Knowledge Management for SMEs under Malaysian Tax System

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Abstract
The aim of this paper is to review efforts within the SMEs, tax practitioners and tax authorities in managing tax information and the effectiveness or efficiency derived therefrom. This paper provides investigation into Malaysia SMEs industry in particular, an industry currently prioritized by Malaysian government in hope to enhance SMEs' capacity and capability into becoming regional and ultimately, global entities, and compete for access to global supply and production chains. Aligned with government's effort, we aim to examine on how sound information management can deliver benefits among SMEs owner, its manager, tax practitioners and tax authorities. Questionnaire-based survey will be collected from a sample of SMEs owner, manager and tax practitioners in Malaysia. The findings of this paper will serve as literature for future research and provide guidance to the SMEs and to the government for implementation of taxation policy and communication.

Keywords: Small and Medium Enterprises, Knowledge Management, Tax System

1. Introduction
Overview of SMEs economies
Generally and for the purpose of this paper, Small and Medium Enterprises (SMEs) consist of enterprises or companies that provide manufacturing services with individual annual sales turnover not exceeding RM25 million and employing not more than 150 full-time employees. Like all other countries who aspire for rapid economic expansion, Malaysian policy makers too realizes the importance of SMEs in the economy, where it assumes vital role as contributor to country's economic development and as supporters for larger companies, i.e. multinational corporations (MNCs). The promise of SMEs to economic growth are justified from the success of many developed countries like Japan, Korea, Taiwan, Germany whose economies were uplifted through SMEs business activities (Aris, 2007). The 2005 Census of Establishment and Enterprise (Census) found that the Malaysia's SMEs account for more than 90% of companies in the manufacturing sector, comparable to those of Japan, Taiwan and Germany of around 99% of which about 80% are micro enterprises. It suffices to believe that SMEs make the biggest employer as the Census establishes over 5.6 million workforces, which 56% of total employments are by SMEs.

Given such, its contribution to economy is still unsatisfactory judging from the relatively low GDP. The statistics obtained by Bank Negara in 2003 for the percentage contribution of SMEs to Gross Domestic Product (GDP) / total value added ranges from 60.0 percent in China, 57.0 percent in Germany, 55.3 percent in Japan and 50.0 percent in Korea, compared to 47.3 percent in Malaysia (Aris, 2007).

The situation not only earned Government's awareness but also ignited measures as seen since 2006, widely reflected in the Ninth Malaysia Plan (9MP) and the Third Industrial Master Plan (IMP3), in which the key strategies for SME development is outlined for the 2006-2010 and 2006-2015 periods respectively (SME Annual Report 2006).

Knowledge management on tax policy development for SMEs growth
Thrust one of the 9MP states the Government's intention to develop the economy through SME industries. By virtue of the 9MP, respective Government agencies are especially entrusted to facilitate the SMEs, i.e. Ministry of International Trade and Industry (MITI), Malaysian Industrial Development Authority (MIDA), Small and Medium Industries Development Corporation (SMIDEC), Agencies Trade and Industry Information Exchange (MATRIEX). These authorities offers supports to help aid the financial needs of SMEs in aspects like product, process and quality improvements, market development, skills upgrading, factory audit and acquisition of strategic technology. Practically, the plan strategizes that SMEs will add value in the economy by way of having the capacity to uphold outsourcing project from MNCs while then MNCs are able to grow more rapidly. Next, with enough financial supports/incentives from Government, SMEs will be able to market their products overseas. Hence, we respect the importance of taxation policy towards achieving Government's goal. More accurately taxation policy will affect SMEs growth and their sustenance in the economy when this industry assumes such important role. Noting this, the following paragraphs are directed to justify the importance of managing knowledge to curb taxation issues and problems likely faced by SMEs in running their businesses. In addition, the research is also beneficial to review the knowledge management under the SMEs from successful countries, e.g. Japan, Korea, Taiwan and Germany.

For one, tax awareness has to be in place. SMEs owner, manager and tax practitioners need to be aware of the tax regime, and possess sufficient tax knowledge to realize various tax planning opportunities and strategies available to them, or
simply to minimize tax liability and avoid unnecessary penalties. Currently, tax incentives offered under the Income Tax Act (ITA) and Promotion of Investment Act directed to assist the SMEs include pioneer status, investment tax allowances, reinvestment allowance, exemptions, business tax deduction etc. Noting that the current taxation policy trend are on volatility due to government’s concerns and because that the nature of tax is one that is ever reforming, it is crucial that SMEs, manager and tax practitioners are able to update themselves with the latest tax development. The tip is to reach the proper medium or channel to get the most up to date information on policy changes that offer advantages to the SMEs. Knowledge management assumes the most vital role here.

Evidently the major players in taxation, i.e. the big 4 accounting firms are the successful models who use knowledge management to their advantage. Shall their information technologies failed, the disaster impact is beyond measure. Apart from deteriorating intellectual properties when their resources management failed, the most basic practice involving day to day communication between client and accounting practitioners is near impossible. In the case for SMEs, it is reasonable to believe that the majority are incomparable with the big 4 in term of knowledge management given their small scaled business. The extent of SMEs knowledge management is the question of fact that this papers intends to measure. Essentially, if the SMEs owner and managers or practitioners are not tax informed, they would not be able to utilize the best tax incentives or worse, attracting penalties for submitted incorrect tax return relying on obsolete information.

Next, the focus will be on the experiences of SMEs owner, managers and tax practitioners while dealing with tax authorities and the government. Knowingly, the government has throughout the years effectuated tax regulation and policy to serve the SMEs in accordance to changing economic situation. Such efforts are aimed to effectively lighten tax compliance burden, i.e. lowering of corporate tax rate (YA2007: 27%, YA2009: 25%), allowing more expenses for double deduction, special allowance for small value assets. While policy and regulations are in place, it is for the relevant authorities to enforce it, namely the Inland Revenue Board of Malaysia (IRB). IRB officers’ practices are vigorous towards effective tax compliance. At the era of Self Assessment System (SAS), it is necessary to determine the effectiveness of the communicate with IRB officer because it will directly affect the total revenue collection of the country. No matter how sophisticated was the SMEs knowledge management, if the authority failed to inform the public, the whole tax knowledge management chain across the country is deemed failed. Worst case scenario, the country might be forced to run on budget deficit as less revenue is accounted for.

Throughout the years the IRB has made innovation to ease the tax compliance burden through their official website. In addition to having various tax information for downloading, the key development is the electronic tax filing (e-filing). A major study conducted by Lai and Choong (2008) suggested that e-filing has not gained momentum in Malaysia, where only 26.7% of the survey respondents had confidence in the IRB in managing e-filing successfully. It further suggested that the IRB needs to implement a preventive and predictive measure in time to reduce the risk of user rejection as some of the survey respondents indicated that the e-filing website was not responding properly or hanged half way through or being unable to sign the tax return form electronically.

Other related websites are also launched by relevant authorities, i.e. MIDA and SMIDEC specializes in funding the SME and providing tax incentives. The application procedure and related information for such incentives are found on the websites. Shall the SMEs able to utilize and most importantly derived benefit from these facilities, only then the Government is able to realize the anticipation - that SMEs will become the growth catalyst in the economy and bring forth Malaysia into becoming global player. We need to measure the effectiveness of current available communiqué facilities as well as to discover possible development therefrom. In addition, this research also intends to justify new opportunities or area from which utilization of information technology is possible for the SMEs, tax practitioners and tax authorities in their tax practice.

2. Methodology
In this study, semi structured questionnaires will be distributed randomly to a sample consisting of local tax SMEs owner, manager and tax practitioners and interview sessions will be conducted on selected tax SMEs owner, manager and tax practitioners from the SMEs. The questionnaires will be distributed in two different methods, (1) by postal mail and (2) by personal distribution to SMEs offices or during taxation seminars. Selected tax SMEs owner or manager and tax practitioners from the SMEs will be interviewed in depth regarding their experiences during the study period.

3. Conclusion
The above discussion is clearly a partial one and has no claim for completeness. The survey findings will only represents the SMEs owner, managers and tax practitioners and ignores the voice from the tax authorities and hence the cycle of completeness cannot be achieved since they are inter-dependant in reality. Hence the future will require research encompassing even the tax authorities.
4. References

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