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Tax Expenditure Analysis and Reporting: An analysis of selected SME Tax Programs in Malaysia

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Abstract: This paper analyses the SME tax expenditures that enjoyed by small and medium Enterprises (SMEs) in Malaysia. The analysis is based on undisclosed data of corporate tax returns (Form C) from Inland Revenue Board of Malaysia (IRBM). Tax expenditure in this paper is a descriptive analysis and a preliminary study on preferential tax rate, and various tax programs (VTP) that consist of tax incentives, tax allowances, tax deductions and tax exemptions enjoyed by SMEs. The data analysis period is from 2001-2015 and SME follows the definition of Income Tax Act (ITA) 1967 that refers to small and medium corporations. The finding of this paper is tax expenditure spent on SMEs contributed significantly to revenue loss especially from VTP. VTP are tax programs that need further vigorous analysis. The main argument is tax policy that giving some preferences to certain individuals, taxpayers, or sectors, have potential risks of ineffectiveness, inefficiency, and inequity. These will further give effect to unproductive tax expenditure, leakage of revenue, tax evasion and many more. There are many limitations of this paper as comprehensive tax expenditure analysis needs the benchmark base of tax expenditures, reliable method of estimation, and consist of all types of tax expenditures and taxpayers. But this paper is a preliminary introduction of the importance of tax expenditure reports in Malaysia. It is suggested that the government to adopt the practice of tax expenditure reporting in Malaysia for strengthening government finance and contribute significantly to fiscal transparency. Furthermore, tax policy especially tax incentives need to be evaluated and monitored regularly due to risks of unproductive tax expenditure, revenue leakage from tax evasion.

Keywords: Small and Medium Enterprises (SMEs), and Tax Expenditure Reporting.

1. INTRODUCTION

The phenomenon of government budget deficit and debt is a common nowadays in many countries including Malaysia. In Malaysia, current budget deficit for 2017 stands about 3.0% (MOF, Malaysia Annual Budget 2017). It is alarming and measures have been taken by the government to reduce the budget deficit. There

are many perspectives that one can explain on how to reduce the budget deficit. Familiar and frequent measures are to increase revenue, introducing new tax, reducing spending and many more. But, one perspective that not included in the measure and Malaysia still yet to implement is controlling the tax expenditure. This is also a reason as to why many governments find the difficulty in controlling the budget, because a major component of spending, tax expenditure, receives privileged status; tax expenditure is treated as tax cuts rather than spending (Burman and Phaup, 2012)

In many countries, tax systems include provisions that have nothing to do with the basic functions of raising revenue and redistributing income in a neutral manner. These provisions, widely called tax expenditures, provide direct allowance or tax cut to encourage certain behaviours or to provide tax relief to those deemed entitled to it (Poterba, 2011).Tax expenditures are reductions in a taxpayer's tax liability that are the result of special exemptions and exclusions from taxation, deduction, credits, deferrals of tax liability or preferential tax rates (Surrey and McDaniel, 1985). If tax expenditure that consists of all those reductions in taxpayer's liability is well designed and implemented, it can provide incentives for taxpayers to engage in particular activities, locations or adjust for their ability to pay taxes. In fact, in many countries that implemented this program, the cost of the expenditure is substantial, *i.e.* in America, an estimated of more than US$1 trillion in revenue was forgone every year (GAO report). There are many types of tax expenditures that affect every type of tax payers. One of the tax expenditure is tax programs to SMEs.

The importance of SMEs in most countries is, it represents more than 95% of all firms (OECD, 2015). SMEs account for a large proportion of total employment and contribute significantly to national and global economic growth (OECD, 2015). In general, the importance of SMEs from previous literature can be explained by the term used such as economic backbone, strong domestic economy, engines for job creation, key to poverty alleviation, and many more. Due to these postulations and the number of SME establishments in a country, many policy makers opine that by promoting growth in SMEs, it will help a country to accelerate growth, reduce unemployment rate and poverty and to support other government's social and economic objectives. Thus, promoting growth in SMEs is one of the most important research topics studied in finance literature.

As for Malaysia, tax expenditure reporting is not a policy and therefore, data on tax spending programs are not publicly available as to compare with government yearly budget that is tabled in the parliament every year. In a growing attention of SMEs to be a backbone for economic growth and achieving a developed country, the government has targeted by 2020 SMEs to contribute 41% of Malaysia total GDP, 62% of total employment and 25% of export of the country (National SME Development Council, 2015). To achieve those targets, a few tax programs have been implemented and in this circumstance, there are not much information have been published on how much the government has spent and revenue forgone that is the concern of this paper.

As far as the concern of promoting SMEs is important, there are issues that need to be cautions, tax expenditures need to be evaluated. Tax expenditures that uncontrolled and evaluated can create distortions, complexities and risks of revenue lost and unproductive expenditure. Tax expenditures, like all federal program spending, can reduce the amount of funds available for other federal activities, increase the budget deficit, or reduce budget surpluses. Even if a country practices good taxation system and spending programs, their hidden nature has made tax expenditures irresistible to policy makers: many political or policy goals can be achieved through stealthy spending programs that are framed as tax cuts. Against this

backdrop, many developed countries practice tax expenditure report and analysis to ensure efficient and effective allocation of government resources and enhance government transparency (Burman and Phaup, 2012; Stanley S.Surrey, 1970).

Thus, this paper is a preliminary study that the main objective of this paper is to analyse and report the tax spending programs spent for SMEs in Malaysia for the period of 2001-2015. This paper also tries to measure revenue forgone from the tax spending programs and the number of SMEs have enjoyed the tax programs to compare with total SMEs. From this analysis, it is hoped that this paper will shed out some light on the tax expenditure for SMEs in Malaysia. Therefore, the structure of this paper comprises of five sections. Section two is meant for the literature review on the background of tax expenditure and SMEs tax programs in Malaysia. The method of analysis is outlined along with a description of the data in section three. The result and discussion from the tax expenditure analysis are presented in sections four and the paper ends with a conclusion in section 5.

2. REVIEW OF LITERATURE

2.1. Overview of Tax Expenditure Analysis

Tax expenditure is a common practice in most of developed countries. The term of "tax expenditure" is still unfamiliar in Malaysia but it is common in many developed countries. Since the US pioneered the publication of tax expenditure report in 1968, many developed countries have followed the same practice. The history of tax expenditure is attributed to Stanley S. Surrey who, was an Assistant Secretary of the US Treasury for Tax Policy, instructed his staff to compile a list of preferences and concessions in the income tax that had the nature of expenditure programs. His goal was straightforward: to draw attention to these items in hopes of building momentum for tax reform, which would redirect the tax system toward its core function of raising revenues (Surrey, 1970).

The concept of tax expenditure can be explained by Surrey and McDaniel, (1985) in their 1985 treatise on the subject:

> The tax expenditure concept posits that an income tax is composed of two distinct elements. The first element consists of structural provisions necessary to implement a normal income tax, such as the definition of net income, the specification of accounting rules, the determination of the entities subject to tax, the determination of the rate schedule and exemption levels, and the application of the tax to international transactions. The second element consists of the special preferences found in every income tax. These provisions, often called tax incentives or tax subsidies, are departures from the normal tax structure and are designed to favour a particular industry, activity, or class or persons. They take many forms, such as permanent exclusions from income, deductions, deferrals of tax liabilities, credits against tax, or special rates. Whatever their form, these departures from the normative tax structure represent government spending for favoured activities or groups, effected through the tax system rather than through direct grants, loans, or other forms of government assistance. (p. 3)./

Seven years after Treasury first published a list of tax expenditures in 1967, the Congressional Budget Act of 1974 required the Administration to publish a list of tax expenditures as part of its annual budget submission. The concept also gained widespread acceptance outside of the United States. Both Canada and the United Kingdom started publishing lists of tax expenditures in the late 1970s, and many other

OECD countries had either adopted formal tax expenditure budgets or conducted preliminary studies by 1985. (Surrey and McDaniel, 1985).

The use of tax expenditure to achieve particular goals, for an example SMEs growth, is not the only option. The other option is to use direct spending. While direct spending involves disbursement of cash, tax expenditures involves a reduction of tax revenue. Due to that the term direct spending is assistance from the government which is tabled in the yearly budget and approved by the parliament. This is different than tax expenditure that in the case of Malaysia, the exact amount spent is not reported in the parliament.

2.1.1. The Benchmark Tax Base

The benchmark base is one of the key feature in determining tax expenditure analysis. Swift *et al.*, (2004) explains that tax base and tax norm are defined differently in many countries that have adopted tax expenditure reporting practice. Therefore. the issue of defining benchmark tax base has been the centre of consideration in estimating tax expenditures report, since the concept of tax expenditures become known in the late 1960s. The definition of tax benchmark is important in identifying the features in the tax law that will lead to over- or under-taxation, compared to the tax that would follow with application of the benchmark (Surrey, 1976).

Under the tax expenditure concept, there are two important elements, which are:

1. the structural provisions which are the primary rules that exist within a normal income tax system; and
2. special preference provisions are the deviation from structural provisions.

In these circumstances, each country has its own unique tax system, and hence, any provisions deviate from structural provisions are considered tax expenditures. Other name to tax expenditures are tax incentives, tax subsidies that can be in form of exempted income (full or part), deductions, deferral of tax liabilities, tax credits, rebates or preferential tax rate (Surrey, 1970).

From those two provisions, Surrey and McDaniel (1985) distinguish between the benchmark element (structural) and the tax expenditure elements (special preference). In this benchmarking analysis, six components of the benchmark are:

1. the tax base (definition of net income);
2. the tax rates;
3. the taxable unit;
4. the taxable period;
5. the application of the international transactions; and
6. tax administration.

These six elements in benchmarking are important but very complicated and due to that it is always an issue in tax expenditures analysis. Similar concept but with country example analysis and challenges for tax expenditure analysis are reported by the World Bank (Swift *et al.*, 2004).

2.1.2. Method of Estimation

As the issue of the benchmark tax base draw a lot of discussions, the same situation happens for choosing the right method of estimation. There are three methods available in the literature:

(i) *Revenue forgone method (RFM):* This is the most common method and majority of OECD countries use this method in estimating tax expenditures report (Swift *et al.*, 2004). Additionally, RFM is the most reliable in estimating the level of tax expenditure that the tax system provides to taxpayers (The Australian Government The Treasury, 2017). The principle of this method is, it measures the estimated reduction in the tax revenue that resulted from the introduction of a tax expenditure, with other factors remain unchanged (Surrey and Hellmouth, 1969). The argument by Surrey is that even though the revenue forgone method does not take consideration behaviour change from taxpayers, the same method of estimation has been used for preparation of revenue gain or loss when change of tax law is proposed[1]. Other definition that seems easy to understand is tax expenditures calculated by the revenue forgone approach show tax expenditures as the difference in tax paid by taxpayers who receive a particular concession relative to similar taxpayers who do not receive that concession (Swift *et al.*, 2004).

(ii) *Revenue gain method:* This method is prepared if the government tax expenditure is repealed, the additional revenue gain will be collected is measured. The idea is, it seems this method tries to compliment the weaknesses of revenue forgone method, but in fact this method becomes more complicated. It takes taxpayers' behavioural change to estimation the tax expenditures. Therefore, it is more difficult to measure tax expenditure by revenue gain method as it requires more data, and time in calculating behavioural change, and this could contribute the estimation of tax expenditures arguable.

(iii) *Outlay equivalent method:* The third method is outlay equivalent, where revenue forgone estimates are used to generate an estimate of what it would cost to generate the same effect if the tax expenditure were a spending program (The Australian Government The Treasury, 2017). Often, direct expenditures are taxable, but tax expenditures are not. Therefore, a tax expenditure will have a larger effect than direct spending of the same size.

From these brief reviews, generally, the revenue gain method produces a smaller tax expenditure than revenue forgone. This is due to the good or service becoming more expensive and taxpayers purchasing less of it. It would be expected that outlay equivalent method would often give larger estimates than the other two methods. For the practical perspective, revenue forgone method is the most adopted method among countries that produced tax expenditure reports (Swift *et al.*, 2004; Kraan, 2004).

2.2. The Importance of Tax Expenditure Reports

Most budget experts view the tax expenditure budget as a useful tool in managing the size and scope of the government budget. Tax expenditure is important in a budget planning of a country because tax expenditure will give effect to how much revenue will be collected due to it reduces taxpayer's tax liability. When revenue collected is affected by tax expenditure, it will also effect on how much the government can spend (Burman, 2003). As such, the tax expenditure report is an important tool to improve efficiency in the government resource allocation and fiscal policy. Accordingly, the continuation of this practice will give government better control over its spending be it direct spending or indirect spending (tax expenditure).

There are three motivating factors for Surrey (1976) to ratify the idea of the tax expenditure. First factor is to promote tax fairness. The earliest theory of taxation is everyone must be taxed based on their ability to pay; but tax expenditures provide incentives only to certain groups or activities, and thus affect tax fairness. Moreover, due to a lack of evaluations, some tax expenditures will provide most benefits to the higher bracket taxpayers, who obviously are not the needy group.

The second factor is to enhance transparency. While direct spending programs are tabled in the parliament for approval; it subjected to detailed scrutiny and debate. Whereas, tax incentives or other preferential tax programs, though are alternatives to direct spending, are implemented without the necessity of going through the same process. In addition, since the provisions of tax incentives are embedded as part of tax law, the public are not aware of their existence. Surrey and McDaniel (1985) highlight on how a tax office, apart from their well-known function as the revenue-raising agency, is also a medium used by the government to spend money through tax incentives. Therefore, tax expenditures report is believed to educate and inform the public what they deserved to be informed.

The report is not only helping the public to know about tax expenditure but it also a medium for check and balance for any government policy especially to those that deviate from normal tax system (benchmark base). The third factor that promotes the practice of tax expenditures report is, it is to help government to improve its tax and budgetary policies. By acknowledging the existence of tax expenditures within the tax system of a country, and with adequate analysis of these tax expenditures, government should be able to formulate better policies. And in any situation, the policy is not efficient and effective without the knowledge of the government, there are always others (third parties such as political parties, and non-government agencies) to scrutinize improve the policy.

Furthermore, The Australian Treasury listed the benefits and criticisms of producing tax expenditures; these include:

1. encouraging the private sector to move into a field where the government is a major service provider;
2. reducing government supervision of such spending;
3. promoting desired economic behaviour, such as encouraging saving through superannuation; and
4. improving equity, such as the GST exemption on unprepared food.

Whereas, the criticisms made against tax expenditures are that they can:

1. be restricted in their operation by the design of the tax system;
2. be ineffective if there are conflicting tax provisions or government programs;
3. reduce economic efficiency through economic distortions;
4. reduce equity where they depend on the taxpayer's marginal tax rate and this rate varies across taxpayers;
5. erode the revenue base if they are large;
6. increase tax complexity and increase compliance and enforcement costs; and

7. more easily evade monitoring and analysis, compared with spending that must be approved by the legislature or listed in an agency annual report (The Australian Government The Treasury, 2017).

In conclusion, in any government's policy there are always proponents and opponents to it. For the tax expenditures report and tax programs, the same feedbacks are common. The Australian government notes that there are risks and some weaknesses of tax expenditures report; but, it appears that tax expenditures have more advantages and can help government to achieve many useful policy goals (The Australian Government The Treasury, 2017). Therefore, risks associated with tax expenditures report needs to be managed and it is an important first step in understanding and managing these risks from the report produced.

2.3. Country Comparative Study of Tax Expenditure Analysis

The comparative study here gives brief overview of tax expenditures practices in three selected countries. Countries selected here are United States of America (US), Australia and New Zealand. The US is selected because it is a first country to produce a tax expenditure report and the origin concept of tax expenditure was developed. In US, tax expenditure report is produced together with annual budget. Australia is chosen because the tax expenditure report produced by Australia's Treasury is comprehensive, and New Zealand is the third country for comparison due to the neutral benchmark for identifying tax expenditure.

In conclusion, the US produced the most comprehensive tax expenditures report. For the comparison between those countries' reports, Australia is proposed to be the most user-friendly reports for better understanding the principles and method of estimation. Whereas, the US's report need greater understanding of tax expenditures as it consists of two baseline concepts, two method estimations and can create confusion. For New Zealand's, the report is short and brief because the definition and objective of the report is different than those reports from the US and Australia.

