



# FINANCIAL LITERACY FOR YOUTHS



Comprehensive Breakdown of “Income Tax”





“INCOME TAX?!? OH NO!” this is the common reaction amongst working-adults in Malaysia today when the topic arises. Contrary to popular belief, the dreaded ‘income tax’ is not all that bad when you get to know the gist of its structure, which will assist you in lowering your tax liability and taking advantage of deductions and rebates.

Firstly, what exactly is the “Income Tax”? “Income Tax” is a portion of funds extracted from the personal financial income generated by all individual citizens within a specific jurisdiction by the government. It is done for the purpose of economic development and expansion. In Malaysia, costs of living are progressively increasing year-on-year, such as food prices, transportations, household, etc. For instance, transportation costs was recorded to have increased by 11.7% between FY2016 and FY2017. In other words, think of ‘income tax’ as just another form of expenditure, which has to be paid by every individual.

### **Tax Brackets**

First and foremost, the first thing you have to recognize is that income tax is a type of progressive tax, which means the more you earn, the higher the percentage of your income that is taxed. This is done by having tax brackets of chargeable income. Taxpayers will first identify their current tax bracket level based on their chargeable income, and then pay in order of the lowest rate of tax on the first level, a higher rate on the next level and so on until they have reached their respective tax brackets.



Year of Assessment 2018	
Chargeable Income	Income Tax Rate (%)
RM 0-RM 5,000	0.0
RM 5,000-RM 10,000	1.0
RM 10,000-RM 20,000	1.0
RM 20,000-RM 35,000	3.0
RM 35,000-RM 50,000	8.0
RM 50,000-RM 70,000	14.0
RM 70,000-RM 100,000	21.0
RM 100,000-RM 150,000	24.0
RM 150,000-RM 250,000	24.0
RM 250,000-RM 400,000	24.5
RM 400,000-RM 600,000	25.0
RM 600,000-RM 1,000,000	26.0
Exceeding RM1,000,000	28.0

Source: (<https://www.3ecpa.com.my/resources/malaysia-taxation/individual-income-tax/malaysia-personal-income-tax-rate/>)

A simple example would be having chargeable income of RM21000. Your tax liability will then amount to RM 430.

RM 5000	* 0%	= RM 0
RM 5000	* 1%	= RM 50
RM 10000	* 3%	= RM 300
RM 1000	* 8%	= RM 80
<u>RM 21000</u>		<u>RM 430</u>

### Chargeable Income

In order to identify which tax bracket you belong to, you will first need to determine your chargeable income. Chargeable income is the income which the tax percentage is applied to, which is derived from:

$$\text{Chargeable Income} = \text{Net Income} - \text{Tax Exemptions} - \text{Tax Reliefs} - \text{Tax Deductions}$$

Here is where tax planning comes into the picture. The good thing about the tax system is that there are many ways which the government allows you to reduce your taxes, such as tax exemptions, tax reliefs, tax deductions and so on. Hence, planning and filing your taxes properly can reduce your tax liabilities to a minimum, lightening your financial burden and improving your consuming power.

Net income is all the income you obtain during a particular tax period. It can come from a variety of sources such as business, employment, dividends, rent, pensions, etc. Fortunately, not all kinds of income are taxable, where some sources of income are exempted (Tax Exemption). Some forms of tax exemption include medical benefits from employers, scholarships and interest from a bank or a finance company licensed.

Tax reliefs and tax deductions are similar in how they reduce chargeable income. Tax deductions in Malaysia focus on deducting a percentage of your aggregate income after you have donated or gifted to an approved charitable organization. Tax reliefs, on the other hand, ranges from insurance policies, medical expenses to purchases of electronic devices, printed publications, as well as child reliefs. Tax relief policies may differ every year, so remember to update yourself on them to get the most out of them.

### **Tax Rebates & MTDs**

Even after the various deductions on your income subjected to taxing, the tax you have calculated using the tables may not be your final figure due to tax rebates and Monthly Tax Deductions (MTD).

The difference between tax rebates and the previous tax relief is tax rebates reduces the tax liability itself, while the tax relief reduces chargeable income. MTDs, on the other hand, are deductions already made by employers on your monthly pay check. This is done so taxes can be collected by governments more effectively, lessening the risk of loss in tax revenue for the government. The MTDs will often result in you overpaying your tax liabilities, but fret not, because the overpaid tax will be repaid in the form of tax returns credited directly into the bank account you

provide to relevant tax authorities within 30 days, failing which 2% compensation will be given.

### **Filing your income taxes**

Next on the agenda would be actually paying your taxes. How would the authorities actually know how much tax you owe them? The first method would be declaring your income by submitting your income tax return forms. This can be done through the traditional method of printing out the form and filling it up manually or the more convenient method of e-filing through the relevant online portal. Both methods are perfectly viable options, but e-filing would generally be a more convenient and efficient way to file your taxes.

As mentioned earlier, employers have to compute monthly MTDs based on the information you have provided to your employers. This gives tax authorities an estimated figure about your chargeable income to roughly gauge how much tax you should pay. In Malaysia, starting from Year of Assessment 2014, if the MTDs represent your final tax figure, you need not file further income tax returns if you fulfil certain criteria such as being employed under the employer for at least 12 months.

With the advancement of technology, paying taxes has never been easier as there are now numerous payment options to choose from depending on the situation or your personal preference. The options would be:

- 1) Over-the-counter payment (at bank branches/ post office)
- 2) Online
- 3) ATM
- 4) Tele-banking
- 5) Credit Card
- 6) Bank Draft

## 7) Telegraphic Transfer/ Transfer Interbank Giro/ Electronic Transfer Fund

All options need to be paid at branches that are approved by local authorities. Option 6 and 7 in particular allow taxpayers to pay their taxes even when they are overseas, proving that you can pay your taxes at any time and place.

### **Tax Penalties**

Besides planning to get as much deductions and reliefs in tax as possible, you should also plan ahead in order to make sure you have enough funds to pay income taxes on time. In Malaysia, the deadline to pay your income tax is April 30 following the year of assessment.

An example of a penalty you might face is failing to pay the tax liability by the deadline of April 30. You will incur a late payment penalty of 10% of unpaid tax. In addition to that, if you still are unable to meet the amount owed plus the penalty 60 days after the deadline, an additional 5% will be charged on the amount owed. The penalty ends up being an unnecessary expense, leaving you with even less to make ends meet. Take note there are many more penalties for other tax offences such as wilfully and with intent to evade or assist any other person to evade tax, making an incorrect tax return by omitting or understating any income, failing to comply with an order to keep proper records and documentation, etc.

### **Conclusion**

Now that you're equipped with a better understanding toward the income tax system, we hope you no longer feel dread when someone mentions income tax. Perhaps you may even begin viewing tax in a new light, where tax is actually essential for the growth of our macro economy as a whole, leading to a more sustainable and prosperous nation. The next step is for you to do your part in your personal wealth management with proper tax planning. Tax policies change every year and it is your sole responsibility to do your due diligence on the changes, as well as to pay your taxes on time to avoid tax penalties and charges!

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