Short and Long Term Gains

Special Voluntary Disclosure Programme (SVDP)

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Audit / Tax / Advisory

Smart decisions. Lasting value.

How effective are tax amnesty or tax voluntary disclosure programmes?

A tax amnesty is usually defined as a time-limited programme for taxpayers to pay unpaid taxes in exchange for a waiver on the tax liability (including the interest and penalties), and both civil and criminal penalties.

The “carrot” of such programmes is the waiver or forgiveness of some (or all) penalties while the “stick” will be tougher enforcement actions and harsher penalties following the amnesty.[1]

Malaysia

Special Voluntary Disclosure Programme

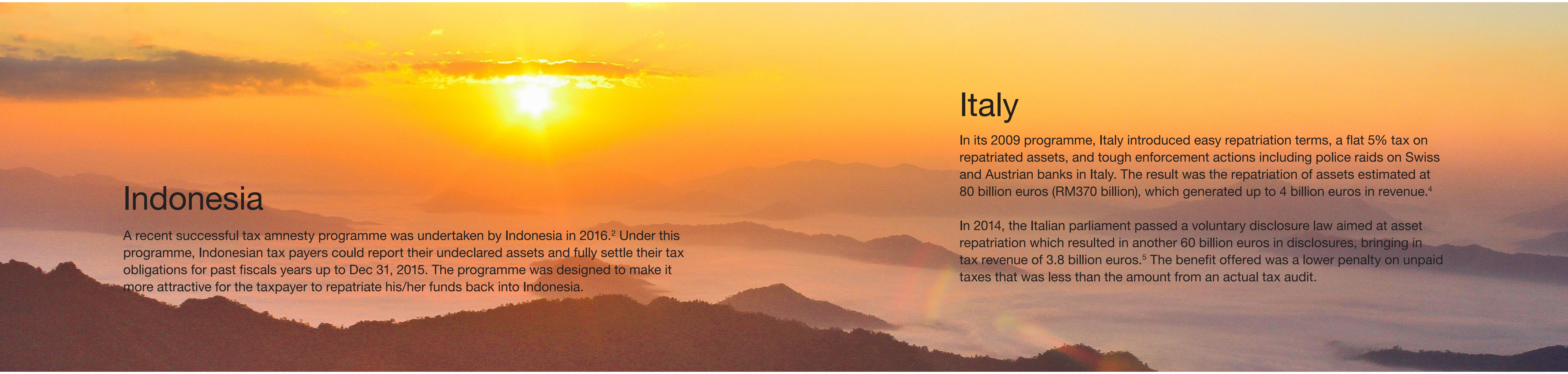
For the first time in the nation’s history, the government introduced the Special Voluntary Disclosure Programme (SVDP) to entice taxpayers to approach the Inland Revenue Board (IRB) on past income that they have not reported, or understated within an 8-month disclosure period from Nov 2, 2018 to June 30, 2019. Due to the overwhelming response, the SVDP period has been extended to September 30, 2019.

The incentive for doing so is the ability to enjoy more favourable penalties of 10% (for cases settled before June 30, 2019) and 15% (for cases settled between July 1, 2019 and September 30, 2019) on unreported or understated income.

The more attractive element is that the taxpayer is guaranteed to receive a “clean bill” from the IRB for their tax affairs up until year of assessment 2017, which as a high ranking officer described, will act “like a clean slate”.

Effectively, this means that the government will allow taxpayers to clear their tax records and start afresh for year of assessment 2018. IRB has received over 200,000 valid disclosures as at Feb 28, 2019.

The first deadline of March 31, 2019 has lapsed. With the June 30, 2019 and September 30, 2019 deadline looming, it is important to review the effectiveness of the SVDP, and other similar tax amnesty offerings in other tax jurisdictions, if implemented correctly.



Indonesia

A recent successful tax amnesty programme was undertaken by Indonesia in 2016.[2] Under this programme, Indonesian tax payers could report their undeclared assets and fully settle their tax obligations for past fiscals years up to Dec 31, 2015. The programme was designed to make it more attractive for the taxpayer to repatriate his/her funds back into Indonesia.

Period of Declaration	Onshore Assets Declared or Offshore Assets Repatriated	Offshore Assets Declared without Repatriation
July 1, 2016 ~ Sept 30, 2016	2%	4%
Oct 1, 2016 ~ Dec 31, 2016	3%	6%
Jan 1, 2017 ~ Mar 31, 2017	5%	10%

At the conclusion of the programme, 4,866 trillion rupiah (RM1.4 trillion) in hidden assets had been declared and up to 135 trillion in penalties collected. However, the amount repatriated was only 147 trillion rupiah, which was well short of the 1,000 trillion rupiah target. This was attributed to a lack of attractive investment instruments in the country compared to neighbouring Singapore, where most offshore assets of Indonesian nationals are parked.[3]

Italy

In its 2009 programme, Italy introduced easy repatriation terms, a flat 5% tax on repatriated assets, and tough enforcement actions including police raids on Swiss and Austrian banks in Italy. The result was the repatriation of assets estimated at 80 billion euros (RM370 billion), which generated up to 4 billion euros in revenue.[4]

In 2014, the Italian parliament passed a voluntary disclosure law aimed at asset repatriation which resulted in another 60 billion euros in disclosures, bringing in tax revenue of 3.8 billion euros.[5] The benefit offered was a lower penalty on unpaid taxes that was less than the amount from an actual tax audit.

Bangladesh and India

Bangladesh's 2013-2014 programmes collected only 18 crore (RM8.75 million) from 205 individuals.[6] Taxpayers who joined the programme were protected by the government even though they only reported 1% of their black money -- in effect they received a license to launder money.

India has implemented 11 tax amnesty programmes between 1951 and 2016. Its 1997 Voluntary Disclosure of Income Scheme (VDIS) was deemed the most successful with disclosures of 33,000 crore and tax collection of 10,000 crore. The scheme offered 35% and 30% tax rates to corporations and individuals respectively, to legitimise their assets without any retrospective penalties.

However, many of its other tax amnesty programmes were less successful. In 2016, the Indian government sought to emulate the success of the VDIS with a similar scheme called Income and Assets Declaration Scheme (IADS).

The Indian Finance Ministry said the programme resulted in assets declared worth US$9.8 billion. However, the Financial Times reported that the US-based Global Financial Integrity group estimated Indians sent US$343 billion in assets out of the country between 2002 and 2011, which indicated IADS had limited success.[7]

When tax amnesty programmes are successful, they can bring various short and long-term benefits including an immediate infusion of revenue which can be utilised to reduce debt or support fiscal programmes, expanding the tax base and increasing local investments through asset repatriation.

For its part, Malaysia's Inland Revenue Board expects one million taxpayers to cough up RM10 billion under the SVDP.[8]

Several factors can contribute to a successful programme. There must be incentives to entice taxpayers to join the programme such as reduced tax rates and penalties for early participants. At the same time, there must be strong cooperation between government and law enforcement agencies to ensure enforcement activities are effective and efficient.

To ensure you benefit from the Special Voluntary Disclosure Program (SVDP) to the fullest, Crowe Malaysia is equipped with an experienced team of professionals to guide and work with you on the program that had been extended to 30 September 2019. Should you require further advice and assistance, talk to our tax expert Foo Meng Huei at menghuei.foo@crowe.my.

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