2.4. Background of SME Tax Policy in Malaysia

In Malaysia, SMEs represent more than 97% of all firms (SME Corp. Malaysia, 2015). Although SMEs is large at numbers but the contributions of SME sectors to total GDP of the country is still below the target of the government. As at 2015, GDP contribution of SME sectors to total GDP is 36.3% (National SME Development Council, 2015), and this figure is still far behind developed country that SMEs contributed to more than 50% of total GDP (OECD, 2015) . There are many programs that concentrating on promoting SMEs growth and one of the programs is through tax policy. Tax policy plays a dual role: at times, as a tool to assist in overcoming the challenges and at the other, as an obstacle (OECD, 2015). In order to assist and promote SMEs to achieve social and economic objectives, there are preferential tax policies designed. This policy is very important in every country and promoting SMEs has been an important policy suggestion by World Bank and Organization of Economic Co-operation and Development (OECD). The most common tax policies for SMEs are preferential tax rate (PTR) or special reduced tax rate and various programs that include tax holiday, capital allowance, accelerated capital allowance etc. In the next section, it briefly explores selected tax programs available for SMEs in Malaysia.

Table 1
Country comparative study on the tax expenditure reports

Country	*Description*
The United States	• Tax expenditures are revenue losses attributable to provision of the federal tax law which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral liability. • The US has two set of tax expenditures reports that produced by Office of Management and Budget (OMB) and Joint Committee of Taxation (JCT)a of US Congress. • Tax expenditures measured using revenue forgone method but outlay equivalent estimates are shown in the notes. • The OMB report is tabled and published as part of President's yearly budget that comes together with seven years of estimation-period
Australia	• Tax expenditures definition is a provision of the tax law that provides a benefit to a specified activity or class of taxpayer that is concessional when compared to the 'normal' tax treatment that would apply. • Tax expenditure is produced not part of federal government's Budget. • Australia's Treasury produces the report that consists of seven-year period of estimations. • Only one method is used for the estimation of tax expenditure report which is revenue forgone method.
New Zealand	• Tax expenditures are defined as the individual features of the tax system that reduce an entity's tax obligation in a way that is designed to give effect to policy other than to raise revenue in the most efficient and economically neutral way. • Tax expenditure reports produced by New Zealand's Treasury that cover the estimates for two-year period (current year and forthcoming year). • The report covers only 37 and only six are presented with tax expenditures estimates. • There is no benchmark or method of estimation used disclosed but it uses list of guiding criteria to define tax expenditures and basically revenue forgone is called targeted reduction in a tax obligation relative to current tax practices.

Source: Tax Expenditure Reports from Executive Office of The President of The United States, Treasury of Australian Government and New Zealand Treasury. Further information on each of the country details of tax expenditure reports can be found in the websites of OMB or JCT of the US, treasury of Australian government and treasury of New Zealand government.

1.1.1. Definition of SMEs

Every country has its own definition of SME, but for Malaysia, there are two definitions[1] of SME and this paper follows the definition by Income Tax Act 1967 (ITA 1967). Based on ITA 1967, the definition of SMEs in this paper refer to:

A resident company that has a paid-up capital in respect of ordinary shares of RM2.5mil and less at the beginning of the basis period for a year of assessment but exclude companies if more than:

1. Fifty per cent of the paid-up capital in respect of ordinary shares of the company is directly or indirectly owned by a related company

2. Fifty per cent of the paid-up capital in respect of ordinary shares of the related company is directly or indirectly owned by the first mentioned company; or
3. Fifty per cent of the paid-up capital in respect of ordinary shares of the first mentioned company and the related company is directly or indirectly owned by another company.

Related company means a company which has a paid-up capital in respect of ordinary shares of more than two million and five hundred thousand Ringgit Malaysia at the beginning of the basis period for a year of assessment. As such, currently resident SME companies with a paid up ordinary share capital not exceeding RM 2.5million which form part of a group where there is direct or indirect control of or by a related company is not eligible for preferential tax treatment. Thus, for the purpose of this paper, tax expenditure analysis in this paper only focuses on corporations and it excludes other entities under ITA 1967.

2.4.2. Preferential Tax Rate (PTR)

Preferential tax rate (PTR) is an important element in SME tax policy in many countries (to name a few *i.e.* Singapore, Japan, China and Taiwan). In Malaysia, during the financial budget 2003, double tax rate system was introduced which started the introduction of tax rate for SME for year of assessment 2003. The following table 2 depicts the PTR from 2001-2015 which 2003 starts the new implementation of PTR. The different rates exist for large firms and SMEs shows the evolution of tax rates in Malaysia over the last decade.

Generally, corporate tax rates in Malaysia have gone from 28 per cent to 25 per cent over the last decade. But under PTR, SMEs are taxed at 20% for the first RM100,000 of taxable income and the balance is tax at the prevailing rate (which is 28% for year of assessment 2003). The amount of taxable income eligible for this special rate was increased from RM100,000 in 2003 to RM500,000 in 2004 and onwards. This special treatment for SMEs is in line with government's goal to help SMEs to ease their financial burden, and compliance cost. With the PTR, effective tax rate[1] for SMEs is lower than large corporations and they have advantages on the benefit of tax saving depending on their taxable income.

Based on the Table 2, in the last column is the maximum amount of tax saving can be enjoyed by SMEs. PTR will give tax saving to SMEs depending on taxable income and the maximum tax saving can be enjoyed by SMEs is RM40,000 for year 2004 till 2006. The amount is slowly reduced to RM25,000 when the different between PTR and prevailing tax rate has reduced from 8% to 5%.

1.1.1. Various Tax Programs (VTP)

Tax expenditures are tax provisions that are exceptions to the 'normal structure' of individual and corporate income tax necessary to collect federal revenue (Surrey, 1976)[4]. From this definition, the concept may include various tax incentives such as allowances, deductions, exemptions and different tax rates. For this part of analysis, tax expenditures refer to various tax provisions that are grouped into tax deductions, exemptions, incentives and capital allowances including preferential tax rate (PTR). There are other deductions, rebates and allowances that are not included in this paper due to data limitations, but the following in Table 3 are part of tax programs that are applicable to SMEs in Malaysia.

Table 2
Tax rate for SMEs from 2002 to 2015.

Year	*Description*		*Rate*	*Maximum Tax Saving (RM)*
2001-2002	All companies		28%	–
2003	SMEs	On first RM100,000	20%	8,000
		On subsequent chargeable income	28%	–
	Resident company with paid up capital above RM 2.5 million at the beginning of the basis period and non-resident company/branch		28%	–
2004-2006	SMEs	On first RM500,000	20%	40,000
		On subsequent chargeable income	28%	–
	Resident company with paid up capital above RM 2.5 million at the beginning of the basis period and non-resident company/branch		28%	–
2007	SMEs	On first RM500,000	20%	35,000
		On subsequent chargeable income	27%	–
	Resident company with paid up capital above RM 2.5 million at the beginning of the basis period and non-resident company/branch		27%	–
2008	SMEs	On first RM500,000	20%	30,000
		On subsequent chargeable income	26%	–
	Resident company with paid up capital above RM 2.5 million at the beginning of the basis period and non-resident company/branch		26%	–
2009 - 2015	SMEs	On first RM500,000	20%	25,000
		On subsequent chargeable income	25%	–
	Resident company with paid up capital above RM 2.5 million at the beginning of the basis period and non-resident company/branch		25%	–
2016	SMEs	On first RM500,000	19%	25,000
		On subsequent chargeable income	24%	–
	Resident company with paid up capital above RM 2.5 million at the beginning of the basis period and non-resident company/branch		24%	–

Table 3
Lists of tax programs available for SMEs

Type of tax programs	*Description*
Pioneer status (PS)	Pioneer Status (PS) is an exemption from the payment of income tax of 70%-100% of a company's statutory income (SI) for a period of 5-10 years. SI is an income after deductions of allowable expenses and capital allowances.
Investment tax allowance (ITA)	ITA incentive is an alternative incentive to PS. Both ITA and PS incentives are mutually exclusive, *i.e.* a company can only enjoy either one of the incentives and not both. ITA is an allowance of either 60-100% on qualifying capital expenditure (QCE) (e.g. factory, plant, machinery or other equipment used for the approved project) incurred within 5-10 years from the date the first QCE is incurred.

Contd. table 3

Type of tax programs	*Description*
Reinvestment allowance (RA)	RA is given for the period 15 years to existing companies engaged in the manufacturing, and selected agricultural activities that reinvest for expansion, automation, modernisation or diversification of its existing business into any related products within the same industry or condition that such companies have been in operation for at least 36 months effective from the YA 2009. RA is given at the rate of 60% on QCE incurred by the company, and can be offset against 70% of its SI for the year of assessment. Any unutilised allowance can be carried forward to subsequent years until it is fully utilised.
Accelerated capital allowance (ACA)	ACA is given to companies that reinvest in the manufacture of promoted products after benefiting RA for 15 years. ACA provides a special allowance, where the capital expenditure is written off within three years, *i.e.* an initial allowance of 40% and an annual allowance of 20%.
Incentives for research and development (R&D)	Incentives for R&D are divided into:i. R&D pioneer status - tax exemption of 100 per cent of statutory business income for a period of 5 years. For subsidiary companies undertaking activities pertaining to the commercialization of R&D findings, this period may be extended to 10 years. R&D investment allowance - tax exemption of 70 per cent of statutory business income computed on 100 per cent of QCE for a 10-year period after approval is granted.
Geographic based incentives	Incentives geared towards spurring investment in specific geographic areas, especially those which are traditionally under-developed and which lack the natural advantages in investment climate enjoyed by other regions (including geography, infrastructure, proximity to markets, etc.). Region-specific investment promotion agencies have been established to promote investment growth and development. Firms can enjoy income tax exemption and stamp duties exemption for between 5 to 10 years
Incentives for service sector	The incentives targeted towards encouraging investment in the services sector for specific service-related activities. It offered typically entail a 70 per cent exemption on statutory business income tax exemptions (up to 100 per cent for promoted areas), for between 5-10 years.
Pre-package	Under this scheme, firms can be awarded a package of incentives which are uniquely designed to meet their business needs and attract their investment. These could include a tax exemption on statutory income from 70 – 100 per cent arising from approved business, a capital allowance based on qualifying capital expenditure incurred during the agreed upon period, or any other provisions deemed appropriate by the Minister of Finance.
Export Incentives	Increased export allowance, special incentive for exports, allowance for increased agricultural exports, promotion of exports, and expenditure incurred for participating in approved international trade fair held in Malaysia for promotion of exports.
Special, Further and Double Deductions	These deductions consist of 99 types of claims that applicable to SMEs. These deductions are reflected in part D of SMEs' tax return.

Source: Inland Revenue Board of Malaysia (IRBM).

The conclusion from the description of main tax programs in Malaysia is that, there are too many variations of tax programs. Additionally, it can be amended and adjusted to a certain industries or objectives intended, thus, in some ways it creates way of manipulation.

2.3. Revenue agencies in Malaysia

Inland Revenue Board of Malaysia (IRBM) is one the government agency in the country that is responsible to collect tax revenue for the government. IRBM's main function is to administer the direct tax collection that includes income tax namely personal taxes, corporate taxes, petroleum taxes, withholding tax, cooperatives tax and others. Other direct taxes are real property gains taxes (RPGT), and stamp duties. Officially, IRBM main function are handling tax administration including audit, assessment, collection and enforcement of payment of income tax, petroleum revenue tax, property gains tax, stamp duty and any other related taxes as may be agreed between the government and IRBM.

The second revenue agency for federal government is The Royal Malaysian Customs Department (RMCD). RMCD has three main functions, which the main is to collect revenue in the form of Import Duty, Export Duty, Excise Duty, Goods and Services Tax (from April 1st, 2015), Windfall Profit Levy, Levi Vehicles, Non-Tax Revenue and the State/Trust Fund. Secondly, RMCD is responsible to provide tax consultancy in terms of tax exemption on raw materials and machinery, manufacturing facilities, pull back taxes and tax refund claims, facilities for the clearance of goods for export as well as import and passenger clearance and facilitation. Thirdly, RMCD is enforcing the Customs Act 1967, the Excise Act, 1976, the Free Zones Act 1990, Act Sales Tax Act 1972 (until 31 March 2015), the Service Tax Act 1975 (up March 31, 2015), Vehicle Levy Act 1983, Act 1998 and the Extraordinary Gains Act, Goods and Services Tax in 2014 and its subsidiary legislation administered and other laws enforced related to customs.

3. RESEARCH METHODOLOGY

3.1. Data and Scope of the Paper

This descriptive analysis using secondary data. The main source of data is from Inland Revenue Board of Malaysia (IRBM). Data are also collected from other sources such as the Ministry of Finance (MOF) and SME Corp, Malaysia. Main data from IRBM is the corporate tax returns that SMEs are responsible to submit to IRBM by yearly basis within six months after the end of SMEs' accounting period. The extraction of the data is done by Statistical Analytical System (SAS) and the study period (2001-2015) is chosen due to the reliability of the data which is systematic and electronically stored from 2001 onwards.

While tax expenditure analysis can be carried out on all types of taxes Surrey (1976), due to data limitation, the scope of the analysis in this paper covers only SMEs that fall under ITA, 1967. This definition refers to corporations and excludes individuals, sole proprietors, partnerships and other forms of entities. The following are the details of the data:

(i) Preferential tax rate (PTR)

(ii) *Part D:* Special deductions, double deductions and further deductions

(iii) *Part E:* Capital allowances which consists of all types capital allowances, investment tax allowances, accelerated capital allowances or other allowances related to special tax incentives programs

(iv) *Part F:* Loss from pioneer status, approved projects from tax incentives programs, loss of group of company relief and other loss that are absorbed into tax calculation

(v) *Part G:* Tax incentives from all types of tax incentives

(vi) *Part H:* Exempt incomes

Therefore, other tax expenditures than listed above *i.e.* deductions, rebates, zakat, donations and contribution, dividend deductions and other deductions that reduce gross income are not included in this paper.

3.2. Method and Limitation of Estimation

Data gathered are first summarized by number of SMEs, year, and amount in Ringgit Malaysia (RM) before it is computed into other descriptive analysis. In order to make the analysis simple and uncomplicated, tax expenditures in this paper are divided into two types which are preferential tax rate (PTR) and various tax programs (VTP). VTP consist of many tax programs from part D, E, F, G and H of corporate tax returns. The details of every tax programs of VTP are shown in Appendix II.

As this paper is a tax expenditure analysis, no econometric analysis is used. This paper follows method used by the majority of tax expenditures report by OECD countries, which is revenue forgone approach (Swift *et al.*, 2004). Tax expenditures by the revenue forgone approach are calculated show tax expenditures as the difference in tax paid by taxpayers who receive a particular concession relative to similar taxpayers who do not receive that concession (Swift *et al.*, 2004). In this circumstance, in the simpler explanation, taxpayers' database is needed to run microsimulation models of all affected taxpayers to get the amount of revenue forgone. By that explanation, getting the exact figure of revenue forgone without microsimulation models is unattainable. Thus, this paper uses a simple measurement to estimate revenue forgone by adding those tax programs spending amount to taxable income and multiply by prevailing tax rate, in aggregate-base calculation (Swift *et al.*, 2004).

Next after the results, tax expenditures analysis is divided into three part which are profiling of SME, the total amount of PTR and VTP and the final part is the tax expenditure analysis by revenue forgone method. Part one which is profiling of SME is important to show number of SMEs, and percentage of them that are taxable. Part two is the analysis to show the amount of PTR and VTP and comparison with total government expenditure. Whereas, part three is the revenue forgone analysis from PTR and VTP are shown and compare to corporate tax revenue and total government revenue. The results are explained in a descriptive analysis such as totals, averages, percentages, trends and comparatives to justify the importance of tax expenditure to government revenue.

4. RESULTS AND DISCUSSION

4.1. Profiling of SMEs

This section gives overview of SMEs under the definition of ITA, 1967. The profiling of SMEs is explained by number of establishments, number of SMEs that are taxable, the amount of taxable income and tax payable. Furthermore, it also compares the number of SMEs and non-SMEs.

Table 4 presents the statistics of SMEs and non-SMEs. The corporate firms in this table shows that SMEs in average constitutes more than 94% of total corporate taxpayers and non-SMEs or large corporations represent only 6%. The statistics show SMEs number is increasing by yearly basis and the highest number is 357,595 which in 2015.

