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Wage earners tend to lose out when it comes to taxes

A friend came back fuming from his tax consultant's office. He was charged an additional RM100,000 in taxes on the gains made from exercising his stock options.

Advice from his consultant came too late. He could have reduced the tax bill substantially had he exercised his stock options when the price was low. This is because the taxable gains from exercising stock options are based on the exercised price of the shares.

A lower price would mean lesser gains and that translates to lesser taxes.

The key point this rookie investor friend of mine missed was that the actual sale price of the stocks does not matter in tax computations. He should have exercised the options when the prices were low, hence incurring a lower tax bill. And he could have sold the shares in the market much later when prices were higher.

That would have earned him a bounty in his bank balance and reduced his tax bill. It is perfectly legal and simply being smart in reducing the tax bill.

Having said that, only a few options are available for wage earners to minimise their tax bill. Their annual income cannot be understated while the rebates are almost set in stone.

The rebates on tax deductions for expenses incurred for medical, books, insurance, computers and contribution to the Employees Provident Fund are all fixed with a maximum threshold.

The maximum tax bracket for individuals is 26% and this figure hits those with more than RM100,000 in taxable income. That would affect a large number of the middle-class wage earners who are already complaining about the increasing cost of living.

So, if anybody is wondering why the middle class are groaning and whining over their tax bill, one need not look too far.

The scenario is different for businessmen and entrepreneurs. They can channel their income into a private company and need not pay taxes for the first RM500,000 of their profits. The tax rate is at 20%. However, the taxable profit accounted for is only after deduction of all expenses – from entertainment bills to travel expenses and utility expenses incurred in the course of doing the business. This is where individuals who are doing their own business are able to minimise their tax bills.

And it is perfectly legal and simply being smart.

The implementation of the goods and services tax (GST) has reduced the "legal avenues" for businesses to reduce their tax bill. Nonetheless, this also has met with some controversies such as in the case of doctors in private practice.

For the longest time, these doctors have channelled their earnings to their companies and got away with a lower tax bill. Upon implementation of the GST, the companies with a revenue of more than RM500,000 per annum were slapped with a GST bill of 6%. This exercise did not go down well with the doctors.

A way out is to set up more companies in order to distribute revenue, where each company's share is less than RM500,000 to minimise payments on the GST. Finally, the Customs Department and the medical profession came to an agreement and the issue has been settled.

It is common for businesses and high-net-worth individuals to avoid paying large taxes as long as it is legal. Nobody wants to get caught on the wrong side of the taxman. The implications are severe.

Individuals have migrated or denounced their citizenships to minimise the tax bill.

As for corporates, there are a few that have taken the Inland Revenue Department (IRD) to task – including legal suits.

Unfortunately, not many have walked away richer from their battles with the taxman. The latest notable case is Tenaga Nasional Bhd versus the IRD over an RM2bil tax bill. This is the first time a Government-linked company has gone to court against a Government department. The outcome will certainly be watched closely.

As for individuals, many have been left with red faces since the leakage of the recent `Panama Files'. The names which surfaced in the Panama Files vary from the father of Britain's Prime Minister David Cameron to a few individuals in our local corporate scene.

At a glance, having an account in an offshore tax haven would appear to be evading scrutiny of the authorities for some criminal activities. But in reality, that is not the case.

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There is nothing illegal in opening offshore accounts. It helps facilitate trade, investment and economic growth in a globalised world. For instance, it is common for a company from Malaysia to set up its office and accounts in Mauritius for businesses in India.

It is largely for tax purposes and security of the money to be not frozen in the case of disputes.For individuals, the need for offshore accounts is less compelling, but it provides an avenue to reduce their tax bills when there is a sizeable business outside the country.

Companies or people always look for cost-efficient structures to earn more money.

As long as the source of funds obtained is in a legal manner, there is nothing sinister in having an offshore account. It signifies the wealth of the account holders though.

Thousands of rich Chinese from mainland China have offshore accounts in Hong Kong and Singapore. It is part of their set-up as they venture beyond borders.

One should always look at avenues to reduce the tax bill. It is much needed at this time of the year. There is nothing wrong in looking for avenues to reduce the tax bill. It can be through rebates, channelling profits to multiple companies or having offshore accounts.

Unfortunately, these facilities only benefit private businesses and high-net-worth individuals with international business dealings. It is not for the salaryman who has few options to minimise his tax bill.

If companies allowed wage earners to channel their salaries into private companies owned by them, then the normal salaryman can also start reducing his or her tax bill by simply being smart.

Easy system: File picture showing Internal Revenue Board officers assisting the tax payers to file in their e-filing in Penang. The maximum tax bracket for individuals is 26% and this figure hits those with more than RM100,000 in taxable income.