

ATA

40th Annual Technical Conference 2019

Drivers and Impacts of Shadow Economy:

The Malaysian Experience

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12th November 2019

- Introduction
- Drivers of Shadow Economy
- Impacts of Shadow Economy
- Conclusion

□ Introduction

Huge tax losses due to shadow economy
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Shadow economy eating into tax revenue

➤ It accounts for 21% of GDP, says Guan Eng

■ BY RAJVINDER SINGH
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KUALA LUMPUR: There is a huge shortfall in the country's tax revenue thanks to the shadow economy that now accounts for an estimated 21% of the gross domestic product.

Finance Minister Lim Guan Eng said this loss was most obvious on the streets of Kuala Lumpur where foreigners, instead of locals, were the ones who were conducting all the business.

"They may have a deal with a local to use his business licence and they are not paying taxes. If we can ensure that they pay taxes, it

will be a big boost to the national coffers," Lim said after opening the National Taxation Seminar 2019 organised by the Inland Revenue Board (IRB) yesterday.

He said the IRB would be asked to intensify its enforcement activities. "This may help broaden our tax base if these people can be included in our taxation system," Lim added.

He said that while such business activities were not allowed under the law, those involved should pay taxes, too.

For instance, he said, those who gained from the 1Malaysia Development Bhd scandal had a duty to pay taxes, and it was up to the court to decide what they did was right

or wrong.

"We aim to collect taxes from those involved in the shadow economy.

"If we can find ways to ensure this group is taxed, it will be an important base for the government because the tax revenue will go up," he said.

Lim said the introduction of the Tax Identification Number for those above 18 in 2021 was one way of tackling this issue but whether there was a need for a new law depended on recommendations from the IRB.

On whether any minister fell under the taxable income bracket of 30%, Lim said all of them had declared their income. "If they fail to do so, they can be charged under existing laws," he said.

He added ministers were not allowed to engage in business.

Shadow Economy
 estimated at
 USD72.76 billion
 (21%) of Malaysian
 GDP

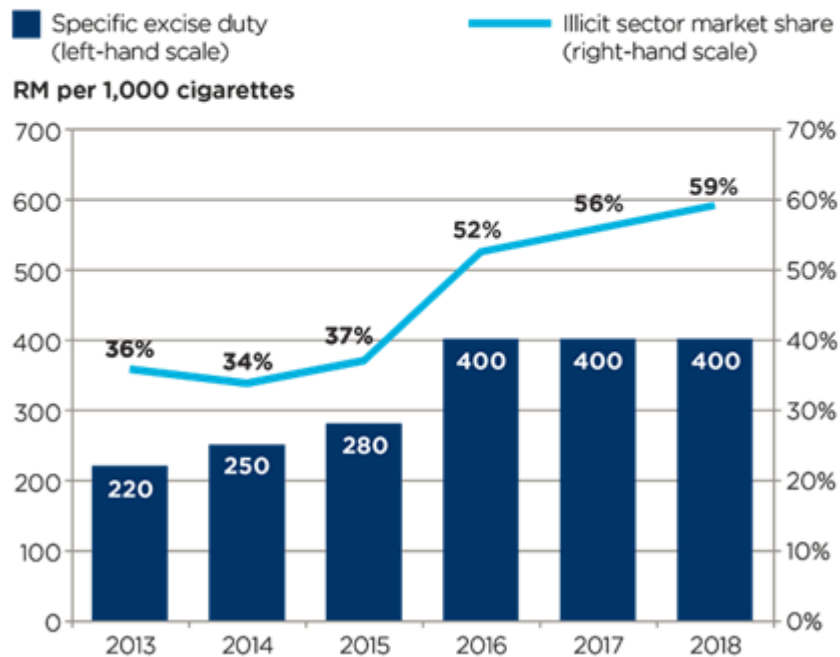
☐ Drivers of Shadow Economy

- Tax Burden and Tax Policy
- Enforcement
- Corruption
- Cash Economy and the Organised Crimes

☐ Tax Burden and Tax Policy

An increase in the illicit share of the cigarette market coincided with increased excise tax rates