Table 4
Statistic of profiling of SME and Non-SMEs

Year	*No. of SMEs*	*% of SMEs to total firms*	*No. of non-SMEs*	*% non-SMEs to total firms*	*Total Corporate Firms*
2001	197,115	94.54%	11,381	5.46%	208,496
2002	203,069	94.25%	12,398	5.75%	215,467
2003	214,839	94.36%	12,843	5.64%	227,682
2004	230,432	94.52%	13,360	5.48%	243,792
2005	238,454	94.53%	13,809	5.47%	252,263
2006	248,841	94.62%	14,160	5.38%	263,001
2007	258,586	94.64%	14,653	5.36%	273,239
2008	254,444	94.91%	13,654	5.09%	268,098
2009	261,678	94.51%	15,202	5.49%	276,880
2010	281,594	94.62%	16,003	5.38%	297,597
2011	291,075	94.63%	16,508	5.37%	307,583
2012	300,815	94.60%	17,167	5.40%	317,982
2013	308,965	94.58%	17,697	5.42%	326,662
2014	352,939	94.93%	18,840	5.07%	371,779
2015	357,595	94.99%	18,864	5.01%	376,459

Source: Undisclosed data of corporate tax return (Form C) from IRBM.

The following Table 5 is the profiling of SMEs by the aggregate amount of taxable income, and tax payable for the period of 2001-2015. From year 2001 to 2007, less than 50% of total SMEs are taxable and from 2008-2015, more than 54% of SMEs are taxable. But, the trend is SMEs that are taxable are increasing every year except for 2015 and the highest number of taxable SMEs is in 2015 which is 195,232 are taxable. For the taxable income, the trend is gradually increase in the amount of taxable income due to the increase of the population of SME. This accordingly increases the tax payable amount. The highest taxable income and tax payable are in 2015, which the amount is RM83 billion and RM19 billion respectively.

4.2. Tax Programs Expenditure

4.2.1. Preferential Tax Rate (PTR)

PTR expenditure in the Table 6 below is calculated based on the taxable income subjected to PTR. PTR was implemented and enjoyed by SMEs starting from 2003. The amount subjected to PTR is limited to RM100,000 in 2003 and RM500,000 from 2004 onwards. Therefore, from Table 6 in the last column, it is

Table 5
Statistics of Taxable Income and Tax Payable by SME that are taxable for the period of 2001-2015

Year	*Total SMEs*	*Taxable SMEs*	*% of Taxable SMEs*	*Taxable Income (RM Million)*	*Tax Payable (RM Million)*
2001	197,115	86,611	43.94%	24,762	6,130
2002	203,069	88,190	43.43%	22,581	5,643
2003	214,839	97,076	45.19%	25,798	6,283
2004	230,432	103,939	45.11%	30,006	6,879
2005	238,454	109,155	45.78%	34,469	7,829
2006	248,841	122,906	49.39%	38,443	8,806
2007	258,586	128,051	49.52%	47,084	10,060
2008	254,444	142,855	56.14%	51,050	11,452
2009	261,678	149,173	57.01%	51,040	11,469
2010	281,594	165,502	58.77%	58,059	13,238
2011	291,075	174,011	59.78%	66,933	15,445
2012	300,815	183,132	60.88%	74,142	16,586
2013	308,965	187,798	60.78%	74,097	17,098
2014	352,939	195,232	55.32%	79,455	18,661
2015	357,595	193,353	54.07%	83,962	19,747

Source: Undisclosed data of corporate tax return (Form C) from IRBM.

seen that from year 2003-2015, in average RM19 billion is subject to PTR and in total more than RM256 billion has been spent. The amount is increasing every year following the increase of taxable income and the highest income subject to PTR is in 2015, RM27,651 million. The trends of SMEs enjoying the PTR is also in the increasing from 2003-2014, before it slightly decreasing in 2015. This is shown in Figure 1.

4.2.2. Various Tax Programs (VTE)

Tax programs in this paper consist of Part D, E, F, G and H which are deductions (special, double, further), capital allowances, claim of loss from various programs, tax incentives and exempted incomes respectively. All of these tax programs are combined but the details of the amount of each of the tax program spending is structured in Appendix II.

Table 7 is a statistic of various tax programs claimed by SMEs from 2001-2015. The statistics are presented by number of claims, taxable income and total claims in RM. The total number of claims and taxable income are increasing every year, but the amount of claim is fluctuating. The highest amount of claim is in 2004, RM106 billion. Total VTP from 2001-2015 is RM758,523 million. Table 7 is further translated into graph bar is shown in Figure 2 shows the amount of various tax programs is fluctuating but the trends is decreasing from year 2012 onwards, this is contradicting to the trends of increasing number of claimed by SMEs and the taxable income.

Table 6
Statistics of PTR 2001-2015

Year	*SMEs enjoyed PTR*	*Taxable Income (RM Million)*	*Tax expenditure (RM Million)*
2001	–	24,762	–
2002	–	22,581	–
2003	86,693	25,798	10,403
2004	98,977	30,006	12,692
2005	105,148	34,469	13,915
2006	114,053	38,443	15,499
2007	123,007	47,084	17,609
2008	123,941	51,050	18,451
2009	127,541	51,040	18,707
2010	138,781	58,059	20,596
2011	147,716	66,933	22,964
2012	155,868	74,142	24,637
2013	162,564	74,097	25,990
2014	176,328	79,455	27,594
2015	169,386	83,962	27,651

Source: Undisclosed data of corporate tax return (Form C) from IRBM.

Table 7
The Statistics of Various Tax Programs for 2001-2015

Year	*Number of claims*	*Taxable Income(RM)*	*Various Tax Programs (RM)*
2001	96,317	24,762	22,450
2002	97,194	22,581	41,348
2003	106,622	25,798	63,744
2004	113,645	30,006	106,533
2005	119,668	34,469	78,735
2006	145,170	38,443	41,571
2007	160,486	47,084	26,211
2008	183,668	51,050	27,088
2009	195,337	51,040	26,770
2010	219,600	58,059	91,295
2011	250,887	66,933	37,434
2012	272,046	74,142	85,075
2013	281,921	74,097	36,893
2014	294,880	79,455	32,845
2015	347,222	83,962	40,531

Source: Undisclosed data from IRBM.

Note: Number of claimed by SMEs means that a SME can be counted many times based on various tax programs claimed in one particular year.

