Chapter 5 Analysis

In the previous chapter the results obtained through the three research methods derived from the quantitative and qualitative paradigms were presented, with the findings of each method being discussed independently. The objective of this chapter is to address each of the six research questions (as identified in Chapter 2), by drawing on the findings of the three research methods as a whole. It was envisaged that in using a cross-method analysis to triangulate the results, a more comprehensive picture of the relationships between these causes and compliance behaviour could be identified. The triangulated results are examined in the light of the existing literature with the view of identifying any gaps of knowledge that can be filled, particularly in the context of taxpayers’ compliance behaviour in Malaysia. Based on the overall conclusions drawn from the mixed method design, a revised theoretical model of the compliance behaviour of individual taxpayers in Malaysia (based on the preliminary model presented at Figure 2.7) is presented at the conclusion of the chapter.

The main objective of this research was to explore how the introduction of SA in Malaysia had impacted on individual taxpayers’ compliance behaviour. Accordingly, the following six research questions were identified:

(1) Has changing from OAS to SA system affected compliance behaviour of Malaysian individual taxpayers?

(2) Do tax structure features (tax rates, tax audit and penalty) affect compliance behaviour?

(3) Does taxpayer’s attitude towards tax affect compliance behaviour?

(4) Does taxpayer’s tax knowledge affect compliance behaviour?

(5) Do financial constraints of taxpayers affect compliance behaviour?

(6) Are there relationships between the five causes (assessment system, tax knowledge, tax structure features, attitude towards tax and financial constraints)?

The overarching research question, (i.e. question 1), was concerned with whether the change of assessment system (i.e. from OAS to SA system) has affected the compliance behaviour of individual taxpayers. This research question, together with four other research questions (i.e. questions 2 to 5), were directed at gaining deeper
insights into the probable influence that the five main categories of causes, namely
the assessment system, tax knowledge, tax structure features, attitudes towards tax
and financial constraints, might have on the compliance behaviour of individual
taxpayers in Malaysia. The sixth and final research question (question 6) was
directed at identifying the relationships between these five main causes.

To explore the effects of the five categories of causes on individual taxpayers’
compliance behaviour, as presented in Table 3.3, the three research methods,
(namely survey, experiment and case study) were utilised to address research
questions (2) Do tax structure features (tax rates, tax audit and penalty) affect
compliance behaviour?; (4) Does taxpayer’s tax knowledge affect compliance
behaviour? and (6) Are there relationships between the five causes (assessment
system, tax knowledge, tax structure features, attitude towards tax and financial
constraints)? To address the research questions (1) Has changing from OAS to SA
system affected compliance behaviour of Malaysian individual taxpayers?; (3) Does
taxpayer’s attitude towards tax affect compliance behaviour? and (5) Do financial
constraints of taxpayers affect compliance behaviour? only two research methods,
(namely survey and case study) were used. Preceding the discussion in addressing
each research question, the methods used for investigation are stated.

5.1 Research question 1: Has changing from OAS to SA system affected
compliance behaviour of Malaysian individual
taxpayers?

Two research methods, namely survey and case study, were relevant to address this
question. The experimental design was not relevant as observations could not be
made in relation to the effect of the change from OAS to SA system on compliance
behaviour.

Prior to the implementation of SA, taxpayers were required to file their tax returns
and furnish the relevant documentation (such as statements of employment income,
income statements and receipts) in support of their reporting and to substantiate their
claims for deductions. The IRB officers would then conduct the tax assessment.
Under OAS, it was possible that some taxpayers would have unintentionally
furnished erroneous and incomplete information in the tax returns. As such, these
taxpayers could be unaware that the IRB officers' failure to accurately finalise the assessments was due to their (taxpayers') erroneous and incomplete tax returns.

Under the OAS, taxpayers were not required to assess their own tax liabilities. This explained why most survey respondents had a poor understanding or awareness of the OAS as presented in Table 4.23. In contrast, with the implementation of SA, there was a significant improvement in the understanding of the new SA system as compared with that of the OAS. This improvement in understanding of SA and its requirements have a positive effect on the compliance behaviour of individual taxpayers.\textsuperscript{307}

In addition, the descriptive statistics from the surveys showed that overall there were significant differences in the pre SA and the post SA surveys in terms of tax knowledge, particularly in relation to relief and rebates and the ability to compute tax liability. The overall improvement in tax knowledge could be attributable to the significant differences in the level of education\textsuperscript{308} between the respondents\textsuperscript{29} in the pre and the post SA surveys as in the post SA survey, more respondents had higher level of education than those in the pre SA survey (see Table 4.4). This improvement in tax knowledge is also an indication that the change of assessment system had positively influenced the compliance behaviour of individual taxpayers. This is so as SA requires taxpayers to possess adequate tax knowledge in order to discharge their obligations under SA. The improvement in tax knowledge is also regarded as indicative of taxpayers' increased commitment to ensure that their tax returns were accurately prepared.

Past studies\textsuperscript{309} have revealed mixed findings on how the level of education had impacted on taxpayers' awareness of their tax obligations. Studies (James G 1998; Mohd Nor 1996) found that lecturers and teachers, who were literate, had poor tax literacy while factory workers who possessed less education were aware of their tax

\textsuperscript{307} The researcher is not aware of any other empirical evidence in relation to improvement in understanding of tax system, particularly empirical evidence gathered during the immediate transition from OAS to SA system and its impact on taxpayers' compliance behaviour. This research could be the first attempt to seek evidence on how a change in tax system could affect individual taxpayers' compliance behaviour in Malaysia.

\textsuperscript{308} Wallschutzky (1993) indicated that education is the variable most likely to improve compliance.

\textsuperscript{309} These past studies were carried out in Malaysia, but during the era of the OAS regime. However, since this present study was conducted during the transition from OAS to SA system, in this context, no similar research was conducted during the transition from OAS to SA system, in this context, no similar studies could be identified to provide any direct linkage or reference with this research.
obligations (Darus 1996). On the other hand, Madi (1999) found that there was a linear and significant relationship between level of education and level of tax knowledge among sole proprietors. These contradictory findings were probably due to the then existing OAS that did not require taxpayers to assess their tax liabilities. Studies undertaken in other tax jurisdictions produced similar inconsistent results. Some\textsuperscript{310} found positive relationships, others found that there was either a negative relationship\textsuperscript{311} or no relationship\textsuperscript{312} between level of education and tax compliance. Perhaps, the level of education has more impact on how one perceives the fairness of the tax system and the tax administration, than on taxpayers’ awareness of their tax obligations (Christensen, Weihrich & Newman 1994).

Similarly, the findings from the case study also suggest that the change to SA had a positive influence on taxpayer compliance behaviour of the majority of subjects.\textsuperscript{313} For instance, the subjects studied disclosed that they were more careful in filling in their tax returns to ensure their accuracy, so that they would not be penalised unnecessarily for unintentional non-compliance. Other than for a few exceptions, most subjects studied exhibited commitments to comply with the income tax law. For those who exhibited intentions to be non-compliant, they were more in relation to not reporting certain taxable income (such as casual income or income earned on a part-time basis), the quantum of which appeared to be insignificant. Such non-compliant behaviour was due to factors other than the introduction of SA, such as the perceived low probability\textsuperscript{314} of being detected or habitual behaviour as the result of never having been detected before (for not reporting).

Results from both the surveys and case study had provided evidence that the change from OAS to the SA system has affected taxpayers’ compliance behaviour, particularly in the improvement of their tax knowledge. However, the perceptions

\textsuperscript{310} See Song & Yarbrough 1978; Collins, Milliron & Toy 1992.
\textsuperscript{311} See Vogel 1974.
\textsuperscript{312} See Hasseldine, Kaplan & Fuller 1994.
\textsuperscript{313} See above n 290.
\textsuperscript{314} It should be noted that most subjects in the case study were not aware of how a tax audit would be conducted, but they did know that there was some form of ‘checking’ on their tax returns. Under the OAS, tax officers would ‘check’ the information furnished to finalise an assessment, as there were no ‘tax audits’ as understood by the subjects. Thus, for example, should there be any claim for deduction that was not allowable, under the OAS, tax officers, without referring back to the taxpayer, would exclude such a deduction when finalising the assessment. It should be noted that in this context most of the subjects perceived that the probability of being detected was low. This is not surprising as between 1997 and 2002, only an annual average of 1223 cases were audited (IRB 2006).
towards the change of assessment system did not have any significant effect on the compliance behaviour of the SW. This was supported by the logistic regression models derived from the post SA survey where the factors under the assessment system (AS) were not included in all the post SA models for the SW. As for the SE, although factors under AS were found, but they were insignificant determinants\(^{315}\) (\(p>0.10\)) in respect of reporting compliance on the three types of income.

