

## **Summary Report of the Tax Administration Seminar III**

ADBI Tax administration Seminar III was held from March 21<sup>st</sup> through 23<sup>rd</sup>, 2006 in Siem Reap, Cambodia. The meeting was attended by 33 delegates, including three senior officials of commissioner level and five deputy level officials, representing nine countries; namely, CAMBODIA, INDONESIA, JAPAN, LAO PDR, MALAYSIA, MYANMAR, the PHILIPPINES, THAILAND, and VIET NAM.

The overall theme of the meeting was “Tax Reform and Tax Administration-Introducing and operating the self-assessment system in Asian countries.” On Day 1, high-level officials from Malaysia, Indonesia, Viet Nam, Cambodia and Lao PDR presented their country reports on the topic of “Tax Reform and the Self-assessment System”, which was followed by discussions. On Day 2, high-level officials from Japan, Thailand, the Philippines and Myanmar gave presentations on their programs to upgrade tax administration followed by discussions. Day 3 was a wrap-up session based on previous two days of discussions in which participants gained common understanding on various important matters in tax administration under the self-assessment system.

Each of the countries has implemented reforms to their tax systems in order to expand their tax base, modernize the tax system and to cope with changes in the world economy. They have made major reforms in their tax administration as well. In particular, the introduction of the self-assessment system and expanding its coverage are major challenges in a number of countries.

In this seminar, participants discussed how the self-assessment system is positioned in their tax systems and their tax administration reform, and exchanged views on ways to upgrade tax administration. Countries which have already introduced the system shared their experiences and provided useful lessons to others which are either studying possible introduction of the system in the future or seeking further improvement in their tax administration.

### **1. The self-assessment system and its status in each country.**

The following information regarding the status of the self-assessment system in each country was obtained from the presentations as well as materials provided.

Malaysia : The self-assessment system was introduced to corporations in 2001 and extended to

cover all taxpayers in 2004. It is applied to income tax only.

- Indonesia: The self-assessment system for individual tax, corporation tax and VAT was introduced in 1983. It covers all taxpayers irrespective of their size.
- Viet Nam: The self-assessment system for VAT and Enterprise Income Tax was introduced in 2004 on a pilot basis. It is currently implemented at nine Provincial Tax Offices and is planned to be expanded nationwide from 2007.
- Cambodia: The self-assessment system was introduced in 1994, and VAT in 1999. It was implemented only in Phnom Penh until 2000, and was extended to 16 provinces in 2003. It is applied to large and medium sized taxpayers.
- Lao PDR: The self-assessment system for large taxpayers was introduced in 1999 at the central level by the Tax Department and extended to Vientiane Capital and six large provinces in 2000.
- Japan: The self-assessment system was introduced in 1947. It was initially applied to income tax, corporation tax and inheritance tax, and later, the system was expanded to cover all national taxes. It covers all types of taxpayers.
- Thailand: The official assessment system for Personal Income Tax was introduced in 1939 and was gradually switched to the self-assessment system in the following decade. The self-assessment system for Corporate Income Tax was introduced in 1939. VAT was introduced in 1992 and adopted the self-assessment system from the start.
- Philippines: The self-assessment system was introduced in 1934. It was applied to individual income tax, corporate income tax, inheritance tax and later expanded to other national internal revenue taxes.
- Myanmar: There is no self-assessment system. Tax is assessed on income of the preceding year through the official-assessment method.

## **2. The current state of countries which are trying to introduce the self-assessment system and their challenges.**

Malaysia expanded the application of the self-assessment system, which was introduced for corporations in 2001, to cover individuals in 2004. The system has the advantage of making tax administration more efficient, but applying it to SME's is a big challenge for the tax authority. The Inland Revenue Board is making efforts to make the system take root by providing public rulings to allow for clearer understanding of tax laws and procedures, improving efficiency of work procedures and processes, developing a new computer system, providing tax education, and upgrading taxpayer service.

