

## Abstract

Reinvestment Allowance (RA) is a tax incentive aimed at encouraging business growth, modernization, automation, and diversification, especially in the manufacturing sector.

The study emphasizes the importance of tax officers' expertise in ensuring high-quality audits and highlights the lack of prior research focusing on tax officers, while mostly studies focused on taxpayers. This unique perspective enhances its significance. Despite its popularity due to the absence of prior approval requirements, RA involves high audit risk because of misinterpretation of its mechanisms and eligibility criteria.

This study examines the level of understanding of the Reinvestment Allowance among officers of the Inland Revenue Board of Malaysia (IRBM) in the Klang Valley. Using a qualitative approach, online interviews were conducted with 20 IRBM tax officers. The findings show varying levels of understanding, with experienced officers demonstrating stronger knowledge. Factors influencing understanding include training frequency, rule complexity, and access to guidance materials.

## Problem Statement

This study highlights the importance of strong tax knowledge, understanding, and audit quality in supporting effective tax auditing by the IRBM.

Differences in interpretation among IRBM tax officers when auditing RA claims, particularly regarding qualifying activities, manufacturing, simple activities, and processing activities, have created inconsistencies in audit outcomes. These interpretations are influenced by industry characteristics and existing guidelines under Schedule 7A of the Income Tax Act 1967 and Public Ruling No. 10/2022.



# A STUDY ON UNDERSTANDING REINVESTMENT ALLOWANCE AMONG INLAND REVENUE BOARD OF MALAYSIA OFFICERS IN KLANG VALLEY

As no prior studies have focused on IRBM officers, this research addresses a significant gap by emphasizing the need for continuous training, education, and professional development to ensure consistent and improved handling of RA-related tax audits.

## Research Questions

- 1 What is the level of understanding of RA among IRBM tax officers in the Klang Valley
- 2 What is the key factors influencing IRBM tax officer within Lembah Klang in understanding RA
- 3 What is the challenges faced by IRBM officer in the Klang Valley in assessing and auditing RA claims
- 4 How to propose strategies to address knowledge gaps to enhance officers' proficiency and effectiveness in managing RA-related matters.

## Research Objectives

- 1 To evaluate the level of understanding of RA among IRBM tax officers in the Klang Valley.
- 2 To identify key factors influencing their understanding.

To examine challenges faced in assessing and auditing RA claims

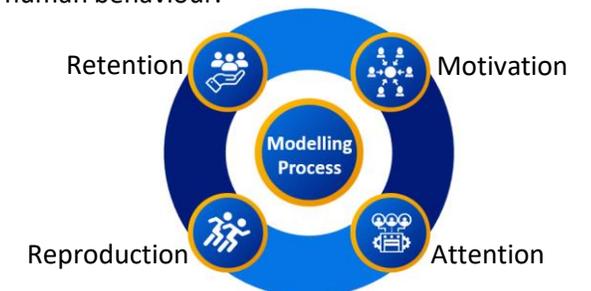
To propose strategies to address knowledge gaps to enhance officers' proficiency and effectiveness in managing RA related matters.

## Framework

This study differentiates between tax knowledge and tax understanding, general tax knowledge within IRBM, and specific knowledge of RA among IRBM officers. It assesses the level of RA comprehension among IRBM tax officers and identifies key policy relevant factors namely training, experience, knowledge sharing, coaching, and officer attitudes that influence variations in comprehension.

The two theories applicable in this study are **Social Learning Theory** and **Knowledge-Based Theory** which comes from psychological framework perspective, social interactions and observational learning are importance in shaping human conduct.

According to the notion, people learn by seeing the behaviours, activities, and outcomes of others in their social environments in addition to directly experiencing things themselves (Bandura, 1977) throughout components in modelling process that can influence human behaviour.



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# Methodology

In this study, qualitative research design has been applied through comprehension of the issue, encapsulating the depth and complexity of tax officers' viewpoints on RA. Eventually to evaluate the understanding of RA among IRBM tax officers in the Klang Valley through thematic analysis of interview data, the study addresses the study objectives.

The research conduct a comparative analysis of the level of RA understanding among IRBM tax officers in the Klang Valley, including Selangor, Federal Territory of Kuala Lumpur (WPKL) and Putrajaya (WPP), as well as the Large Tax Payer (CPCB) and Multinational Tax branches (CCM). Interviews were conducted with 20 IRBM officers from diverse backgrounds using open-ended questions to explore their understanding of RA, influencing factors, challenges, and suggestions for improvement.

The study also utilised secondary data from relevant departments, such as the Tax Operation and Dispute Resolution Departments, including statistical data, case studies, policy analyses, internal memos, newspaper articles, and court cases to support the findings.



## Interview

20 IRBM officers from Klang Valley branches:

- ❖ Selangor
- ❖ WPKL
- ❖ WPP
- ❖ CPCB
- ❖ CCM



## Data Gathering

Secondary data:

- ❖ Tax Operation Department
- ❖ Dispute Resolution Department

# Findings

- 1 IRBM tax officers generally understand RA, but their level of understanding varies and needs improvement.
- 2 All officers are aware of RA under the Income Tax Act 1967, though not all fully understand its application.
- 3 RA is considered important for encouraging reinvestment and supporting economic growth.
- 4 Auditing RA is challenging due to complex documentation, poor record keeping, and subjective assessment of capital expenditure
- 5 Administrative ineffectiveness affect the implementation of RA policies.
- 6 Differences in interpretation between taxpayers and auditors create audit difficulties.
- 7 Officers' understanding of RA is mainly influenced by training and work experience.
- 8 Targeted training and knowledge-sharing can help reduce knowledge gaps.
- 9 Clearer guidelines and improved training programs can enhance RA understanding.
- 10 Greater taxpayer awareness can improve compliance with RA requirements.

# Discussion & Conclusion

This study gather IRBM tax officers' views, challenges, and recommendations regarding RA. In conclusion, below are the highlights:

## i. Level of Understanding

Officers' understanding is influenced by years of service, RA case experience, training, and knowledge sharing, while limited exposure to RA audits highlights the need for further education and training.

## ii. Factors influencing the understanding

Accurate interpretation of RA depends on proper training, specialized experience, and clear guidance materials, while staying updated with technological and legal developments remains a key challenge. Legal precedents, judicial decisions, and public rulings further support informed decision-making.

## iii. Challenges on audit reviews

The complexity of RA audits requires detailed analysis and consistent interpretation of tax laws, highlighting the need for clearer eligibility guidelines, better communication between taxpayers and auditors, and ongoing auditor training to reduce differing interpretations and ensure accurate assessments.

## iv. Suggestions for improvement

Educational outreach and public awareness campaigns through partnerships, seminars, and mass media can improve taxpayers' understanding and utilisation of RA incentives, contributing to broader economic growth and development.

In conclusion, the findings can assist IRBM's upper management in developing effective strategies to strengthen RA understanding and ensure consistent audit quality.

# Research Gap

The survey are limited to IRBM tax officers in the Klang Valley and do not represent all localities whereby factors influencing RA understanding may differ by region.

In addition, future research is needed using broader methods such as surveys through questionnaire where more respondents can be involved, thereby further expanding the reach of input acquisition. Together with case studies, comparative analyses and longitudinal studies in order to strengthen up the findings.