The scenarios arising from the findings could not be directly compared with that of any existing literature in relation to whether the change from the OAS to SA affected compliance behaviour.\(^ {316}\) The only possible comparison that may be made is the experience in Bangladesh where, with the implementation of SA, it was found that the majority of the taxpayers did not comply with the requirements of SA. However, the emphasis of the compliance issue in the Bangladeshi study was more on the filing of tax returns under the SA system since the main objective of SA in Bangladesh was to increase the number of tax returns filed rather than complying with the reporting of taxable income. Hence, in the Bangladeshi experience, the effects of the implementation of SA might not be exactly comparable with that of Malaysia.

5.2 Research question 2: Do tax structure features (tax rates, tax audit and penalty) affect compliance behaviour?

All three research methods were relevant for addressing research question 2. Even though different methods\(^ {317}\) of data collection were used, it is noted that evidence gathered in relation to the tax structure features, particularly audit and penalty, was similar and not contradictory.

Evidence from past studies conducted on the relationships between tax structure features and compliance varied in terms of the influence of penalties and tax rates. Generally, it has been suggested in the literature\(^ {318}\) that tax structure features,

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\(^{315}\) See Table 4.46 (\(p=0.147\)), Table 4.48 (\(p=0.171\)) and Table 4.50 (\(p=0.260\)).

\(^{316}\) See above n 307.

\(^{317}\) In the survey, the perceptions pertaining to tax audit and penalty were sought from respondents. In the experiment, the main and interaction effects were used to test all the three tax structure features (tax rates, audit rates and penalty rates), while in the case study, subjects were interviewed on matters in relation to the three tax structure features. For more discussion on research methods, see 3.2 for survey, 3.3 for experiment and 3.4 for case study.

\(^{318}\) For more discussion, see Chapter 2. For example, see Clotfelter 1983; Witte & Woodbury 1985; Dubin & Wilde 1988; Dubin, Graetz & Wilde 1990; Beron, Taulchen & Witte 1992; Dubin & Wilde.
particularly tax audit, play a vital role in enforcing compliance (Jackson & Jouen 1989; Dubin 2004). Further, SA systems have incorporated tax audit and penalty as regular, and perhaps necessary, features to ensure their successful implementation in terms of maximising voluntary compliance (by deterring intentional non-compliance).

Do tax structure features affect compliance behaviour? Evidence from the experiment conducted in this research clearly revealed that all the three features, namely tax rates, tax audit and penalty rates, showed significant \( p<0.01 \) main effects on the compliance behaviour of the individuals who participated. In particular, penalty rates and tax rates were the two features that had highly significant \( p<0.001 \) main effects on reporting compliance (see Table 4.60). The findings of the experiment were further reinforced by the results of the survey and case study. The results of the logistic regression (post SA models for 'All groups'\(^ {319} \)) based on the survey data presented in Table 4.34 and Table 4.38 showed that TS1 (i.e. penalty for failure to file tax returns or filing fraudulent tax returns) was a significant determinant that affected the compliance behaviour of individual taxpayers in relation to reporting of taxable income and casual income. Further, TS1 was found to be a highly significant \( p<0.001 \) determinant among the SE in reporting taxable income (see Table 4.46). Evidence gathered from the case study revealed that fear of being tax audited\(^ {320} \) and of being penalised had also indirectly influenced the subjects’ decisions to comply with the tax law. That is, even though there were expressions of dissatisfaction among the subjects within both the higher and the lower tax brackets, the fear of the probability of being tax audited and of the imposition of penalty had, in some cases, led subjects to be over cautious, causing them to over comply.

The outcomes of the experiment also revealed that tax structure features and tax knowledge had the most prevalent interaction effects. However, for different categories of individual taxpayers, the significant interaction effects differed between the SE and the SW. Three-way significant interaction (see Table 4.57) effects were

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\(^{319}\) 'All groups’ refers to the combination of both categories of individual taxpayers i.e. the SW and the SE taxpayers. Also see 4.1.16.

