THE INFLUENCE OF THE INTRODUCTION OF SELF ASSESSMENT ON COMPLIANCE BEHAVIOUR OF INDIVIDUAL TAXPAYERS IN MALAYSIA

Ern Chen Loo

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ABSTRACT

Self assessment for individual taxpayers was first introduced in Malaysia for the 2004 year of assessment. This change from the previous official assessment system to self assessment has redefined the roles and responsibilities of both taxpayers and tax administrators in Malaysia. In particular, self assessment has placed the onus on individual taxpayers, both salary and wage earners and the self-employed, to voluntarily and correctly determine their own tax liabilities.

The level of voluntary compliance achieved under self assessment was expected to be influenced not only by taxpayers’ ability to understand the compliance requirements of the income tax law, but also by their behaviour in relation to a range of economic, fiscal, psychological and sociological factors. In this context, the main objective of this research was to investigate the influence of the introduction of self assessment on the compliance behaviour of individual taxpayers in Malaysia. In addition, the research sought to identify the causes (such as ‘tax knowledge’, ‘tax structure features’, ‘financial constraints’ and ‘attitudes towards tax’) that may influence taxpayers’ compliance behaviour; and the nature of their influence, in relation to the introduction of self assessment in Malaysia. Demographic variables (such as age, gender, level of education and ethnic background) were also investigated to provide another dimension (as moderating variables) to the analysis of compliance behaviour. Six research questions were developed to address the objectives of the research.

A mixed method design comprising two quantitative research methods (survey and experiment) and one qualitative research method (case study) was conducted concurrently in three phases. The findings derived were triangulated via a cross-method analysis to address the six research questions.

The findings revealed that the introduction of self assessment had had a positive influence on individual taxpayers’ compliance behaviour. This was attributed to individual taxpayers having a greater awareness of the change in their responsibilities as a result of self assessment, and that this in turn led to an improvement in their tax
knowledge. As there was no prior comparable empirical evidence available in relation to the impact of the introduction of self assessment on tax compliance behaviour, this research finding is an important contribution to existing knowledge on the compliance behaviour of individual taxpayers.

Based on the findings of the research, it was found that tax knowledge had significant effects on the compliance behaviour of individual taxpayers. The lack of tax knowledge did cause numerous errors in tax returns prepared and furnished by individual taxpayers, resulting in unintentional non-compliance by some and over compliance by others. Tax structure features showed reasonably strong effects on taxpayers’ compliance behaviour. Empirical evidence revealed that fear of being tax audited and penalised had also indirectly influenced individual taxpayers’ compliance decisions. Thus it is concluded that individual taxpayers were sensitive to the two tax structure features, namely tax audit and penalty, while the effect of the tax rates on their compliance behaviour was marginally less significant.

Financial constraints were found to have more direct and strong influence on the compliance behaviour of self-employed taxpayers. The issue of financial constraints was not of major concern among the salary and wage earners under the self assessment regime. However, as the tax rates imposed on individual taxpayers in Malaysia are relatively low as compared to some other countries (such as those in Australia and New Zealand), and coupled with relief and rebates available, individual taxpayers could be paying very minimal taxes.

In terms of attitudes towards tax, two prominent findings emerged from the survey and the case study. Firstly, taxpayers’ attitudes, in terms of confidence in handling their tax affairs, did have a positive impact on their compliance behaviour. Secondly, taxpayers’ attitudes towards the tax system, the tax administration and tax officers had negative effects on their compliance decisions. In contrast to the effects of financial constraints, these findings on attitudes towards tax appeared to be only affecting the compliance behaviour of individuals who were salary and wage earners.

Finally, in the multi-ethnic society of Malaysia, this research revealed evidence of the different needs of ethnic groups in relation to tax education, how they manage their tax affairs, how the tax structure features as well as how their attitudes towards
tax had affected their decision to comply. This research also revealed evidence of the different compliance behaviour of the two categories of taxpayers (i.e. the salary and wage earners and the self-employed) in respect of the reporting compliance pertaining to three different types of income (i.e. taxable income, exempted income and casual income).

Arising from the findings of this research, several policy implications were identified. The findings demonstrated that in formulating strategies to enhance voluntary compliance, it is important for the relevant authorities to be aware of, understand and appreciate individual taxpayers’ compliance behaviour and the need to render tax education services.
DECLARATION

I certify that this thesis does not incorporate, without acknowledgement, any material previously submitted for a degree or diploma in any university. It does not contain any material previously published or written by another person except where due reference is made in the text.

This thesis does not exceed 80,000 words.

Signed: 

Date: 2006
Publications/conference papers produced from thesis


- This paper was awarded the ‘Best Empirical Paper’.


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<tr>
<td>ANOVA</td>
<td>Analysis of variance</td>
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<tr>
<td>ANSER</td>
<td>Automatic Answer Network System for Electrical Request</td>
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<td>AP</td>
<td>Attitude towards tax</td>
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<td>AS</td>
<td>Assessment system</td>
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<td>ATO</td>
<td>Australian Taxation Office</td>
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<td>CBR</td>
<td>Central Board of Revenue Pakistan</td>
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<td>CI</td>
<td>Criminal Investigation</td>
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<tr>
<td>CRA</td>
<td>Canada Revenue Agency</td>
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<td>DGIR</td>
<td>Director General of Inland Revenue Board Malaysia</td>
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<td>EPF</td>
<td>Employees’ Provident Funds</td>
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<td>FC</td>
<td>Financial constraints</td>
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<td>IR</td>
<td>Inland Revenue United Kingdom</td>
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<td>IRB</td>
<td>Inland Revenue Board Malaysia</td>
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<tr>
<td>IRD</td>
<td>Inland Revenue Department New Zealand</td>
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<td>IRS</td>
<td>Inland Revenue Service United States</td>
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<td>KB</td>
<td>Tax knowledge on business income and deduction</td>
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<td>KSK</td>
<td>Kokuzei Sougo Kanri</td>
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<tr>
<td>NBR</td>
<td>National Board of Revenue Bangladesh</td>
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<td>NETFILE</td>
<td>Filing through internet</td>
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<td>NRP</td>
<td>National Research Programme</td>
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<td>NT</td>
<td>Nakasone-Takeshita</td>
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<td>NZ</td>
<td>New Zealand</td>
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<td>OAS</td>
<td>Official assessment system</td>
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<tr>
<td>PAYE</td>
<td>Pay As You Earn</td>
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<td>PAYG</td>
<td>Pay-As-You-Go</td>
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<td>SA</td>
<td>Self assessment</td>
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<td>SE</td>
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<td>STD</td>
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<td>TCMP</td>
<td>Taxpayer Compliance Measurement Programme</td>
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<td>TELEFILE</td>
<td>Filing via telephone</td>
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<td>TIN</td>
<td>Tax Identification Number</td>
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<td>TK</td>
<td>Tax knowledge</td>
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<tr>
<td>TPB</td>
<td>Theory of Planned Behaviour</td>
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<td>TRA</td>
<td>Theory of Reasoned Action</td>
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<td>TS</td>
<td>Tax structure features</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>US</td>
<td>United State of America</td>
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<td>USAS</td>
<td>Universal Self Assessment Scheme</td>
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<td>VAT</td>
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Dedications

This thesis is specially dedicated to my
late parents, Foo Sin Loo and Bong Chan,
husband, Juan Keng Ho,
son, Xianyi
and
daughter, Xianhui.
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