



From RM 1.4 Million to RM 75,000:

WHY THE WAY YOU HANDLES A TAX AUDIT MATTERS

THE OPENING PERSPECTIVE

Why the Way You Handle a Tax Audit Matters

For many businesses, the moment a tax audit begins, the immediate reaction is often straightforward:

“We will just provide the documents requested and explain the transactions.” However, based on what we have been seeing increasingly in recent tax audit cases, the reality is often far more complex.

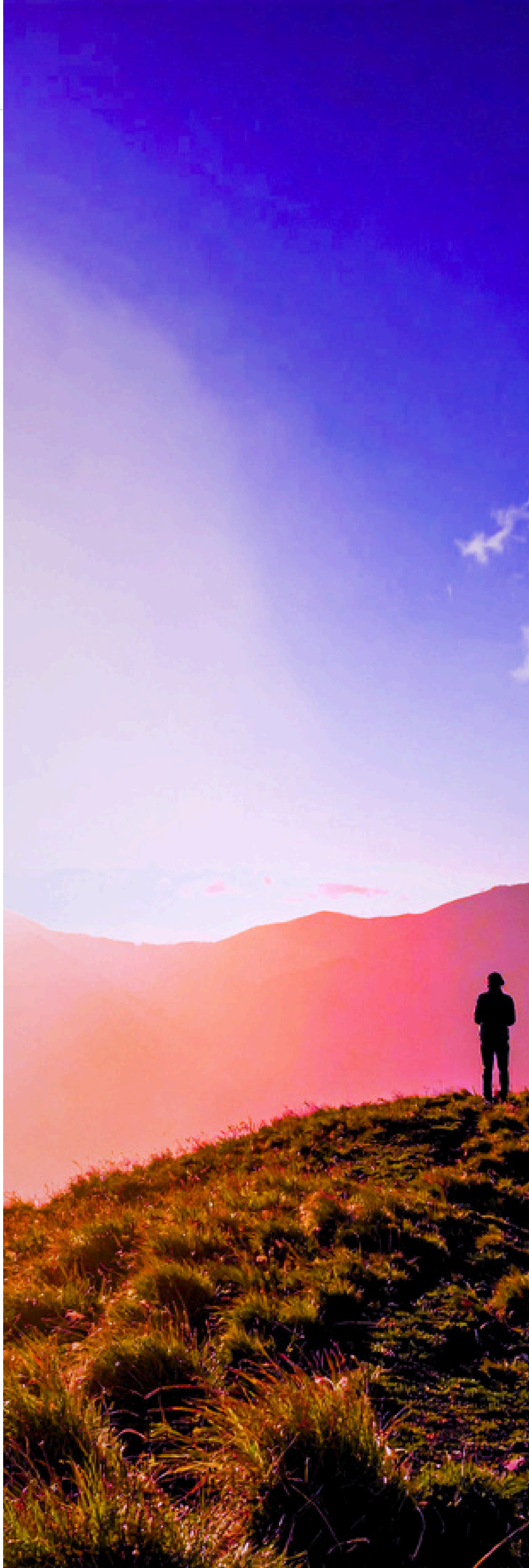
Today, tax audits are no longer merely about whether documents exist. In many situations, the real challenge lies in:

- whether the commercial substance of transactions is properly understood,
- whether supporting documents are presented strategically,
- whether historical practices can still be justified,
- and whether the business knows how to position its explanations effectively during the audit process.

Over the past few years, we have observed increasing scrutiny from tax authorities on areas such as:

- intercompany arrangements,
- overseas transactions,
- management charges,
- shared operational costs,
- historical accounting treatments,
- commission structures,
- and related party transactions.

Many of these arrangements are commercially common and operationally practical for growing businesses. However, during an audit review, transactions are often assessed strictly based on available records, accounting entries, and supporting explanations provided at that point in time. This is where many businesses unintentionally place themselves in a weaker position.



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A Recent Tax Audit Experience



Recently, our team was engaged to assist a company facing a tax audit where the initial proposed adjustments could have resulted in additional tax exposure of approximately RM 1.4 million.

