



FINAL EXAMINATION
MASTER OF ACCOUNTANCY

COURSE : CONTEMPORARY ISSUES IN TAXATION

COURSE CODE : TAX5134

DURATION : 3 HOURS

INSTRUCTIONS TO CANDIDATES:

1. This question paper consists of **FOUR (4)** questions.
2. Answer **ALL** questions in the Answer Booklet provided.
3. Please check to make sure that this examination pack consists of:
 - i. The Question Paper.
 - ii. An Answer Booklet.
4. Do not bring any material into the examination hall. The use of a calculator is allowed.
5. Please write your answer using permanent ink.

MYKAD/PASSPORT NO : _____
ID. NO. : _____
LECTURER : _____
SECTION : _____

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO

This question paper consists of 5 printed pages including the front page.

QUESTION 1

Country K has experienced steady economic growth over the past decade. Despite the improvement in business activities and household income, the government continues to face increasing financial demands due to rising healthcare costs, educational development programmes, infrastructure maintenance, and environmental sustainability initiatives.

To strengthen public finances, the government recently introduced a series of tax reform proposals. The reforms include broadening the tax base, improving tax collection through digital technologies, and reviewing existing tax policies. According to government officials, these initiatives are necessary to secure sufficient revenue for public services and support the country's long-term economic development goals.

However, the proposed reforms have received mixed responses from taxpayers and business communities. Some citizens believe that the current tax burden is distributed unfairly, while others argue that tax regulations are too complicated and costly to comply with. Consequently, policymakers are reviewing several taxation principles to develop a tax system that is fair, efficient, transparent, and easy to administer.

Required:

- a. Explain **FOUR (4)** purposes of taxation to the government and provide an example of each.
(10 marks)
- b. Choose and define **FIVE (5)** principles of taxation proposed by Adam Smith or other taxation scholars and discuss how each principle can be applied in the tax reform programme of Country K.
(15 marks)

(Total: 25 marks)

QUESTION 2

GlobalTech Manufacturing Berhad (GlobalTech) is a multinational corporation headquartered in Country M. The company manufactures electronic components and sells its products through subsidiaries located in several countries. Over the years, GlobalTech has reported strong profits and has become one of the largest corporate taxpayers in the country.

Recently, the tax authority conducted a review of the company's corporate tax filings and cross-border transactions. The investigation revealed that GlobalTech had engaged in several tax planning arrangements to reduce its overall tax burden. Some transactions involved charging management fees and selling goods to related subsidiaries located in low-tax jurisdictions. The company claimed that these arrangements were part of legitimate transfer pricing practices and tax planning strategies.

However, tax auditors also discovered several suspicious activities, including underreporting of taxable income, omission of certain sales transactions, and falsified supporting documents used to claim deductions. These findings raised concerns about whether the company had crossed the line between legal tax planning and illegal tax practices.

The tax authority is now examining the case to determine whether the company's actions constitute tax avoidance, tax evasion, or inappropriate transfer pricing practices that may have reduced the amount of corporate tax payable.

Required:

- a. Differentiate between tax avoidance and tax evasion by discussing their definitions, legality, and providing relevant examples.
(10 marks)
- b. Discuss **FIVE (5)** challenges faced by tax authorities in detecting and controlling transfer pricing manipulation, tax avoidance, and tax evasion by multinational corporations.
(15 marks)

(Total: 25 marks)

QUESTION 3

The Inland Revenue Authority of Country X has implemented an electronic tax system (e-tax system) as part of its digital transformation strategy to improve tax administration efficiency and encourage voluntary tax compliance. The system enables taxpayers to submit tax returns online, access tax-related information, receive notifications, and communicate electronically with tax officers.

Despite significant investment in technology and infrastructure, the tax authority has observed that compliance levels remain below expectations. A recent study indicates a few factors by taxpayers' perceptions of information quality, system quality, service quality, convenience, and lower compliance costs influence user satisfaction, which subsequently affects tax compliance intention.

As a tax policy advisor, you have been tasked with evaluating the effectiveness of the e-tax system in enhancing voluntary tax compliance and proposing appropriate improvements.

Required:

- a. Evaluate **FOUR (4)** factors that may influence taxpayers' satisfaction with the e-tax system and voluntary tax compliance.
(10 marks)
- b. Recommend and justify **FIVE (5)** policy initiatives that the tax authority should implement to improve taxpayers' satisfaction and strengthen voluntary tax compliance through the e-tax system.
(15 marks)

(Total: 25 marks)

QUESTION 4

Country S is a developing nation where more than 95% of businesses are Small and Medium Enterprises (SMEs). Even though the national tax authority introduces strict tax audits, heavy fines, and severe punishments, many business owners still try to hide their income and evade taxes.

Recent studies show that tax compliance is heavily tied to the feelings and perceptions of the owners. When business owners feel that the government is not fair or keeps secrets about where the tax money goes, they lose their motivation to pay. The government of Country S is now looking for practical ways to fix this problem by making the tax system fairer and more transparent.

Required:

- a. Identify and explain **FOUR (4)** challenges that the government faces when trying to make SME owners stop evading taxes and start paying willingly.
(10 marks)
- b. Punishments and fines cannot be deleted completely from the law. Suggest **FIVE (5)** strategies that the government can use to make business owners feel happy and motivated to pay taxes, while still keeping a fair system of punishment for those who intentionally cheat.
(15 marks)

(Total: 25 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER

