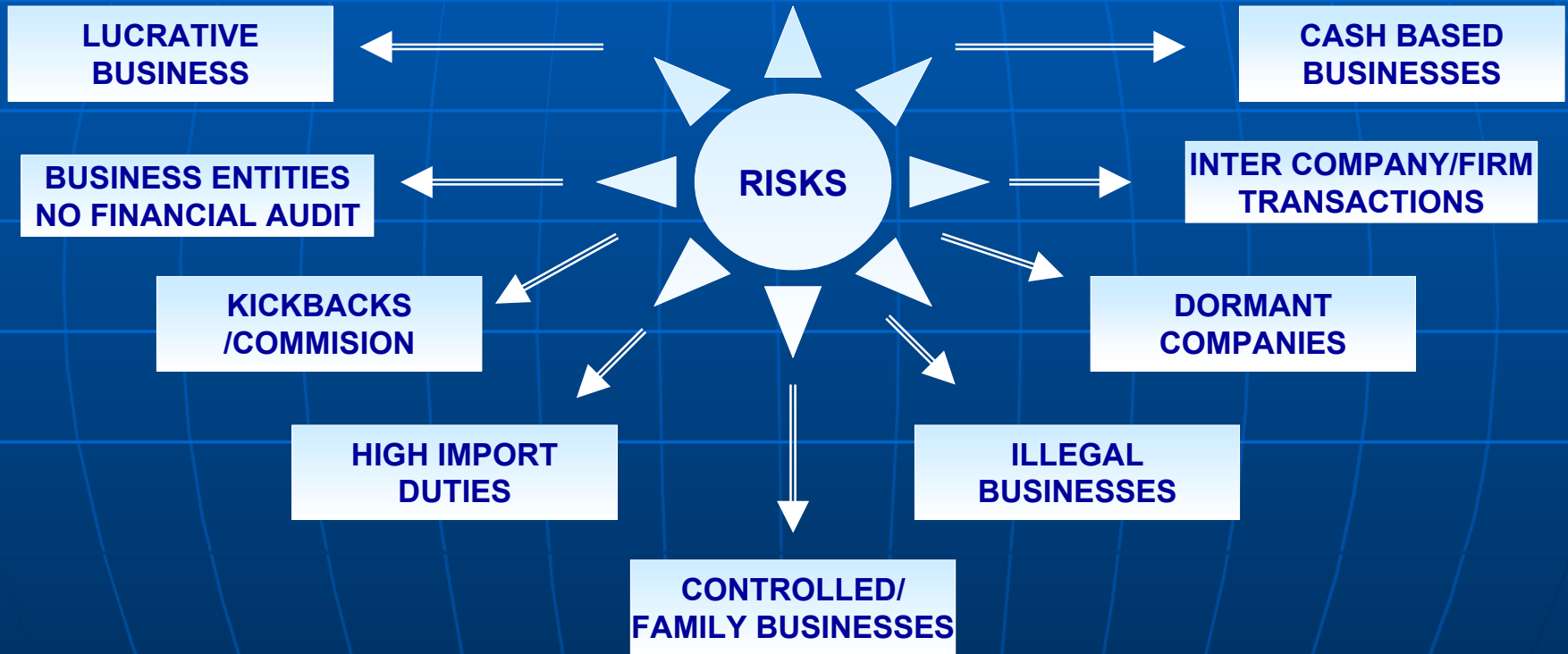
**1) ENHANCING INTELLIGENCE CAPABILITY**

- 1) TRAINING – OFFICERS TRAINED BY OTHER ENFORCEMENT AGENCIES**
- 2) PROCEDURES AND WORK INSTRUCTIONS DOCUMENTED**
- 3) MOUs WITH OTHER ENFORCEMENT AGENCIES**
- 4) WIDEN SCOPE OF GATHERING OF INFORMATION FROM OPEN/CLOSE SOURCES**
- 5) IDENTIFY RISKS – ANALYTICAL TOOLS**
- 6) DATA WAREHOUSING/DATA MINING – IN THE PIPELINE**
- 7) INTERFACE WITH TAX AUDIT FUNCTION**