Viet Nam started to implement the self-assessment system on a trial basis from 2004 and has gradually expanded its coverage. A comprehensive reform is undergoing covering four main functions of tax administration; (a) taxpayer services, (b) tax return processing and payment, (c) debt collection, and (d) audits. The tax administration is restructuring the organizations based on functions and developing an integrated tax administration information system.

In Cambodia, the self-assessment system (Real Regime) was introduced in 1994 in Phnom Penh capital, but for small enterprises, it is the official assessment system (Estimated Regime) that is being applied. Efforts are being made in (a) facilitating voluntary filing through taxpayer service, (b) promoting bookkeeping practice, (c) improving the environment for SME's, (d) improving audits, (e) enhancing enforcement activities, and (f) human resources development.

In Lao PDR, the self-assessment system is applied to large and medium sized taxpayers, while the contract method (gross profit margin estimation based on turnover) is taken for small taxpayers. The challenges under the self-assessment system include raising the level of expertise in tax administration, dealing with tax evasion, human resources development, and the use of IT.

Myanmar is taking the official assessment system today, but it is studying possible introduction of the self-assessment system. It is also contemplating replacing the existing commercial tax with VAT. Challenges include public relations efforts to taxpayers, computer system, simplification of the tax system, and the use of information.

### **3. Message from countries with considerable experience with the self-assessment system**

Countries with considerable experience with the self- assessment system shared their approaches taken and lessons learned in making the system take root in society.

Japan explained that the self-assessment system was introduced in the country in the extraordinary circumstance after World War II. Thereafter, the National Tax Agency made various efforts to make the system take root, including promoting taxpayers to keep book of accounts and file taxes properly and ensuring compliance through enhanced tax audits. The importance of human resources development was also emphasized.

Thailand discussed its recent developments in its active use of IT as an efficient way of securing tax revenue. Utilizing IT system such as the “data matching system” is effective in making the operations at the Revenue Department more efficient and raising the compliance level of taxpayers.

For the Philippines, raising the level of taxpayer filing and compliance is a major challenge. More efficient filing procedures by utilizing various programs on tax audits, public relations and tax counseling, staff training and use of IT were discussed.

In Indonesia, the self-assessment system was introduced in 1983 together with withholding income tax. The advantage of the self-assessment system is that it makes tax administration more efficient, and thereby allowing the tax authority to focus more on taxpayer service, taxpayer supervision, and on collection operations. The difficulty of the system is that its initial cost is large, and that because of uneven understanding of the system by taxpayers, more disputes would be expected.

#### **4. Discussion points on the self-assessment system**

Following points were discussed related to the significance of the self-assessment system, its implications on tax administration, and challenges in its introduction:

- (1) The self-assessment system is a system under which taxpayers themselves calculate their taxable income and the amount of tax payable. The philosophy behind the system is to have taxpayers voluntarily assessing and paying their taxes to pay for the cost of running society. As such, it is observed that in many cases the introduction of the system does not only entail making changes to the procedures of tax filing and payment, but is treated as one of the central themes in tax administration reform for its conduciveness to a more democratic form of state management. The self-assessment system has also affinity with efficient tax system and tax administration. If more taxpayers voluntarily perform their tax obligations, and the human resources of the tax authority could be allocated to more productive areas, then a more efficient tax administration, and more tax revenues could be expected.
- (2) Countries which had adopted the official assessment system, faced with the expansion of the tax base and an increase in the number of people with tax obligations, have found it difficult

to assess all the returns beforehand. This is believed to be one of the underlying factors behind an increasing number of countries switching to the self-assessment system.