\(^{320}\) Most subjects did not use the terms ‘audited’. Instead they tended to use the term ‘being checked’ to mean ‘being audited’. Also see above n 314.
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found among the SE, but only two-way significant interaction effects (see Table 4.55) were found in the SW. It is interesting to note that, overall, for those who were in the middle tax rates, their reporting compliance remain unchanged in spite of the effect of tax knowledge. Perhaps the only possible explanation for such behaviour is that the effect of the tax rate imposed on this category of taxpayers remained small. As such, it did not make any difference to them as to whether or not they improved their reporting compliance. When tax knowledge and tax structure features were consolidated and merged, the interaction effects remained different for different categories of taxpayers within different levels of tax rates, audit rates and penalty rates.

For the SW respondents, penalty and tax audit were effective deterrence tools for not reporting casual income (see Table 4.44) but not a deterrent for the non-reporting of taxable income. In contrast, for the SE respondents, penalty was more effective in relation to the failure to file a tax return or for filing fraudulent reporting of taxable income (see Table 4.46), while strict enforcement or heavy penalty was more effective for the non-reporting of casual income (see Table 4.50). Similarly, higher penalty rates were more effective deterrence tools for the SW in improving reporting compliance among participants in the experiment.

It is observed that the penalties imposed for failure to file tax returns or for filing fraudulent tax returns were more of a concern among respondents in the post SA survey compared with those in the pre SA survey. Subjects in the case study were more concerned about the penalty imposed for filing inaccurate tax returns. Regardless of the different perceptions towards the imposition of penalty, it remains an important factor that is affecting taxpayers’ compliance behaviour in spite of the interaction of tax knowledge.

The findings on the effects of tax audit and penalty on non-compliance in particular, are consistent with the studies of Clotfelter (1983); Witte and Woodbury (1985); Beron, Tauchen and Witte (1988); Dubin, Graetz and Wilde (1990) and ‘Ali, Cecil and Knoblett (2001). These studies revealed the existence of relationships between tax compliance and tax structure features. Similarly, the findings of this research also indicated that perceptions of risk (if apprehension and punishment were applied) had groundings in the enforcement process, findings which are consistent with that of
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Klepper and Nagin (1989a, 1989b). Moreover, it should be noted that the findings of this research also confirmed the results of earlier studies that tax audit effects, coupled with penalties, were noted to be more significant as effective deterrence tools against non-compliance among small proprietors than among others (Witte & Woodbury 1985; Ali, Cecil & Knoblett 2001). However, this has to be interpreted with caution as some interactions of the tax structure features with taxpayers' income classes showed different significant effects; such as those observed by Hite and Spicer (1990) where heavier penalties had more effect on repeat offenders but not on the first-timers. Similarly, routine audits were claimed to be an ineffective mechanism for non-filers (Dubin, Graetz & Wilde 1990). Nevertheless, the findings of this research reinforced the economic model or deterrence theory as first developed by Allingham and Sandmo (1972). That is, if the expected payment (of penalty) upon detection was lower than the tax due, taxpayers would not comply fully when reporting their income.

Sandford (1994) suggested that even though there was no reliable evidence that SA led directly to increased evasion, it was more likely that increased evasion was due to the low probability of being detected\textsuperscript{321} under SA. Evidence from the case study confirmed that evasion did exist as a result of the perceived low probability of being audited. This could be the case in the Malaysian context given that the IRB's current audit emphasis is on the lodgement of accurate and timely returns. This emphasis may be expected, given that SA in Malaysia is in its infancy stage and needs to be successfully implemented. Evidence might prove otherwise when the implementation of SA has reached its maturity stage.

Other reasons for tax evasion could be the lack of withholding tax on income, particularly for the SE, thus creating an opportunity for evasion. The issues of withholding tax and opportunity to evade have been well argued by various researchers and significant positive relationships have been found between opportunities to evade and the occurrences of evasion (Robben \textit{et al} 1990; Wallschutzky 1993; Blumenthal, Christian & Slemrod 1998). Further, increasing the effect of withholding tax on various income sources has been found to reduce the

\textsuperscript{321} This is shown in the US where the audit rate was less than 1 per cent, non-compliance increased (Johnson 2003; Alm, Jackson & McKee 2004).
opportunities to evade (White, Harrison & Harrell 1993; Young 1994; Turnier & Little 2004).