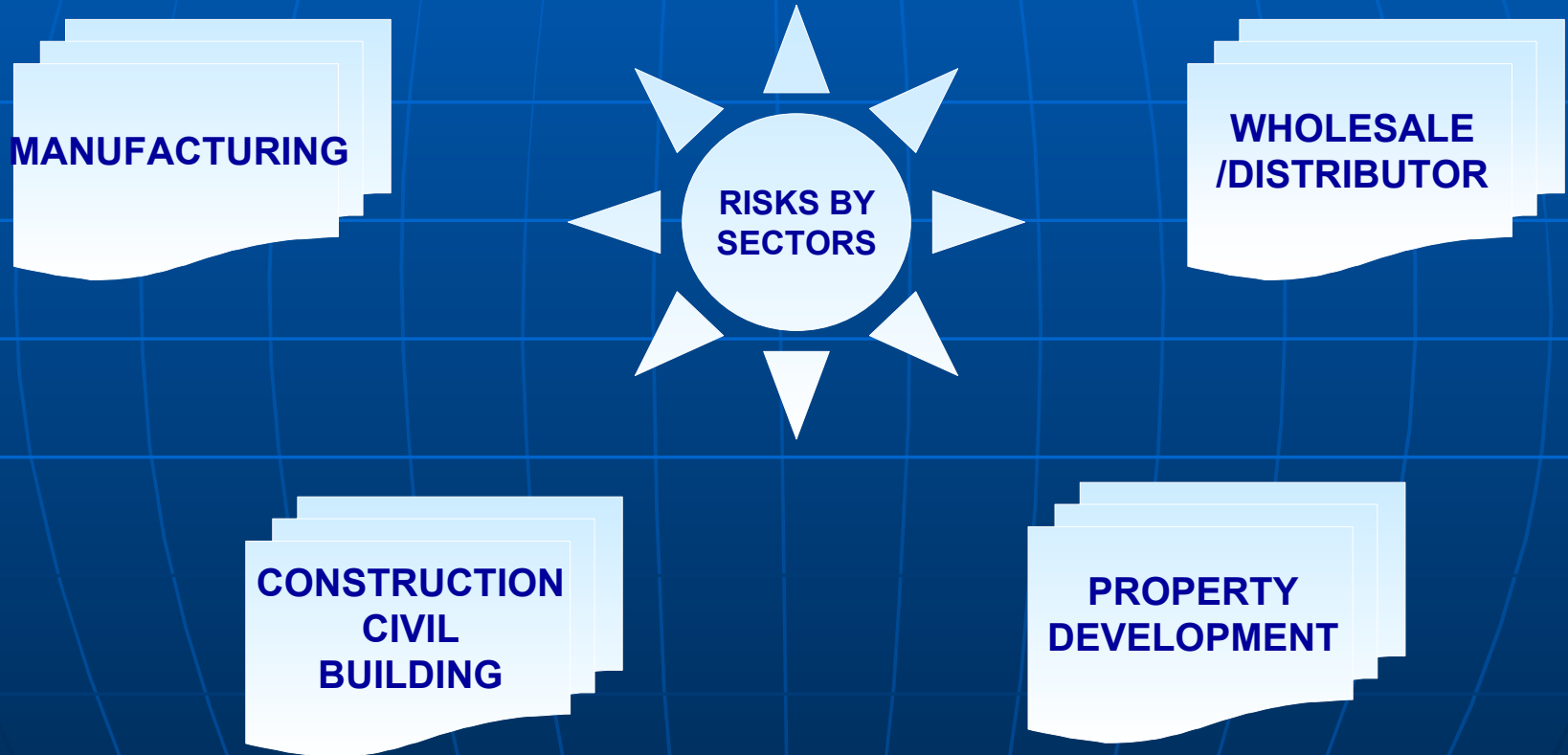
**2) ENHANCING INVESTIGATION CAPABILITY**

- 1. FORMALISED AND STRUCTURED TRAINING CONDUCTED BY OWN INVESTIGATION TRAINING CENTRE.**
- 2) TRAINING PROVIDED BY OTHER AGENCIES :**
  - 1) CRIMINAL INVESTIGATION :**
    - 1) INTERNAL REVENUE SERVICE – US**
    - 2) ROYAL MALAYSIAN POLICE COLLEGE**
- 3) COMPUTER FORENSIC TRAINING:**
  - 1) FEDERAL LAW ENFORCEMENT TRAINING CENTRE – US**
  - 2) USE SKILLS IN INVESTIGATION**
- 4) ADOPT GROUP BASED APPROACH**
- 5) CREATE IMPACT BY ORGANSING LARGE SCALE OPERATIONS ON REGIONAL BASIS.**
- 6) EMPLOY CONTRACT OFFICERS WITH EXPERT KNOWLEDGE IN SPECIALISED INDUSTRIES.**
- 7) MAINTAIN AND ENHANCE OFFICERS' INTEGRITY**

TAX EVASION – RISKS FACTORS



## RISKS IDENTIFIED BY INDUSTRIES



## INVESTIGATION METHODS

### 1. SPECIFIC METHOD

USES FORENSIC ACCOUNTING TO DETECT TAX EVASION. IT INVOLVES EXAMINING AND VERIFICATION OF ACCOUNTING RECORDS TO DETECT THE EVIDENCE OF TAX FRAUD AND QUANTIFY THE AMOUNT OF INCOME AND TAX EVADED THEREOF.

## AREAS OF FOCUS - FOR TAX INVESTIGATION OF TRADING BUSINESS

<b>GROSS INCOME</b>		<b>XX</b>
<b>LESS : RETURN INWARDS</b>	<b>XX</b>	
<b>DISCOUNTS</b>	<b>XX</b>	<b>XX</b>
	<hr/>	<hr/>
<b>COST OF GOODS SOLD :</b>		<b>XX</b>
<b>OPENING STOCK/WIP</b>	<b>XX</b>	
<b>PURCHASES</b>	<b>XX</b>	
	<hr/>	
	<b>XX</b>	
