

Introduction

The duty of compliance with direct tax legislation now lies with taxpayers. The Inland Revenue's focus has changed to enforcing compliance with direct tax legislation. This means them going out to carry out field audit on taxpayers.

The objective of field audit is to check for compliance with the relevant direct tax legislation. This involves checking that provisions of the respective direct tax legislation in relation to recording, accounting and custody of documents are properly kept in accordance with the respective direct tax legislation.

In particular the tax officers will be looking at substantiation of all your income and expenditure and that there is proper recording and documentation of all items, events and transactions. The objective is to ensure compliance and this inevitably includes but not limited to ensuring that the proper tax due to the government under the law is collected.

Tax is governed by the law and substantiation can only be achieved with evidence. Evidence is documentation. You need to record and document your every item, transaction and event as evidence in support of your income and expenditure.

As such this checklist is to assess your risk exposure in relation to compliance with direct tax legislation. If you answer 'yes' to any question you are at risk of non-compliance. The consequence of non-compliance is a penalty of forty-five (45) to one hundred (100) (*) per centum of tax understated.

Note (): 100% penalty will be imposed for repeated offence after letter of "Deliberate Tax Defaulter" has been issued to taxpayer.*

This checklist is not exhaustive.

Kindly revert to us if there is any area of doubts or in respect of any item, transaction or event.

Field audit by the income tax covers :

- Employee taxation – Monthly Tax Deductions
Benefits-in-Kind
- Business and personal income tax
- Incentives
- Real Property Gains Tax



Instruction : Please complete the following questions by indicating a '✓' in the relevant column.

Tax Audit Review Checklist				
No.	Subject matter	Yes	No	N/A
1	Do you employ staff, including directors and/ make payments to individuals? <i>Are payments (emoluments) made without contract of employment and/or service agreements or engagements</i>			
2	Would you have difficulty to explain and provide answers to tax officers about your supply and value chain, your documentation system and your business model and processes? <i>You must have a key-person or yourself who is able to communicate and explain effectively and offer explanation where discrepancies or inconsistency arises.</i>			
3	Are you dependent on others for the accounting of every item, transaction and event?			
4	Will there be a possibility of your bookkeeper and accountant failing you?			
5	Could your internal control fail you? <i>If you do not have an internal control system you are at risk.</i>			
6	Are some of your transactions in cash? <i>(e.g. payment to suppliers by cash, cash sales, receipt from debtors by cash, etc.)</i>			
7	Do you have year-end adjustments?			
8	Is some of your documentation not pre-numbered?			
9	Would you have difficulty in capturing all data, filing and retrieving them when needed?			
10	Do you issue debit notes and credit notes?			
11	Do you have directors account?			
12	Do the directors or any third parties make payment of expenses on behalf of the company and claim later?			
13	Do you (the directors and shareholders) enjoy personal benefits in the performance of company's duties or provided with personal benefits?			
14	Do you use company funds to pay for private expenditure?			
15	Do you have interested party and or related party transactions? <i>The law requires you to prepare contemporaneous transfer pricing documents in support of all interested party and or related party transactions.</i>			
16	Do you use estimation and provisions in your accounting?			
17	Do you have accruals?			
18	Is there a possibility that your suppliers and buyers may be fictitious?			
19	Do you have long outstanding creditors balance (>12 months)?			
20	Do you have inactive (non-moving) receivables or payables?			

Tax Audit Review Checklist				
No.	Subject matter	Yes	No	N/A
21	Do you have capital transactions?			
22	Do you make any payments to non-residents? <i>(e.g. commissions, credit interest, royalties, technical fees, rental of moveable property)</i>			
23	Do your inventory records vary from physical balance? <i>If you do not have inventory records, you are at risk.</i>			
24	Do you keep duplicate accounting records? <i>(e.g. inventory records)</i>			
25	Is your basis of inventory valuation different from your internal costing?			
26	Do you write down the inventory value to market value (net realizable value [NRV])?			
27	If the answer to item 26 is yes, is the subsequent selling price of any single item higher than NRV?			
28	Do you have any withdrawal of inventory for own use?			

Details of Company		
Name of company	:	
Financial year end	:	
Name and designation of person completing the checklist	:	
Date	:	



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