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Tax Compliance Risk Management in Malaysia: Legal Experience and Lessons for Vietnam

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Abstract

This study analyzes Malaysia's legal experience in managing tax compliance risk, a model highly regarded for its transparency and effectiveness. Malaysia's legal framework, operated by the Inland Revenue Board of Malaysia (IRBM), employs a risk classification and cooperation system for taxpayers, combined with big data analytics to detect errors in tax declarations and assess the probability of violations. Simultaneously, coordination mechanisms play a crucial

role in promoting voluntary compliance, enhancing accountability, and fostering a collaborative tax governance environment between the tax authority and businesses. Based on Malaysia's experience, the study proposes several policy implications for Vietnam to contribute to the modernization of the Vietnamese tax system towards transparency, risk-based management, and sustainable tax compliance.

Keywords: Tax Compliance Risk Management, Malaysia, Legal Framework, Risk Assessment Criteria System, Data, Lessons Learned

1. Introduction

In recent years, the issue of tax compliance risk management has received increasing attention in research in Vietnam. However, existing works mainly approach this topic from a broader perspective, such as tax administration, tax compliance, or risk management in tax administration in general. A notable limitation is the lack of in-depth studies comparing international experiences with Vietnam's legal framework, especially models of tax compliance risk management developed in countries with modern tax systems such as Malaysia.

In the context of Vietnam's efforts to reform its tax system and shift its approach from manual to risk-based management, the need to learn from international experience has become urgent. Malaysia, with its tax compliance risk management model developed by the Inland Revenue Board of Malaysia (IRBM), is considered one of the countries that has built an effective, low-cost, and highly voluntary compliance risk management model. Studying and analyzing Malaysia's legal experience can provide valuable insights for Vietnam in improving its legal framework and enhancing enforcement effectiveness.

Therefore, this research was conducted to systematically analyze Malaysia's legal experience in tax compliance risk management, thereby identifying lessons and directions for appropriate application within Vietnam's legal, economic, and social context. The research results not only contribute to supplementing the theoretical basis for approaching a modern tax management model but also have significant practical implications for policy planning and tax law development, especially in the 2025-2030 period when Vietnam continues to promote digital transformation and data-driven tax management.

2. Malaysia's legal experience in managing tax compliance risks

2.1 The Background of the Origin and Development of Tax Compliance Risk Management Law in Malaysia

In the context of Malaysia's development towards an open economy and deep integration into international trade and investment, with the increasing presence of multinational corporations, cross-border transactions, and complex business and financial structures, the risk of tax compliance arises not only from traditional tax evasion but also from complex tax planning methods, errors in the application of laws, and differences in the interpretation of tax regulations. This necessitates innovation in tax administration methods to ensure both effective revenue collection and the maintenance of a transparent, stable, and attractive business environment for investors. In this context, Malaysia quickly recognized the limitations of its traditional tax administration model, which was incompatible with its taxpayer-centric governance philosophy, and gradually shifted towards

a risk-based tax administration model.

2.2 Legal framework and legal provisions governing tax compliance risk management in Malaysia

a. Entity responsible for tax compliance risk management

The central entity responsible for Tax Compliance Risk Management (TCRM) in IRBM. As an agency under the Ministry of Finance, the IRBM is vested with the authority to administer, audit, investigate, collect, and enforce taxes pursuant to the Income Tax Act 1967 (ITA 1967) and other relevant tax statutes. The IRBM is granted broad legal powers in information gathering, risk assessment, audit case selection, and the application of treatment measures tailored to specific levels of compliance risk.