<b>LESS : ENDING STOCK</b>	<b>XX</b>	<b>XX</b>
<b>GROSS PROFIT</b>		<hr/> <b>XX</b>
<b>LESS: OPERATING EXPENSES</b>		<b>XX</b>
<b>NET PROFIT</b>		<hr/> <b>XX</b>
<b>LESS: CAPITAL ALLOWANCES</b>		<b>XX</b>
<b>INCENTIVES/DOUBLE DEDUCTIONS</b>		<b>XX</b>
<b>TAXABLE INCOME</b>		<hr/> <b>XX</b>

**SOME EXAMPLES OF TAX EVASION BY OMITTING/  
UNDER DECLARING INCOME**

- 1. ISSUE A FICTITIOUS CREDIT NOTE FOR DISCOUNTS/GOODS RETURNED INWARDS:**

**DR. DISCOUNTS/GOODS RETURNED.....XX**  
**CR. DEBTORS.....X X**

- 2. REVERSE INCOME RECOGNISED EARLIER TO CREDITORS/  
DIRECTORS' ACCOUNT AT YEAR END JOURNAL ADJUSTEMENT:**

**DR. INCOME/SALES..... XX**  
**CR. CREDITORS/DIRECTORS A/C .....XX**

- 3. TOTAL OMISSION OF SALES/RECEIPTS/FEEES**

**NOT RECORDED IN THE ACCOUNTING SYSTEM**

- 4. CHEQUES RECEIVED FROM SALES/FEEES TREATED AS  
EXCHANGE OF CHEQUES OR FOR CASH IN CASH LEDGER:**

**DR. BANK.....XX**  
**CR. BANK/CASH .....XX**

**SOME EXAMPLES OF TAX EVASION BY INFLATING/CLAIMING FICTITIOUS PURCHASES/EXPENSES IN THE ACCOUNTS**

- 1. ALTERING THE TRANSACTION VALUES IN THE INVOICE/CASH BILL**
- 2. CLAIMING FICTITIOUS PURCHASES/EXPENDITURE USING FICTITIOUS INVOICES**
- 2. PURCHASES MADE ON BEHALF OF THE COMPANY BY DIRECTORS/ PROPRIETOR/PARTNER/ANOTHER RELATED COMPANY (MULTILEVELS)**
- 4. PURCHASES FROM RELATED COMPANY/FIRMS (MULTILEVELS)**