- (3) While there may be a variety of ways to design the processes from filing to payment of tax, it is important for the tax authority to get taxpayers involved so that they will gain accurate knowledge of the tax system and have a higher level of voluntary compliance.
- (4) The challenges in tax administration upon the introduction of the self-assessment system may vary greatly depending upon the scope of taxpayer coverage as well as the types of taxes it is applied to. In particular, dealing with small and medium sized businesses which are not familiar with keeping books of accounts is shown to be a big challenge. Some countries adopt the official assessment method for small and medium sized businesses, such as deemed taxation based on turnover. But as they are induced to migrate to the self-assessment system, certain types of incentives may become necessary to promote bookkeeping practice.
- (5) For sole proprietors, if the comprehensive individual income tax system is adopted, business profits will be declared and taxes paid as part of one's comprehensive income. However, if the self-assessment system is applied to entire individual income tax, it may prove to be a difficult challenge for the tax authority to ensure proper tax filing of their business profits, as many of them do not keep accounting books. To deal with this problem, some countries are taking a practical approach of levying tax on business profits of sole proprietors separate from their other income, or maintaining deemed taxation based on turnover.
- (6) The introduction of the self-assessment system is accompanied by huge changes in the tax procedures for taxpayers as well as the operation of the tax authority. Tax authorities face considerable challenges in areas including reorganization of the structure, improvement of the computer system, and staff training. In addition, it is essential to step up taxpayer services and public relations efforts to promote voluntary tax filing by taxpayers.
- (7) Under the self-assessment system, tax amounts payable are initially determined upon filing by taxpayers. As such, strengthening ex-post tax audits become important in order to correct errors on the part of the taxpayer. Many countries presented various programs such as allocating more people in the area of ex-post audits, building a database system to support information required in audits, devising a selection system of audit targets, establishing an audit unit responding to different types of taxpayers, and providing incentives and training to tax officers.

Countries also presented various enforcement programs to maintain compliance, as it is important that tax authorities be equipped with strict enforcement measures with higher penalties including criminal penalty than regular audits in order to deal with malicious taxpayers engaging in tax evasion.

- (8) When the self-assessment system is adopted in the implementation of VAT, there are major issues including to what extent operation of VAT and direct taxes should be integrated under the self-assessment system, and what method of input tax credit (official invoice or book-keeping method, etc) should be applied.
- (9) In order to have taxpayers, businesses in particular, perform their tax filing and payment obligations properly, the role of tax experts to keep books of accounts, calculate tax liabilities, and prepare tax documents becomes important. There are many countries which are trying to develop a legislative framework to stipulate the role of such experts, their qualification and obligation.

## **5. Discussions on related issues**

As a derivative from the discussions on the self-assessment system, following issues were discussed and countries shared their responses and experiences.

- (1) Taxpayer service  
Discussion on the meaning of taxpayer service, how the organization should be restructured, and ways to utilize IT.
- (2) Tax accountants/agents  
Discussion on penalties and other action in cases where tax accountants assist tax evasion.
- (3) Capturing those with tax obligations  
Discussion on registration of people engaged in business, ways to capture them, dealing with underground economy, measures against corporations which liquidate before fulfilling their tax obligations.
- (4) Tax collection  
Discussion on measures to improve the rate of timely tax payment, authority and method of

forcible collection.

(5) IT

Discussion on the use of IT to improve taxpayer service, to ensure compliance and to have higher efficiency in tax administration.

## 6. Future ADBI Tax Administration Seminars

The previous ADBI Tax Administration Seminars are as shown below.

	Topics	Date	Place
Course I	"Tax Administration, Taxpayers Service, Tax Audit, VAT and Staff Training"	5-8 October 2004	Tokyo, Japan
Course II	"Enhancing the Integrity of the Tax Service and Countering Tax Evasion"	13-15 September 2005	Kuala Lumpur, Malaysia

In this ADBI Tax Administration Seminar III, there was useful exchange of views on the challenges faced by each country with regard to the self-assessment system.

At the 11<sup>th</sup> ASEAN Summit held in December of 2005, under the theme of "One Vision, One Identity, One Community" the need for stronger coordination between countries was stressed. It is recognized that there is also a need to strengthen linkage within the Asian region in the area of tax administration, and to respond to socio-economic changes. Participants expressed support that future ADBI Tax Administration Seminars will continue to take up relevant themes in tax administration modernization.