The findings of this research, that tax structure features affect individual taxpayers’ compliance behaviour, has contributed significant support to other findings reported in the literature. However, the findings of this research contradict those of Graetz, Reinganum and Wilde (1986) and Dubin and Wilde (1988) who found that the risk of detection was not exogenous but rather a function of the level of compliance. The only observation made in relation to this contradiction is that it may be due to the differences in demographic variables and data used.

In general terms, based on the empirical evidence gathered from the mixed method of this research, it is concluded that individual taxpayers in Malaysia, in particular the SE, were sensitive to tax audit, marginal tax rates and penalty. These three tax structure features did affect the compliance behaviour of individual taxpayers. However, the effect of the tax rates was marginally less significant as compared with that of the other two tax structure features, namely tax audit and penalty.

5.3 Research question 3: Does taxpayer’s attitude towards tax affect compliance behaviour?

Similar to research question 1 (in 5.1 above), only two research methods, namely survey and case study, were utilised to gather evidence to address research question 3. Attitudes towards tax, in particular, on the fairness or otherwise of income tax are not directly observable, as these are often personal value judgements. As such, an experimental design was inappropriate.

From the perspective of both psychological and sociological studies, researchers have suggested that human behaviour is more complex than what economists first thought. The founders of the theory of reasoned action predicted that there could

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323 Instead of using data directly from the IRS data set provided such as those used by Clotfelter (1983) and Witte & Woodbury (1985), the studies by Graetz, Reinganum & Wilde (1986) and by Dubin & Wilde (1988) used the subset of the IRS data set.
324 For more discussion, see Chapter 2. For example, see Lewis 1982a, 1982b; Smith & Stalans 1991; Alm, Jackson & McKee 1992b; Eriksen & Fallan 1996; Brodie 1999; Thompson & Teviotdale 1999; Forest & Sheffrin 2002.
325 For more discussion on theory of reasoned action, see 2.3.2.
be possible relationships between attitudes and actions. Human behaviour, in particular, was not only affected by the assessment of the economic costs and benefits, but also influenced by attitudes and perceptions in relation to the government and the tax system. It was also suggested that non-compliance rates could be implicitly used as a surrogate indicator of the fairness of the income tax system.

In the context of this research, the logistic regression models (based on the post SA survey data) showed that attitude towards tax was not very significant \((p>0.05)\) in determining compliance behaviour, at least in respect of reporting of taxable income and exempted income (see Table 4.34 and Table 4.36). In contrast, taxpayers’ level of confidence in handling their own tax affairs (AP2) were found to be highly significant \((p<0.001)\) as a determinant in the reporting of casual income (see Table 4.38). The implication is that the perception of one’s confidence in handling one’s own tax affairs and of the tax system have strong effects on one’s compliance behaviour, particularly in relation to reporting certain types of income. The reason for this factor (AP2) being a significant determinant on the reporting of casual income could be that most of the casual income was an one-off payment that might be untraceable as compared with other forms of taxable income that were received on a regular basis.\(^{326}\) Perhaps the lack of tax knowledge in understanding the chargeability of casual income had resulted in lack of confidence in handling issues related to this class of income.\(^{327}\)

It is interesting to note that, overall, attitudes towards tax did not show any significant \((p>0.10)\) effect on the compliance behaviour of the SE (see Table 4.46, Table 4.48 and Table 4.50), but did significantly \((p<0.05)\) affect the compliance behaviour of the SW (see Table 4.40 and Table 4.44). In particular, taxpayers’ level of confidence in (AP2), and perceptions on the IRB officers’ roles as well as perceptions on the fair share of benefits funded by tax revenue (AP4) did show

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\(^{326}\) It is pertinent to note that as required by the tax law in Malaysia, employers are required to issue statements of employment income to all employees for the employees to file their tax returns. Section 2 of the ITA (1967) defines ‘employment’ as a situation “...in which the relationship of master and servant subsists”, where the ‘servant’ is the ‘employee’ and the ‘master’ is the ‘employer’. However, in the case casual income, where there is no such master-servant relationship, no statement of employment income is issued.

