Managing the danger of tax jolts

News that Tenaga Nasional Bhd (TNB) got a whopping RM2.07 billion additional tax bill from the Inland Revenue Board of Malaysia must have come as a shock to its shareholders, some of whom would have been secretly happy that the utility giant recently lost out to China’s CGN Group on its bid for 1Malaysia Development Bhd’s energy assets.

The sum stated in the “notice of additional assessment for the years of assessment 2013 and 2014” is not only unheard-of in Malaysia’s corporate history but it will also lop 23% off TNB’s cash pile. The latter will immediately reduce the value of the stock by at least 2% to 3%. In fact, one analyst calculates a 14% target-price cut in the worst-case scenario.

No wonder TNB’s shares slid 2%, dragging the FBM KLCI down with them.

The IRB probably had a good reason for the additional tax bill dated Nov 23, which TNB — in a terse one-paragraph statement to Bursa Malaysia — has said it would “appeal against” based on the legal advice obtained from its tax solicitors.

Whether or not TNB succeeds in overturning the tax bill, there is a great need for transparency on how it incurred such a huge sum of taxes in the first place. Or was it caught unawares?

Did the IRB say why TNB had to pay the additional tax? If it did, why didn’t the utility reveal the reason to the public?

Investors have the right to know if TNB or its tax advisers did something wrong to deserve the mega tax bill in the first place.

And there is a bigger issue here: Is any other large firm in Malaysia in danger of getting the same type of bill from the IRB?

These are all valid questions whilst TNB’s shareholders are kept in the dark.