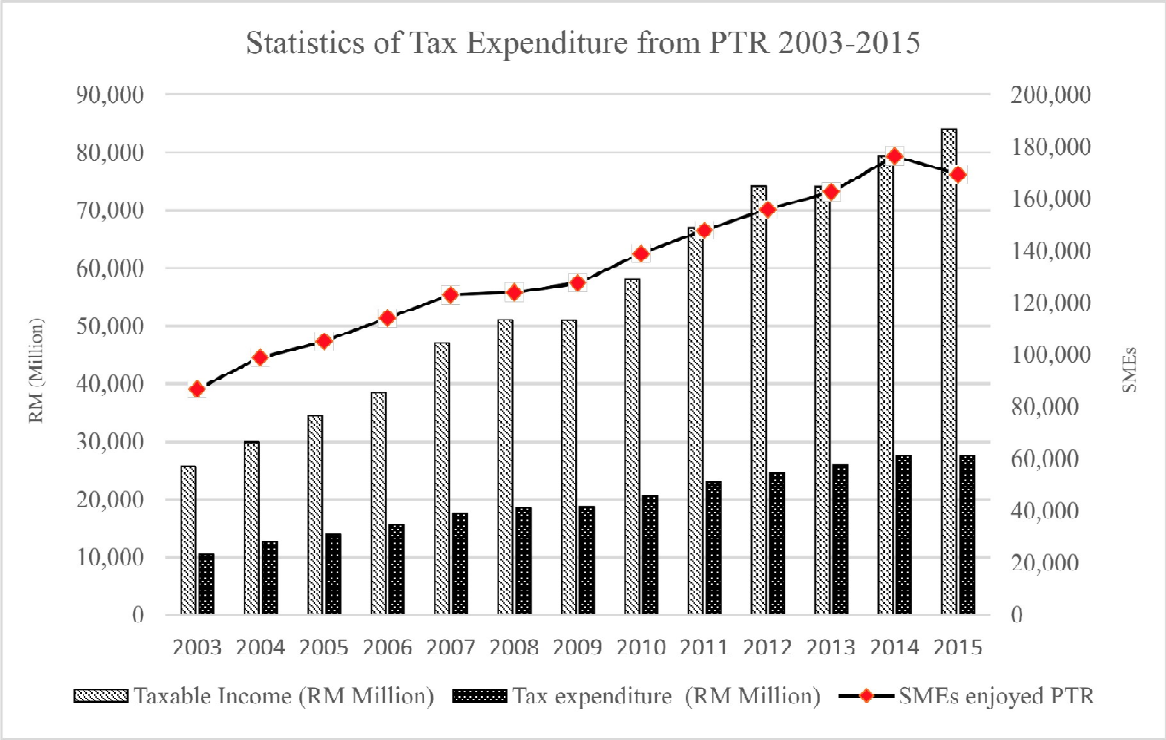

Figure 1: Statistics of PTR for the period of 2001-2015

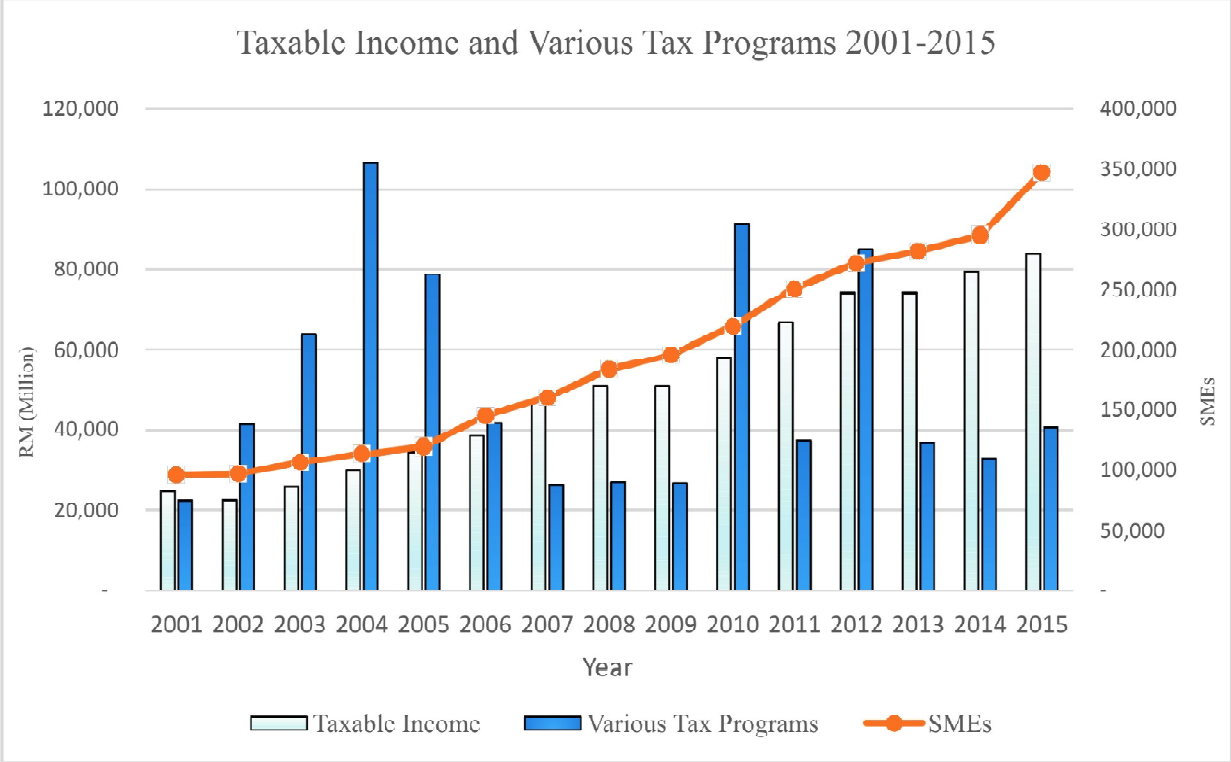

Figure 2: The trends of SMEs enjoying various tax programs taxable income

4.2.3. Total Tax Expenditure (PTR and VTP)

Table 8 presents the total amount of tax expenditure from PTR and VTP. PTR started in 2003, therefore, no amount of tax expenditure for 2001 and 2002. VTP is shown in the middle column and total amount is shown in the last column. Overall the amount tax expenditure for SMEs from 2001-2015 is RM1.092 trillion.

Table 8
Total tax expenditure analysis

Year	*PTR (RM)*	*Various Tax Programs (RM)*	*Total Tax Expenditure (RM)*
2001	–	22,450	22,450
2002	–	41,348	41,348
2003	10,403	63,744	74,147
2004	12,692	106,533	119,195
2005	13,916	78,735	92,650
2006	15,499	41,571	57,070
2007	17,609	26,211	43,821
2008	18,452	27,088	45,539
2009	18,707	26,770	45,477
2010	20,597	91,295	111,892
2011	22,964	37,434	60,399
2012	24,637	85,075	109,712
2013	25,990	36,893	62,883
2014	27,595	32,845	60,440
2015	27,652	40,531	68,183

Source: IRBM and the amount is in million.

4.2.4. Comparison of Total Tax Expenditure to Total Government Expenditure

Table 9 depicts the total tax expenditure from PTR and VTP claimed to compare with total government expenditure from 2001-2015. Total tax expenditure fluctuates and the highest percentage of total tax expenditure to total government expenditure is is in 2004, 292%. The trends of the fluctuation of tax expenditure to government expenditure is shown in Figure 3.

4.3. Tax Expenditure Analysis

The revenue forgone in this study measured the estimated reduction in tax revenue that resulted from the introduction of a tax expenditure, with other factors remaining unchanged. In this paper, the amount of revenue forgone for PTR is calculated by multiplying aggregate taxable income that are subjected to PTR to the difference of rate between PTR and prevailing tax rate. Whereas, revenue forgone for VTP is estimated by multiplying aggregate amount of VTP by prevailing corporate tax rate. The analysis here is presented in total revenue forgone and comparison to corporate revenue and total revenue collected by yearly basis.

Table 9
Tax Expenditure to Government Expenditure

Year	*Total tax expenditure programs (RM Million)*	*Total government expenditure (RM Million)*	*Percentage of Tax expenditure to total government expenditure*
2001	22,450	47,960	47%
2002	41,348	48,411	85%
2003	74,147	53,146	140%
2004	119,195	40,715	292%
2005	92,650	45,491	204%
2006	57,070	53,210	107%
2007	43,821	60,680	72%
2008	45,539	64,200	71%
2009	45,477	75,955	60%
2010	111,892	78,912	142%
2011	60,399	74,572	81%
2012	109,712	75,869	145%
2013	62,883	66,855	94%
2014	60,440	62,840	96%
2015	68,183	64,054	106%

Source: Inland Revenue Board of Malaysia and Ministry of Finance, Malaysia.

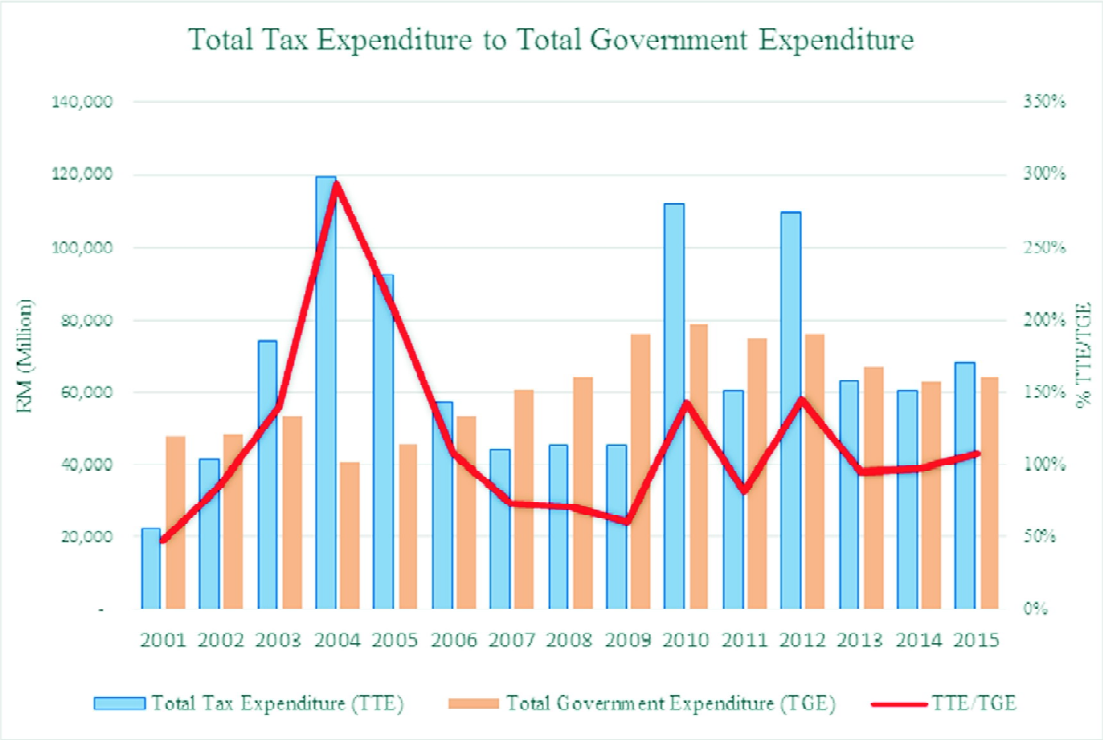

Figure 3: Trends of total tax expenditure (TTE) to total government expenditure (TGE)

4.3.1. Revenue Forgone from PTR and Various Tax Programs (VTP)

Table 10 shows revenue forgone from 2001-2015. There are fluctuations in the amount of revenue forgone from VTP. The highest revenue forgone is in 2004 and the lowest is in 2001. For PTR, the amount of revenue forgone is increasing every year from 2009-2015 due to increase of total number of SMEs which are taxable. Whereas, revenue forgone from VTP is depending on the claims made by SMEs based on their eligibility. In total, from 2001-2015, it is estimated that the government has spent RM14.95 billion and RM222.78 billion for PTR and VTP respectively. Figure 6 shows the graph of revenue forgone by PTR, VTP and total revenue forgone from all tax programs. The tax forgone shows that the trends of revenue forgone are fluctuating and depending of the amount of VTP.

Table 10
Revenue forgone analysis from PTR and VTP

Year	*PTR*	*Revenue Forgone from PTR*	*VTP*	*Revenue Forgone from VTP*	*Total Amount of PTR and VTP*	*Total Revenue Forgone (PTR and VTP)*
2001	–	–	22,450	6,286	22,450	6,286
2002	–	–	41,348	11,577	41,348	11,577
2003	10,403	832	63,744	17,848	74,147	18,681
2004	12,692	1,015	106,533	29,829	119,225	30,845
2005	13,916	1,113	78,735	22,046	92,650	23,159
2006	15,499	1,240	41,571	11,640	57,070	12,880
2007	17,609	1,233	26,211	7,077	43,821	8,310
2008	18,452	1,107	27,088	7,043	45,539	8,150
2009	18,707	935	26,770	6,693	45,477	7,628
2010	20,597	1,030	91,295	22,824	111,892	23,854
2011	22,964	1,148	37,434	9,359	60,399	10,507
2012	24,637	1,232	85,075	21,269	109,712	22,501
2013	25,990	1,300	36,893	9,223	62,883	10,523
2014	27,595	1,380	32,845	8,211	60,440	9,591
2015	27,652	1,383	40,531	10,133	68,183	11,515
Total	256,713	14,948	836,104	222,780	1,092,818	237,728

Source: Inland Revenue Board of Malaysia (IRBM).

Note: The amount above is in RM (million).

4.1.1. Comparison Revenue Forgone to Tax Collection

The following table and figure is the comparison of total revenue forgone to government's corporate and total tax revenue. In Table 11 the percentage of total revenue forgone to corporate and total government revenue is in a decreasing trend and the highest percentage of revenue forgone to corporate and total tax revenue is in 2004. Revenue forgone from SMEs tax programs is significantly affected corporate and total

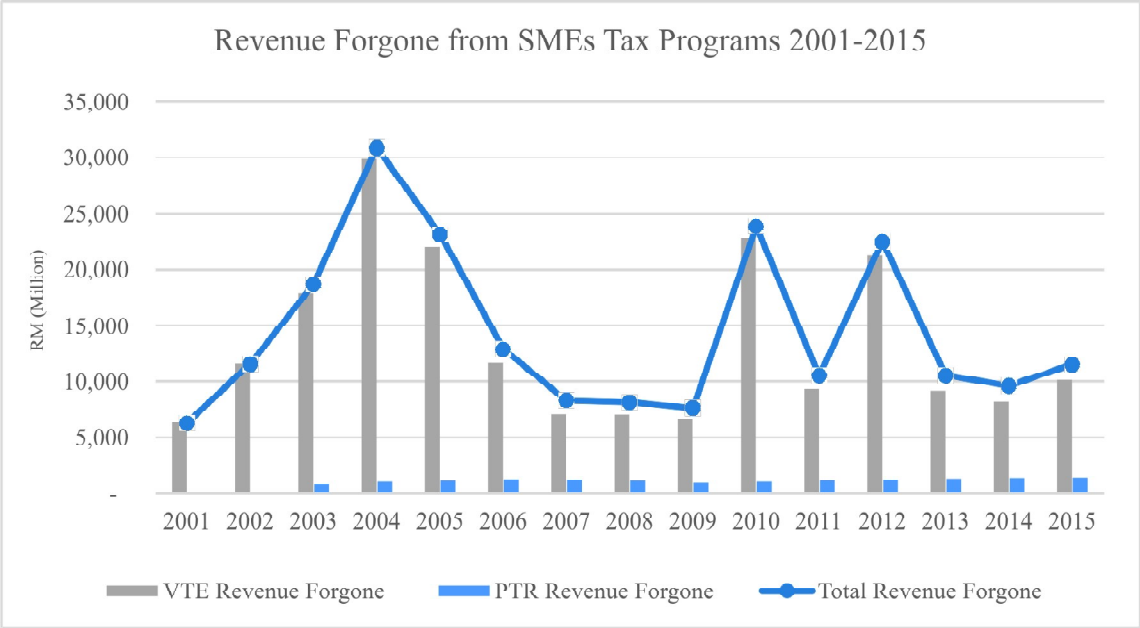

Figure 4: The trends of revenue forgone from PTR and tax incentives spent for the period of 2001-2015

tax revenue even though the percentage is decreasing every year. The trends of the revenue forgone to corporate and total tax revenue are also presented in Figure 7. The trends show how is the fluctuation of the revenue forgone from tax programs implemented by the government.

Table 11
Tax Forgone to Tax Revenue

Year	*Total Revenue Forgone*	*Corporate Tax Revenue*	*Total Revenue Forgone to Corporate Tax Revenue*	*Total Government Revenue*	*Total Revenue Forgone to Total Government Revenue*
2001	6,286	9,436	67%	79,567	7.90%
2002	11,577	9,889	117%	83,515	13.86%
2003	18,681	7,984	234%	92,607	20.17%
2004	30,845	8,977	344%	99,396	31.03%
2005	23,159	8,649	268%	106,305	21.79%
2006	12,880	10,196	126%	123,547	10.43%
2007	8,310	11,661	71%	139,885	5.94%
2008	8,150	14,966	54%	159,794	5.10%
2009	7,628	15,590	49%	158,639	4.81%
2010	23,854	17,805	134%	159,653	14.94%
2011	10,507	20,203	52%	185,419	5.67%
2012	22,501	22,977	98%	207,913	10.82%
2013	10,523	44,108	24%	214,270	4.91%
2014	9,591	65,240	15%	220,626	4.35%
2015	11,515	63,679	18%	219,089	5.26%