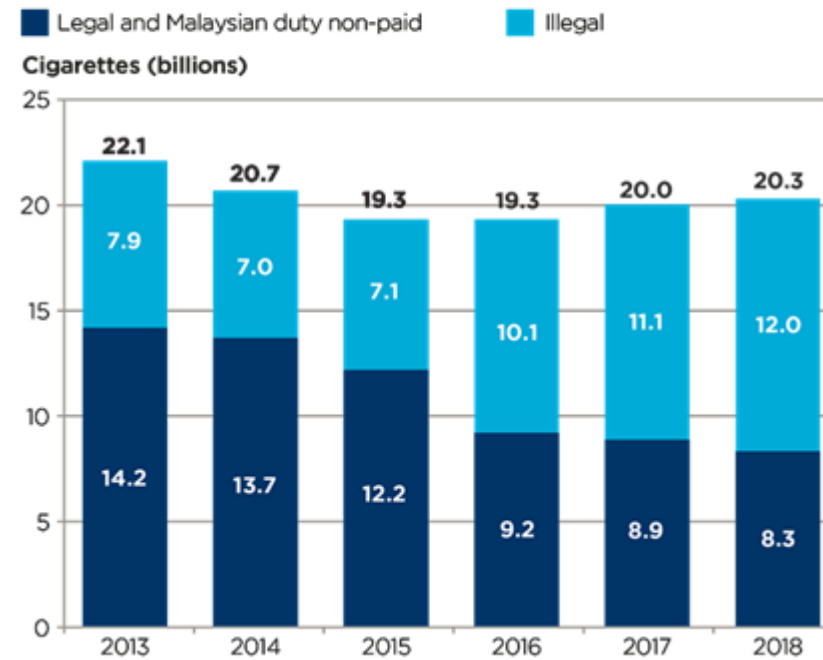
Excise duties and the illicit tobacco trade in Malaysia, 2013-2018



Source: Nielsen; Oxford Economics

The volume of excise-evading cigarettes has increased, but total consumption has not fallen

Cigarette consumption in Malaysia by source, 2013-2018



Source: Industry data

☐ Enforcement

Bank Negara raids eight illegal money services business firms in KL

BUSINESS, BUSINESS NEWS, FOREX

Thursday, 14 Feb 2019

5:30 AM MYT



Immigration Dept busts human trafficking syndicate in KL

NATION

Friday, 03 May 2019

12:11 PM MYT



HOME / MALAYSIA

Cops continue war on illegal gambling, 14,759 arrested since January

Monday, 24 Jun 2019 08:14 PM MYT

HOME / MALAYSIA

Customs, police seize millions of Eramin 5 pills worth RM60m in Port Klang raid

Friday, 08 Feb 2019 06:01 PM MYT

Asia

Malaysia authorities seal off 3 illegal factories in Pasir Gudang

Immigration nabs 130 illegal immigrants in raids in Kajang, Puchong

NATION

Saturday, 15 Jun 2019

9:33 AM MYT

Corruption

Datuk among 16 custom officers nabbed in MACC's widening probe on unpaid excise duties

NATION

Saturday, 20 Sep 2014
 12:00 AM MYT
 By M. KUMAR



RM114.5 mil seizure in Sabah corruption case biggest in MACC history

Bernama | October 05, 2016 20:49 MYT



The seizure was made following the arrests of the civil servants, a director and a deputy director of a government agency, yesterday. - Sabah MACC

KOTA KINABALU: The seizure of RM114.5 million in a case of abuse of power involving infrastructure projects valued at RM3.3 billion associated with two civil servants in Sabah is the biggest in the history of the Malaysian Anti-Corruption Commission, it was stated here today.

MACC deputy chief commissioner (operations) Datuk Azam Baki said the seizure was made following the arrests of the civil servants - a director and a deputy director of a government agency - yesterday.

MACC freezes 375 accounts worth over RM560mil with links to illegal logging in Sarawak