The company had already spent considerable time responding to audit queries internally. Despite having operational explanations for the transactions involved, several issues became increasingly difficult because:

- the supporting documents were not organised clearly,
- certain historical arrangements were handled by previous management,
- operational realities were not fully reflected in the accounting treatment,
- and some transactions were being interpreted differently by the authorities.

Naturally, the management team became increasingly concerned about:

- the potential financial impact,
- possible penalties,
- prolonged engagement with the authorities,
- and uncertainty regarding the actual strength of their position.

At that stage, the issue was no longer simply about “submitting documents”.

The business required:

- technical review,
- strategic positioning,
- reconstruction of explanations,
- and proper engagement management throughout the audit process.

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What We Focused On



After reviewing the case in detail, our team took a step back and reassessed the overall commercial story behind the transactions instead of merely replying to the audit queries one by one.

Our work involved:

- analysing the basis of each proposed adjustment,
- identifying areas with stronger technical support,
- reorganising and reconstructing supporting documentation where necessary,
- clarifying the operational substance behind the transactions,
- reviewing how accounting treatments aligned with commercial reality,
- and strategically engaging with the tax authorities on the key exposure areas.

One important point businesses often overlook is this:

During a tax audit, the way a transaction is explained can sometimes be just as important as the transaction itself.

Very often, audit issues arise not because a transaction is necessarily incorrect, but because:

- the explanation lacks sufficient context,
- documents are incomplete or inconsistent,
- historical arrangements are poorly documented,
- or operational practices are misunderstood during the review.

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The Final Outcome



Following structured technical representation and engagement with the tax authorities, the final agreed tax exposure was reduced from approximately RM 1.4 million to RM 75,000. That represents a reduction of more than 90% from the initial proposed adjustments. While every case depends on its own facts and circumstances, this experience reinforces an important point for businesses:

Initial audit findings are not always final.

The final outcome of a tax audit can often be significantly influenced by:

- timing of professional involvement,
- quality of technical analysis,
- clarity of documentation,
- and the overall strategy adopted during the engagement process.

Why Early Review makes a Difference

One of the biggest mistakes we commonly observe is businesses waiting until positions have escalated before seeking external review. A second review often provides perspectives that internal teams may not have had the opportunity to assess independently during the pressure of an ongoing audit.

In many situations, early intervention allows:

- stronger technical positioning,
- better organisation of supporting evidence,
- more consistent responses,
- identification of overlooked arguments,
- more effective engagement with the authorities before positions become increasingly difficult to reverse.

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Why Businesses Should Not Underestimate Tax Audits

One common misconception is that tax audits are purely compliance exercises.

In reality, many audit cases today involve:

- ✓ technical interpretation of tax treatment
- ✓ operational understanding of business practices
- ✓ historical transaction reconstruction
- ✓ documentation strategy
- ✓ negotiation and representation experience
- ✓ managing authority expectations and communication

Without proper handling, businesses may unintentionally:

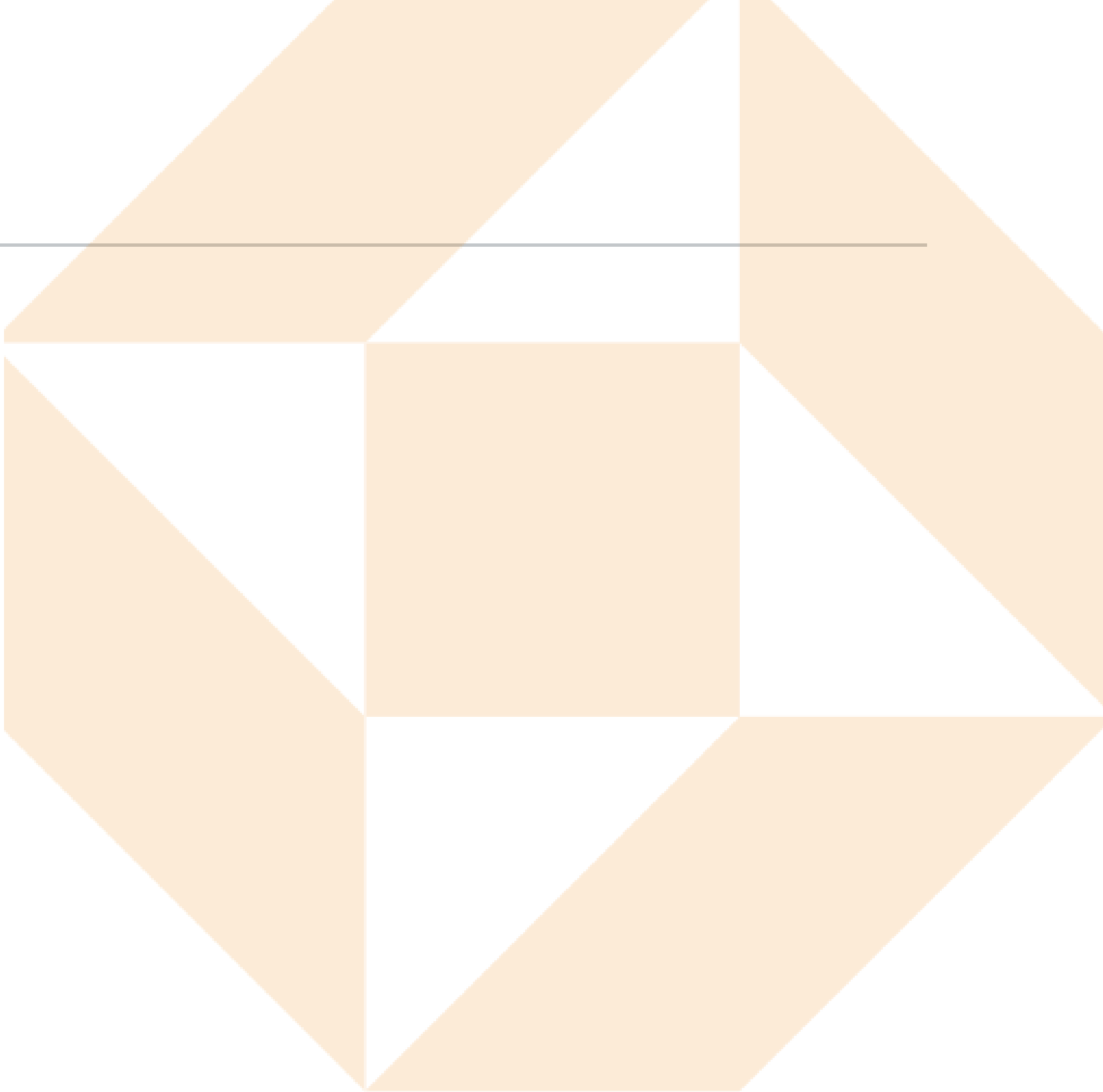
- concede positions too early,
- provide incomplete explanations,
- overlook technical arguments,
- or expose themselves to unnecessary tax adjustments and penalties.

This is particularly common in businesses involving:

- intercompany transactions,
- overseas dealings,
- shared service arrangements,
- logistics and operational cost allocations,
- related party transactions,
- historical accounting practices,
- and businesses experiencing rapid operational growth.



Meet our Team



Jess Yang

Tax Managing Partner

jess@morisonlc.com



Chok Wei Hong

Executive Director
Tax Advisory

weihong@morisonlc.com



Saiyid Abdallah Syakir Al-Edrus

Executive Director
Transfer Pricing

saiyid@morisonlc.com



Yvonne Tan

Executive Director

yvonnetan@morisonlc.com



Joanne Loo

Tax Senior Manager

joanne.loo@morisonlc.com



Every stage. A shared journey.

Our expertise. Your peace of mind.

CONTINUE THE CONVERSATION

We welcome you to connect with our experts for an initial consultation to explore how we can support your business. Whether you have specific questions or are seeking strategic insights, our team is here to assist. Together, let's move your business forward with confidence.

 012 - 3613119

 enquiries@morisonlc.com

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