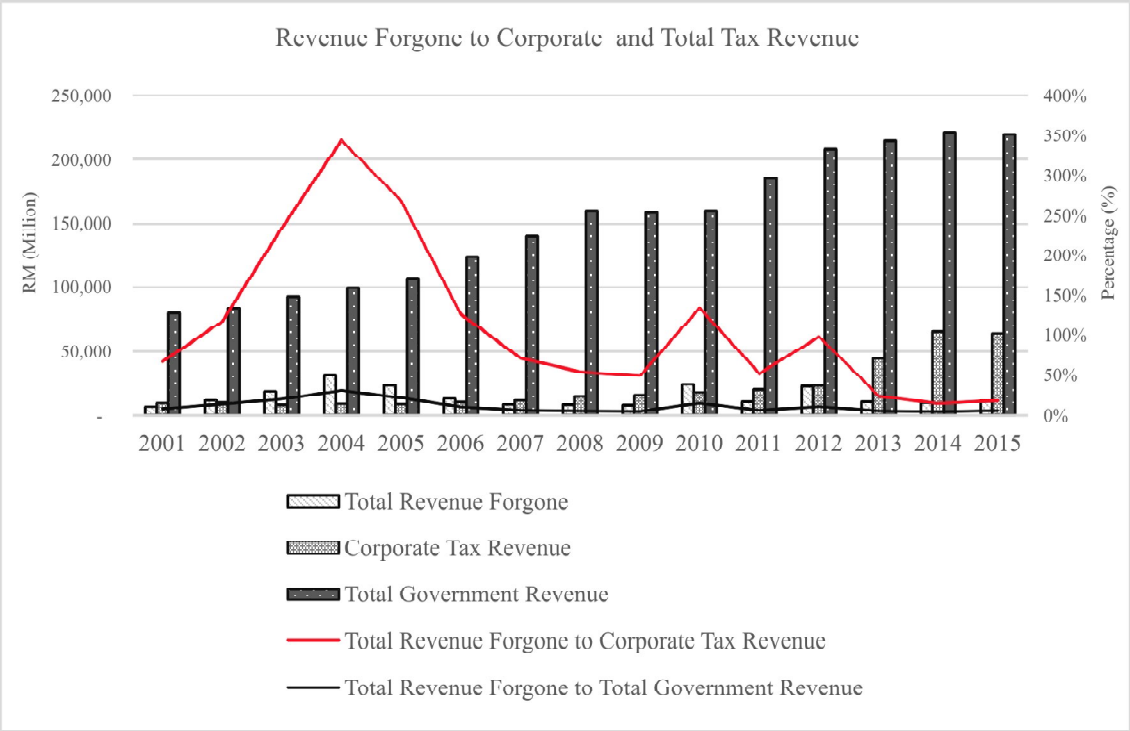

Figure 7: Trends of Tax Forgone to Corporate and Total Government Revenue

5. CONCLUSION

This paper set out to better understanding the tax expenditure from tax programs for SMEs that consist of PTR and VTP for the period of 2001-2015. It is to provide overview on of how much the government has spent for SMEs and the significant revenue forgone to compare with government revenue. The aim of this paper is also to give indication on the significant of tax expenditure report to government budget. It is hoped this paper to provide preliminary evidence of further study on tax expenditure and reporting and its effectiveness.

The results of the data analysis revealed that there are increasing number of SMEs and on average only 50 to 60 per cent are taxable. On average RM15.85 billion is spend every year for SMEs. The total amount of revenue forgone has reduced significantly mainly due to reduce of claims from VTP, but the amount of revenue forgone is still significant. This is because this tax expenditure analysis in this paper is for SMEs and not including other types of taxpayers. The significant of the findings is, the amount of VTP which is the tax programs that gives incentives, allowances and deductions are the main contribution to revenue loss.

There are a few limitations of the analysis in this paper, therefore, reader should bear in mind that this paper is purposely to highlight the importance of tax expenditure report in Malaysia and the amount presented in this paper is an aggregate-base estimation. Additionally, one important concept that this is paper is lack off is the benchmark of tax base. The benchmark is one of the core concepts that must be fully identified before tax expenditures report can be produced. Hence, it is advisable to assume the analysis here is an estimation on the revenue forgone if the tax expenditures are not existed. Moreover, lack of

complete data and information on the total tax expenditure should be seen as further studies are needed to get the tax expenditure analysis that covers all type of tax programs and taxpayers. From the findings, it is recommended that the Malaysian government to evaluate all type of tax programs on its effectiveness whether the objectives of the programs are achieved especially the effectiveness of specific incentives to specific group of taxpayers.

6. ACKNOWLEDGEMENTS

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7. APPENDIX

Table A.1
Computation of Chargeable Income

Gross Income	
Less	Allowable income
Less	Double deduction of expenses
Less	Special deductions (s. 34, 34A, 34B, 34C and 34D of ITA 1967)
Adjusted Income	
Add	Balances charges
Less	Capital allowances and balancing allowances (up to adjusted income, excess to be carried forward except for listed investment holding companies)
Statutory Income	
(s. 42)	
Less	Exemption of income for pioneer companies/investment tax allowance
Less	Reinvestment allowance
Less	Previous years' business losses (not applicable for listed investment holding companies)
Add	Statutory income made up of franked dividends (prior to YA 2008)
Add	Statutory income from non-business sources (eg. Interests, rent, royalties, discounts)
Add	Recoveries of prospecting expenditures (Sch 4)
Aggregate Income	
(S. 43)	
Less	Current year business losses [s.44(2)]
Less	Prospecting expenditure
Less	Pre-operational business expenditure (Sch 4B of the ITA 1967)
Less	Proportion of permitted expenses for investment holding companies (YA 1993 onwards – s.60F of the ITA 1967) except listed investment holding companies (YA 2006 onwards –s 60FA)
Less	Trust annuity (s. 63(5) of the ITA 1967)

Less Approved donations [S.44(6), 44(6A), 44(8), 44(9), 44(10), 44(11), 44(11B) and 44(11C) of the ITA 1967]

Less Business *zakat* [s. 44(11A)]

Less Group relief – current year adjusted loss transferred from a "surrendering company" (YA 2000 to YA 2005 – Sch 4C of the ITA 1967)(YA 2006 onwards – s.44A of the ITA 1967)

Less Carry-back losses – immediately preceding and not exceeding RM100,000 (YA 2009 and YA 2010 – s. 44B of the ITA 1967)

Total Income

(S. 44)

Add Statutory income made up of franked dividends deemed as total income (YA 2008 onwards)

Chargeable Income

S. 45

Table A.2
Amount of Tax Incentives Claimed by SMEs Tax Returns 2001-2015

Year	*Part D: Deductions*		*Part E: Capital Allowances*		*Part F: Claim of Loss*		*Part G: Incentives*		*Part H: Exempted Income*	
	No	*RM*	*No*	*RM*	*No*	*RM*	*No*	*RM*	*No*	*RM*
2001	3,463	155	83,008	14,130	393	179	1,755	2,872	7,698	5,115
2002	4,043	152	85,465	36,354	100	29	1,816	897	5,770	3,916
2003	4,490	185	94,697	56,551	110	76	1,941	998	5,384	5,933
2004	4,752	226	101,751	92,221	110	28	2,193	1,537	4,839	12,521
2005	5,631	243	107,094	13,788	80	22	2,297	1,408	4,566	63,274
2006	20,731	381	112,430	23,472	4,937	884	2,415	1,732	4,657	15,102
2007	42,174	496	106,243	13,247	4,854	434	2,429	1,633	4,786	10,401
2008	51,766	584	120,427	16,019	4,392	355	2,470	1,626	4,613	8,503
2009	61,066	598	123,396	17,911	4,882	426	2,212	1,609	3,781	6,227
2010	73,158	793	135,561	81,382	5,167	511	2,147	2,066	3,567	6,543
2011	83,656	712	156,486	27,455	5,224	489	2,117	1,954	3,404	6,824
2012	93,994	1,083	167,524	73,693	5,369	708	1,969	1,692	3,190	7,899
2013	99,600	1,124	172,037	25,254	5,368	585	1,765	1,273	3,151	8,658
2014	110,499	1,197	174,132	21,476	5,705	533	1,652	1,519	2,892	8,120
2015	159,844	1,358	177,813	30,662	5,386	471	1,539	1,659	2,640	6,380

Source: Undisclosed data from IRBM and RM (million).

Part D, E, F, G and H refer to sections in Form C of corporate tax returns

ACKNOWLEDGEMENT

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NOTES

1. Similar arguments of inaccuracy or lack of information do exist in the preparation of direct spending budget but it is still the best way to measure the estimation.
2. The other definition is by SME Corp Malaysia and SME Corp and Bank Negara Malaysia (Central Bank) use this definition for the purposes of granting financial and non-financial assistance; it is not for tax purposes and the other one is by Income Tax Act (ITA), 1967 for tax purposes.
3. The easiest way to calculate effective tax rate is to divide the tax payable (in this case corporate tax) by the total corporate income before taxes. For example, if a company's income is RM500,000 and paid RM50,000 in taxes, the effective tax rate is equal to 50,000 / 500,000 or 0.1.
4. The concept of tax expenditures extends beyond the income tax. Tax expenditures also exist for other types of taxes such as excise, payroll and other indirect taxes.

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