NATION

Tuesday, 12 May 2015
 7:25 PM MYT
 By SHARON LING



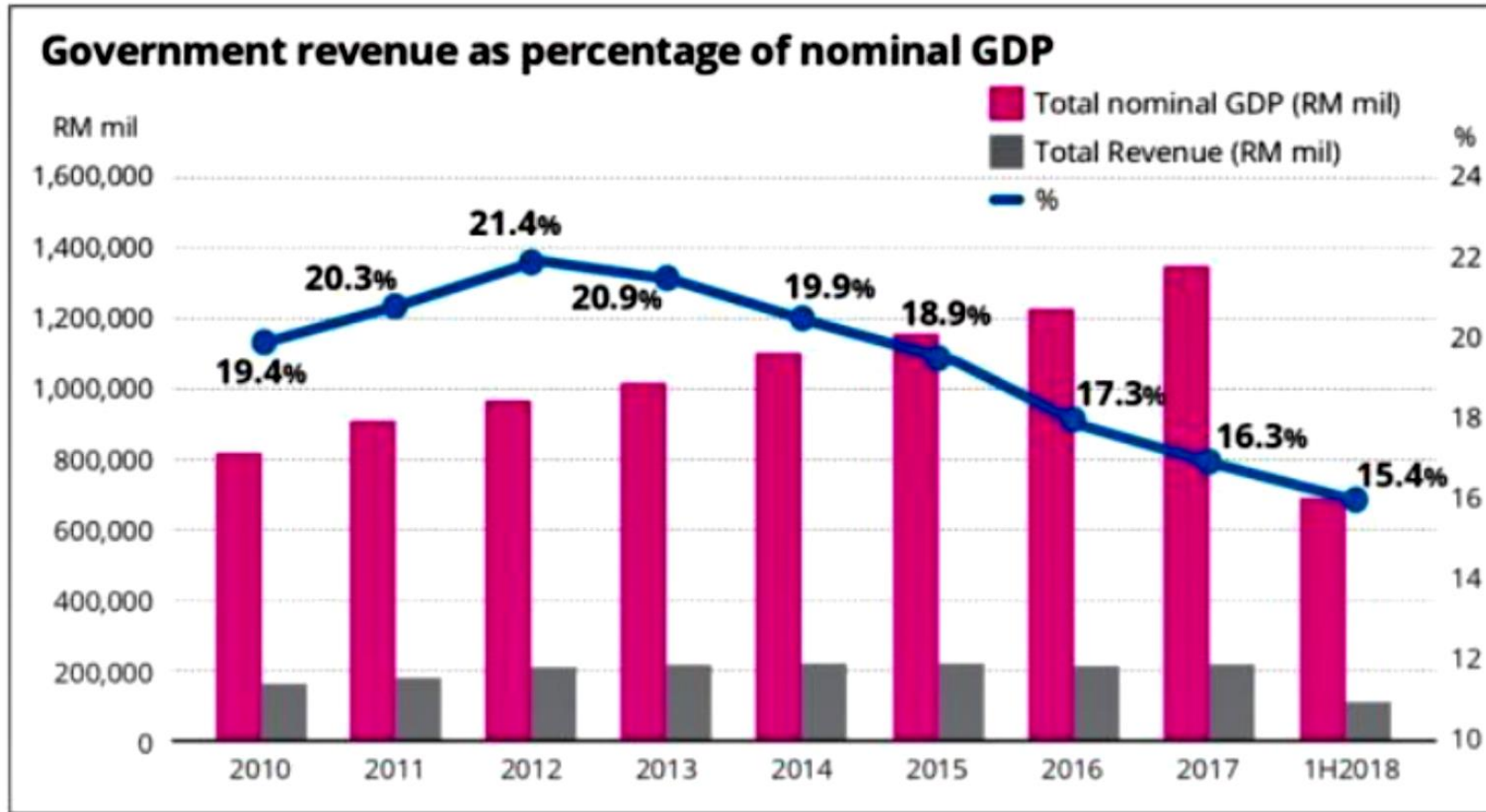
❑ Cash Economy and the Organised Crimes



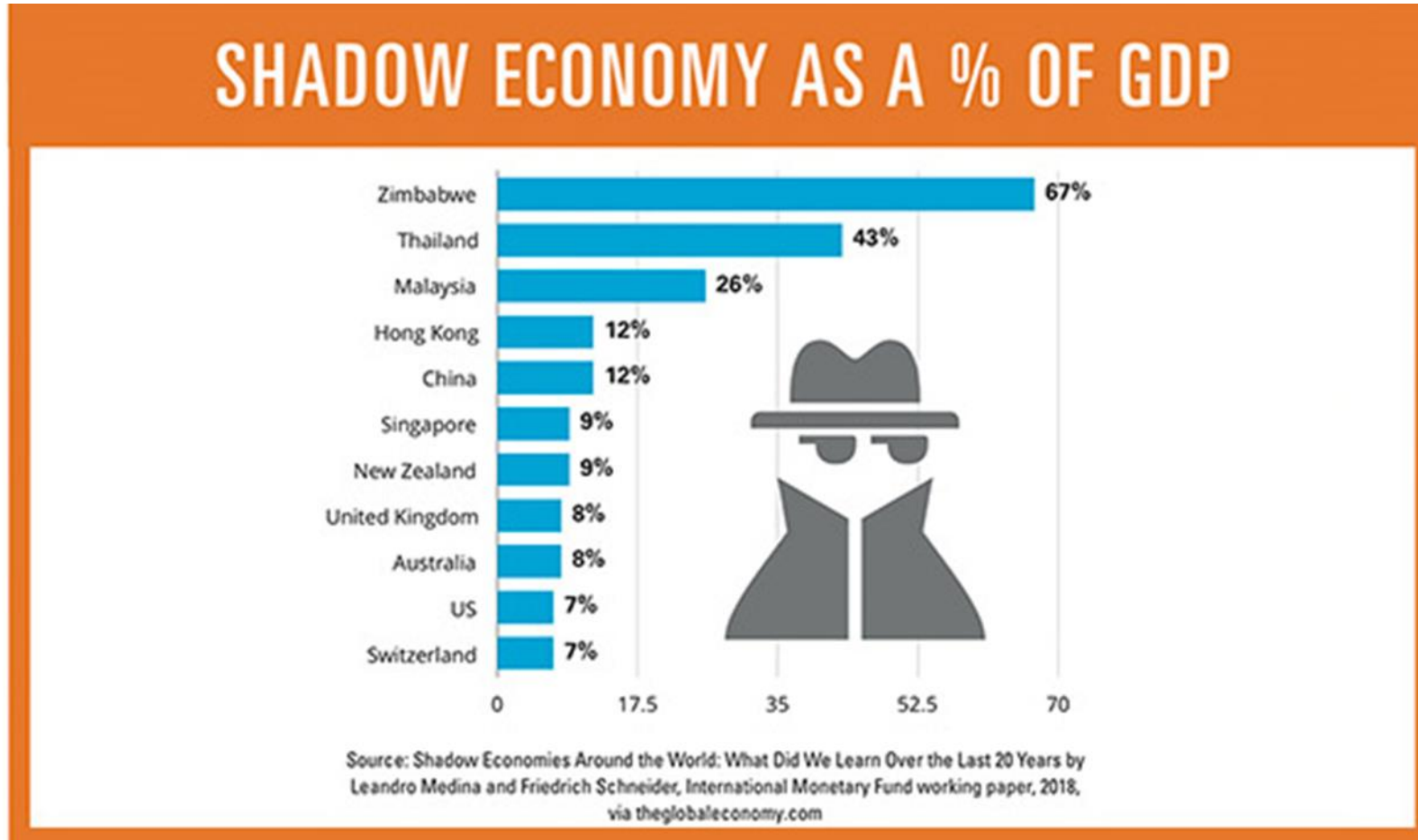
☐ Impacts of Shadow Economy

- Widening Tax Gap
- Distortion in Country GDP
- Disruption of Formal Economy
- Negative Impact to Society

❑ Widening Tax Gap



❑ Distortion in Country GDP



❑ Disruption of Formal Economy

A TYPICAL MONEY LAUNDERING SCHEME



❑ Negative Impact to Society

Second largest tobacco firm in Malaysia may cut 40% of workers

CORPORATE NEWS

Monday, 16 Sep 2019

By ROYCE TAN



O' Rourke: We have entered into consultation process on the matter. As this process is ongoing, we are not yet in a position to comment on or confirm what the potential changes may be here, but will provide further clarity in due course.

BERITA | MALAYSIA

Logging still rampant in Gua Musang

Bernama | March 14, 2015 14:02 MYT



Logging is said to have aggravated the flood situation in Kelantan situation further -BERNAMApic

KUALA LUMPUR: While the heavy rainfall in Kelantan between Dec 22 and 24, 2014 was enough to inundate the state, other factors such as logging is said to have aggravated the situation further.

The expanse of land that have been cleared is evident when viewed from land, water or above.

The writers upon arriving in Gua Musang and Kuala Krai witnessed timber lorries on the public road at all hours, putting the lives of motorists in danger.

□ Conclusion

It is vital that tax administrators understand the drivers and appreciate the impacts of shadow economy in order to formulate better and effective strategies, policies and plans.

In the domain of cops
and robbers, an
interdiction serves to
structure a black market
and a shadow economy.

William Irwin Thompson

THANK YOU