b. Methods for implementing tax compliance risk management

IRBM has modernized tax administration through large-scale information technology transformation and the implementation of the Self-Assessment System (SAS) under the Income Tax Act 1967, shifting the focus from an official assessment mechanism to voluntary taxpayer compliance. SAS was applied to companies in 2001 and individuals in 2004, requiring taxpayers to maintain records, self-declare, and self-calculate their tax liabilities, thereby allowing the IRBM to focus on taxpayer education, audits, and investigations. Recent reforms include the mandatory e-Invoicing roadmap under the 2024 amendments, implemented in phases based on turnover. Concurrently, although the Personal Data Protection Act 2010 and its 2024 amendments strengthen data protection in the private sector, they do not apply to state agencies. The IRBM maintains inter-agency data-sharing mechanisms through tax legislation and e-government platforms, contributing to enhanced service delivery efficiency and tax compliance levels¹.

c. Criteria for assessing and classifying tax compliance risks

Based on the TCRM standards recommended by the OECD, combined with the legal authority granted to the tax authority under the Income Tax Act 1967 and the IRBM's organizational practices, the assessment and classification of tax compliance risks are conducted through a holistic and multi-dimensional approach.

Accordingly, risk assessment criteria are not rigidly defined in a specific legal document but are formed through the analysis of data and taxpayer compliance behavior throughout their operational history. The focus of risk assessment centers on several key groups of factors, including: the taxpayer's tax compliance history, reflected in the timely, complete, and honest fulfillment of filing and payment obligations; the accuracy and consistency of declared information across tax periods; the scale, sector, and specific characteristics of business operations that directly influence the potential for tax evasion or avoidance; the frequency, nature, and severity of past tax law violations; along with anomalies in revenue, expenses, profits, or cash flows, particularly fluctuations

disproportionate to the taxpayer's scale and operational characteristics. This approach clearly reflects the IRBM's perspective that risk assessment should not rely on a single indicator but must consider the taxpayer's overall compliance behavior over time.

Based on the aforementioned assessment criteria, the IRBM implements taxpayer classification according to the Compliance Pyramid model, a risk management model recommended by the OECD and adopted by many countries.

d. Legal measures applied in tax compliance risk management

The Malaysian legal framework has established a comprehensive system of legal tools for TCRM, with the ITA 1967 (amended up to 2024) prescribing strong sanctions such as penalties for late filing, penalties for incorrect returns ranging from 100–300% of the tax undercharged, criminal prosecution for fraud, sanctions for documentation violations in the context of e-Invoicing, and General Anti-Avoidance Rules (GAAR) to combat tax dodging. Simultaneously, the law grants broad authority to the IRBM in information requests, audits, tax assessments, recovery, and enforcement, providing a foundation for risk classification and the handling of high-risk taxpayer groups. Additionally, the IRBM applies the compliance pyramid model, combining support, control, and sanctions according to risk levels, alongside internal integrity mechanisms such as the IRBM Integrity Plan (IIP), IRBM Strategic Plan (ISP), and anti-corruption plans to enhance transparency and accountability. Thanks to this approach, Malaysia maintains a high level of tax compliance in the region, despite facing challenges regarding compliance costs in digital transformation, delays in updating legal guidelines for the digital economy, and limitations in the public sector data protection framework.

3. Lessons for Viet Nam

Firstly, the management philosophy needs to shift from comprehensive control to risk-based control. In fact, Viet Nam's tax management legal framework has already taken initial steps towards this goal, demonstrated by the shift from functional management to taxpayer-centric management, placing taxpayers at the center of service. To achieve this, specialized departments for managing businesses and individual taxpayers, as well as separate departments for managing household businesses, are necessary. This allows tax officials to monitor the entire operation of each taxpayer, understand their production and business situation to provide timely support, and enhance communication and support to help taxpayers understand their rights and obligations, leading to voluntary compliance. When taxpayers comply correctly and fully, costs and time are reduced, and the tax authorities can focus resources on risk management instead of dealing with violations.

Secondly, standardizing the legal framework for assessing compliance risks is crucial for early detection of tax evasion, avoidance, or misappropriation of tax revenue. Beyond industry-wide applications, the development of separate internal management systems is necessary to support monitoring and data analysis, thereby effectively assisting in tax management. In recent years, the Ha Noi Tax Department has effectively implemented numerous tax industry initiatives such as electronic tax filing, eTax

¹ Richard M. Bird (2010), *Tax System Change and the Impact of Tax Research*, SSRN Electronic Journal, Page 10-13.