# INFLATED CASH PURCHASE BILL

**SINGH CEMENT AGENCY**

**NO.0056**

**TEL. NO.**

**CASH SALE**

**DATE : 11.12.98**

<b>QUANTITY</b>	<b>PARTICULARS</b>	<b>RATE</b>	<b>AMOUNT</b>
<b>1,000 BAGS</b>	<b>PORTLAND CEMENT</b>	<b>US10</b>	<b>US10,000</b>
<b>NOTE THE ADDITION OF EXTRA ZERO IN BLUE</b>			
<b>TOTAL</b>			<b>NU 10,000</b>

# INDICATORS OF FALSE PURCHASE INVOICE

**JHANA CEMENT AGENCY PTE LTD**

**ADDRESS ?**

**TO:  
KARMA TRADING  
CO. LTD**

**TELEPHONE NO.?**

**INVOICE NO.0056**

**DATE : 11.12.98**

<b>QUANTITY</b>	<b>PARTICULARS</b>	<b>RATE</b>	<b>AMOUNT</b>
<b>1000 BAGS</b>	<b>PORTLAND CEMENT</b>	<b>RM100</b>	<b>RM 100000</b>
<b>SAME TYPEWRITER/COMPUTER GENERATED INVOICE OR HANDWRITING FROM DIFFERENT SUPPLIERS</b>			
<b>TOTAL</b>			<b>RM 100000</b>

**GOODS PURCHASED  
ON BEHALF OF COMPANY  
BY DIRECTOR**

**NIRVANA TEXTILE PTE LTD**

**NO.12/04**

**JOURNAL VOUCHER**

**DATE: .1.5.2004**

	<b>DEBIT</b>	<b>CREDIT</b>
<b>CASH PURCHASES</b>	<b>RM30,000</b>	
<b>DIRECTOR'S JOHN A/C</b>		<b>RM30,000</b>
<b>BEING GOODS PURCHASED BY JOHN VIDE INVOICE NO.113 ON BEHALF ON COMPANY AS ATTACHED</b>		

## MULTI LEVEL FICTITIOUS PURCHASES – EVASION SCHEME

### 1. COMPANY A

DR. PURCHASE	XX	
CR. COMPANY B (RELATED COMPANY)		XX

### 2. COMPANY B

DR. COMPANY A – DEBTOR	XX	
CR. COMPANY C (RELATED TO B)		XX

### 3. COMPANY C

DR. COMPANY B – DEBTOR	XX	
CR. DIRECTOR – JOHN (BOUGHT ON BEHALF OF COMPANY)		XX



## WHAT IS NETWORTH METHOD ?

- **IT IS AN INDIRECT COMPUTATIONAL METHOD OF PROVING AN INDIVIDUAL'S ACTUAL INCOME (WHETHER LEGAL/ILLEGAL) AND INCOME EVADED.**
- **IT IS BASED ON THE THEORY THAT AN INDIVIDUAL'S INCOME FOR A SPECIFIC PERIOD IS EITHER:**
  - **KEPT IN CASH**
  - **DEPOSITED**
  - **SPENT ON BUYING ASSETS**
  - **SPENT ON EXPENSES**



## WHAT IS NETWORTH METHOD ?

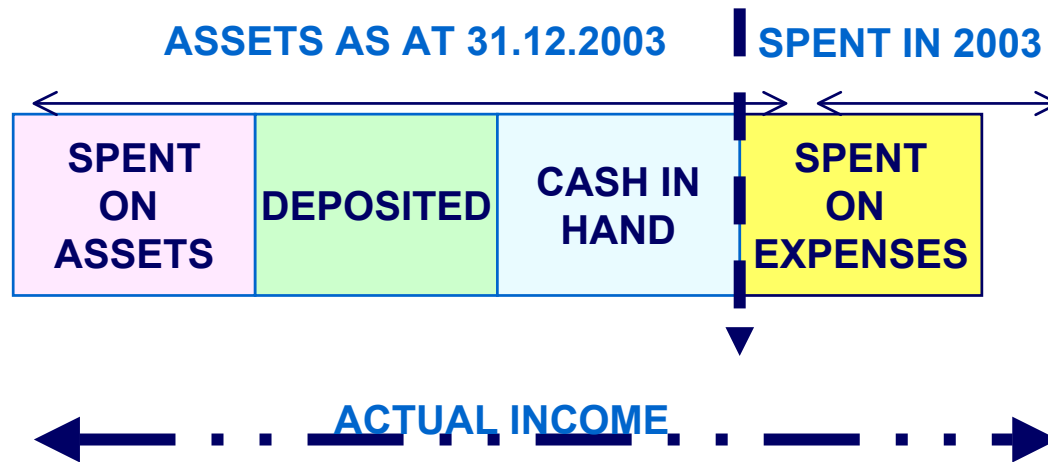
WHOSE ASSETS AND EXPENSES SHOULD BE ACCOUNTED FOR IN THE NETWORTH COMPUTATION ?

- **INDIVIDUAL**
- **INDIVIDUAL'S WIFE, WIVES AND MISTRESSES, IF ANY**
- **CHILDREN IF THEY ARE DEPENDANTS**
- **NOMINEES**

# NETWORTH METHOD



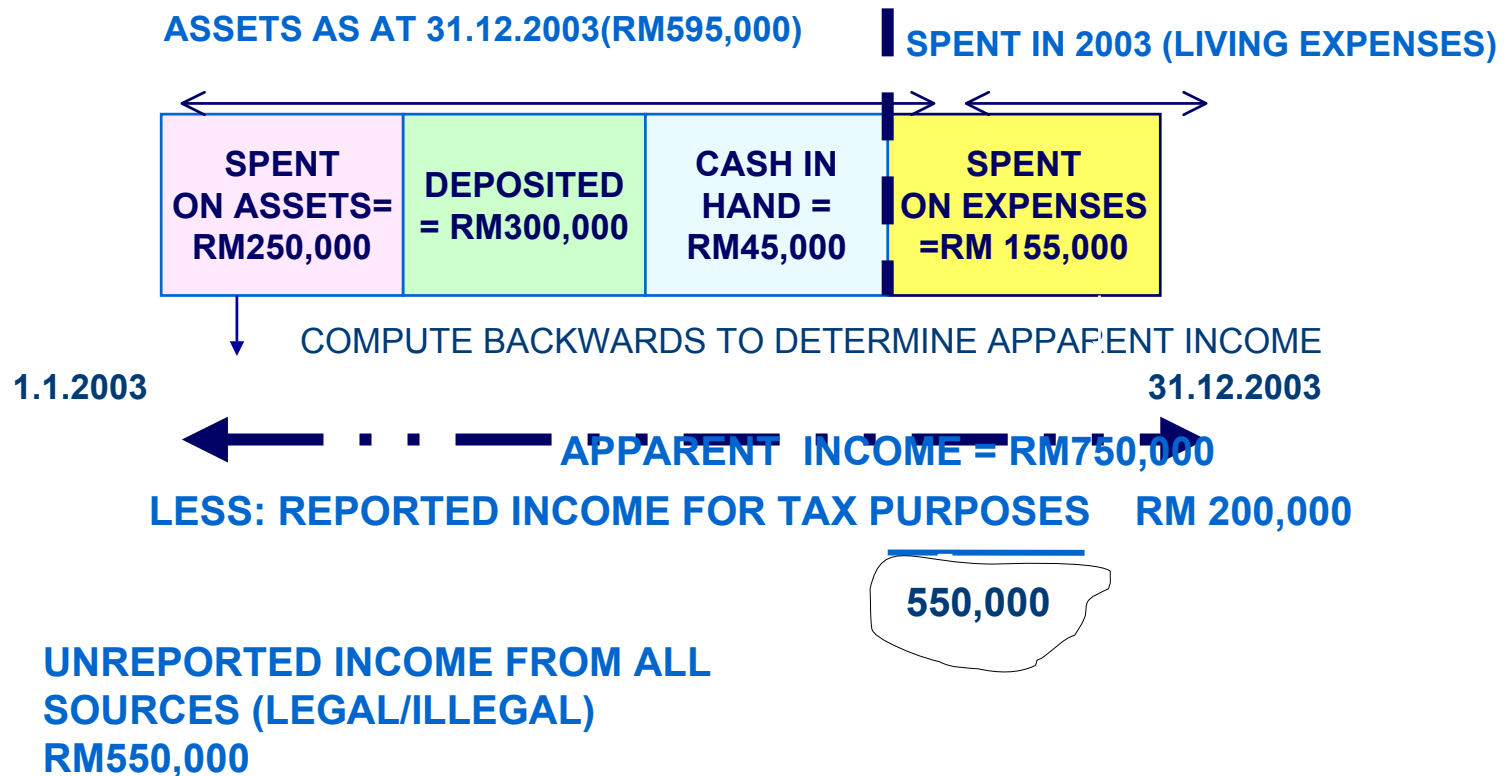
WHAT IS NETWORTH METHOD ?



# NETWORTH METHOD





## WHAT IS NETWORTH METHOD ?



# NETWORTH METHOD

## SIMPLE COMPUTATION FORMAT TO DETERMINE ACTUAL INCOME AND UNREPORTED INCOME

AS AT POINT OF TIME	31 DECEMBER	2001	2002	2003
<b>ASSETS</b>		250,000	300,000	895,000
<b>INHERITED PROPERTY</b>			100,000	100,000
<b>TOTAL ASSETS</b>		250,000	400,000	995,000
<b>LESS: LOANS/LIABILITIES</b>		100,000	80,000	195,000
<b>NET ASSETS</b>		150,000	320,000	800,000
<b>NET ASSETS B/F</b>			150,000	320,000
 <b>INCREASE IN ASSETS</b>			170,000	480,000
<b>LESS: CAPITAL GAINS/(LOSS)</b>				10,000 (20,000)
<b>INHERITED PROPERTY</b>			60,000	500,000
 <b>ADD: LIVING EXPENSES</b>			150,000	155,000
<b>APPARENT INCOME</b>			210,000	655,000
<b>LESS: REPORTED INCOME</b>				100,000
200,000 <b>BETTING WINS/GIFT OF MONEY</b>			0	100,000
<b>UNREPORTED INCOME</b>			110,000	355,000

## INVESTIGATION PROCESS

### •POWER OF INVESTIGATION :

**SECTION 79 – POWER TO REQUIRE TAXPAYER TO FURNISH DETAILS OF HIS BANKING ACCOUNTS, ASSETS AND SOURCES OF HIS INCOME.**

**SECTION 80: POWER TO ACCESS TO BUILDINGS AND LANDS; SEARCH AND SEIZURE OF DOCUMENTS WITHOUT WARRANT**

**SECTION 81: POWER TO CALL FOR INFORMATION ORALLY AND IN WRITING.**

## OFFENCES AND PUNISHMENT:

**SECTION 113 (1): MAKES AN INCORRECT RETURN – UNDERSTATEMENT OF INCOME – ON CONVICTION LIABLE TO A FINE OF RM1,000 – RM10,000 AND PAY A SPECIAL PENALTY OF DOUBLE AMOUNT OF TAX UNDERCHARGED.**

**SECTION 114: WILFULLY AND WITH INTENT TO EVADE OR ASSIST ANY PERSON TO EVADE TAX ON CONVICTION BE LIABLE TO A FINE OF RM1,000 – RM20,000 OR TO IMPRISONMENT OF A TERM NOT EXCEEDING 3 YEARS OR BOTH AND PAY A SPECIAL PENALTY OF TREBLE THE AMOUNT OF TAX UNDERCHARGED.**

**INVESTIGATION PROCESS**

**CIVIL INVESTIGATION**

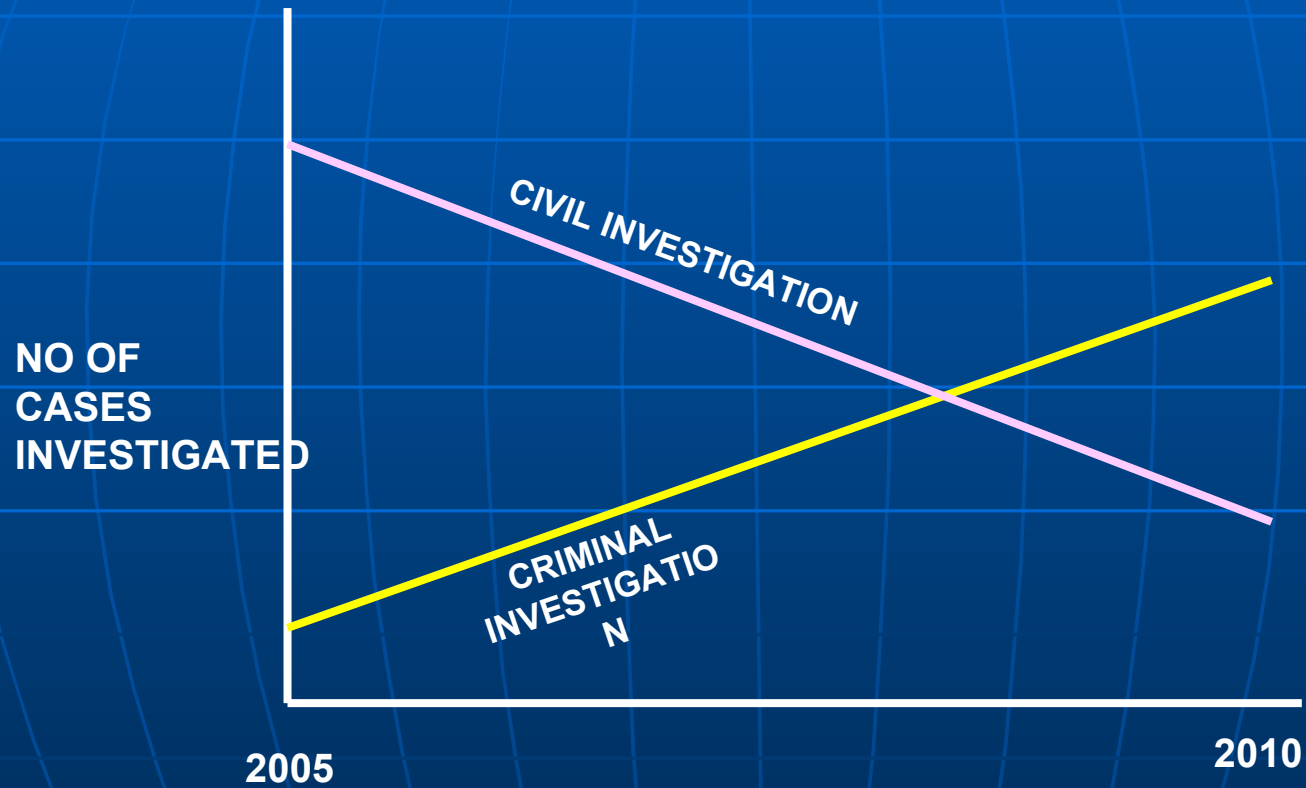
- 1) **CASE ANALYSIS**
- 2) **CASE PREPARATION**
- 3) **INSPECTION VISIT**
- 4) **SORT RECORDS/RECORD EXAMINATION**
- 5) **VERIFICATION**
- 6) **RECORD AND DISCUSS FINDINGS**
- 7) **AGRREMENT/PREPARE DOCUMENTATION – SUBMIT FOR APPROVAL**
- 8) **APPROVAL**

## INVESTIGATION PROCESS

### CIVIL INVESTIGATION

- 1) **CASE ANALYSIS**
- 2) **CASE PREPARATION**
- 3) **INSPECTION VISIT**
- 4) **STORE AND MANAGE EXHIBITS – CHAIN OF EVIDENCE CRUCIAL**
- 5) **VERIFICATION/GATHER EVIDENCE/RECORD STATEMENTS FROM WITNESSES**
- 6) **FINALISED INVESTIGATION PAPERS/FRAME CHARGE**
- 7) **SUBMIT FOR APPROVAL OF PROSECUTION**
- 8) **FILE CASE IN COURT**

## WIDEN THE SCOPE AND INTENSITY OF CRIMINAL INVESTIGATION



*Terima Kasih*

*THANK YOU*