Mobile, data digitization, electronic invoice declaration, and integration of public services on the National Public Service Portal. These applications have fostered a habit among taxpayers of using electronic invoices, electronic tax declarations, electronic tax payments, and cashless methods in revenue collection management. Currently, over 99% of businesses declare and pay taxes electronically. In particular, recently, the Ha Noi City Tax Department was the first unit of the Tax Department to introduce AI Chatbot - virtual assistant to support taxpayers. With AI Chatbot, taxpayers can easily use and interact 24/7, anytime, anywhere through technological devices such as smartphones, tablets, and computers with internet connection.

Thirdly, supplement deterrent sanctions against fraudulent acts and violations of tax laws. The Tax Department needs to focus on identifying common risky behaviors such as declaring low revenue, concealing revenue, using third-party payment accounts, not issuing invoices, using illegal invoices or accounting incorrectly; thereby, improving the stability and predictability of tax laws, avoiding sudden changes. This criminalizes violations of tax compliance risk management laws, as well as actions that facilitate tax evasion by organizations, creating strong pressure on companies to build robust internal control systems.

Fourth, it promotes digital transformation linked to data governance, considering data as the foundation, aiming to build an inter-sectoral data sharing mechanism connected to a centralized, integrated, standardized, and continuously updated database. Process standardization will be designed according to the taxpayer lifecycle, from registration, declaration, tax payment, tax refund to obligation management and termination of operations, shifting from passive management to proactive support based on risk assessment. Simultaneously, a legal framework for information security regarding data collected from taxpayers must be established, along with promoting the automation of the entire process, from receiving, processing, accounting to notification and decision-making. More importantly, restructuring is not just about digitizing old processes, but about redesigning from the ground up, where the business logic plays a central role, rather than being solely an IT problem.

4. Conclusion

Analyzing Malaysia's legal experience in tax compliance risk management demonstrates that the effectiveness of this model is grounded in a modern approach to governance, data utilization, and cooperative compliance. A clear and centralized legal framework, coupled with the institutional role of the Inland Revenue Board of Malaysia, enables the systematic identification, classification, and management of tax compliance risks while maintaining proportionality and safeguarding taxpayer rights. The combination of statutory provisions and voluntary compliance mechanisms, such as e-Tax Guides, the Tax Governance Framework, and the Cooperative Tax Risk Management Programme, has contributed to the development of a transparent, flexible, and sustainable tax management model suited to the digital economy and global economic integration.

Malaysia's experience confirms that tax compliance risk management should not be regarded merely as a technical administrative tool, but as an essential theoretical and practical foundation for improving legal frameworks,

organizational structures, governance mechanisms, and the application of technology in tax administration. However, the application of this model in Viet Nam requires selective adaptation rather than direct transplantation. Core elements such as data-driven governance, voluntary compliance mechanisms, resource optimization, and transparency in information management must be carefully assessed to ensure compatibility with Viet Nam's legal, institutional, and socio-economic conditions.

Based on this research, four key policy directions are proposed for Viet Nam: (i) shifting the tax management philosophy from comprehensive control to risk-based control; (ii) standardizing the legal framework and developing a coherent system of criteria for assessing tax compliance risks; (iii) strengthening deterrent mechanisms to ensure effective enforcement of tax laws; and (iv) promoting digital transformation in conjunction with data governance to build a modern, integrated tax management platform. These orientations are particularly significant in the context of Viet Nam's ongoing tax reform agenda for the 2025–2030 period, when the demand for a transparent, efficient, and data-driven tax system becomes increasingly urgent.

In conclusion, Malaysia's legal experience not only enriches the theoretical understanding of tax compliance risk management but also provides valuable practical insights for Viet Nam. Through selective adoption and flexible application of international experience, Viet Nam can continue to refine its tax legal system towards a more modern, transparent, and effective model capable of supporting sustainable economic development in the digital era.

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