\(^{327}\) Under the ITA (1967), employment income is chargeable under section 4(b) while casual income should be chargeable under section 4(f).
significant effects on the compliance behaviour of the SW in their reporting of taxable income. Other components of AP, such as issues relating to tax administration and moral or ethical obligations were found to have no significant effect on the compliance behaviour of both categories of individual taxpayers. Perhaps, the discharging of their legal obligations (see Table 4.29) was of more concern among respondents in the survey, while the majority of the subjects in the case study agreed that filing tax returns and paying taxes were mainly due to legal rather than moral or ethical obligations. Only a handful of subjects did indicate that they felt morally and ethically obliged to pay their taxes. This implied that besides being aware of the legal obligations, there is a need to enhance moral values among taxpayers in relation to their tax obligations.

The outcome of the case study revealed a mixture of both positive and negative attitudes towards tax, although more negative than positive attitudes were found. For instance, subjects were neither happy with the current implementation of SA nor with the tax system as a whole. They felt that they did not receive fair treatment from the IRB officers and some were not satisfied with the tax rates imposed on them. The findings of the case study were consistent with that of the survey, which revealed that attitudes towards tax, either positive or negative, were affecting only one category of taxpayers (i.e. SW) but not individual taxpayers as a whole. As such, it could not be generalised that attitudes towards tax had strong effect on compliance behaviour. However, it could be interpreted that attitudes towards tax did, to some extent, affect compliance behaviour of one category of taxpayers (i.e. the SW) but that it was not affecting individual taxpayers' compliance behaviour as a whole.

Generally, the findings of this research (both from survey and case study) on issues relating to moral or ethical obligations are consistent with the analytical study of Smith and Kinsey (1987) who had indirectly refuted other findings that non-compliance behaviour was the result of an action of a conscious and deliberate taxpayer. In this research, one obvious piece of evidence arising from the mixed method research (survey and case study) was that most respondents and subjects

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328 Respondents agreed ($\bar{x} = 4.08$, $s = 0.806$) that they were "...more aware of his/her legal obligations in relation to tax" by filing honest returns. For the logistic regression analysis, this item was excluded via factor analysis for showing multicollinearity with other variables.
were unintentionally non-compliant (see Table 4.30) rather than not complying intentionally.

In contrast, the findings of this research showed that non-compliance behaviour was more associated with one’s experience with the tax authority. A taxpayer’s experience with the tax authority did change his/her attitude towards tax, and that negative experiences would eventually lead to increased non-compliance, particularly in the case of the SW. These findings were indirectly in agreement with the findings of other studies (Stalans 1992, quoted in Wickerson 1993:6; Kasipillai & Baldry 1998; Feld & Frey 2003). Similarly, the findings of this research were also consistent with that of Mottikavandar et al (2003), who found positive co-relationships between attitudes towards one’s own compliance with the perceived effectiveness of the IRB and the perceived fairness of the overall tax system.

The implication here is that different categories of taxpayers might possess different levels of reasoning that could affect their tax morals and subsequently change their attitudes accordingly. This is also due to the differences in underlying beliefs structures that were present between subjects (Hanno & Violette 1996). However, taxpayers’ level of reasoning might be related to their level of education and level of tax knowledge as more SW were educated and more rated their level of tax knowledge as reasonably satisfactory. In this context, the findings of this research are consistent with that of Chan, Troutman and O’Bryan (2000) and Trivedi, Shehata and Mestelman (2005). Chan, Troutman and O’Bryan (2000) developed and tested an expanded model on the taxpayers (in Hong Kong and US) and found that the level of moral reasoning did affect taxpayers’ attitude. Similarly, through a laboratory experiment, utilising the theory of planned behaviour (an extension of the theory of reasoned action), Trivedi, Shehata and Mestelman’s research found that attitude, personality and intentions were variables that influenced the individual’s compliance decision. Both studies (Chan, Troutman & O’Bryan 2000; Trivedi, Shehata & Mestelman 2005) found that those who used higher levels of moral reasoning had more favourable attitudes towards the tax system, and hence were more compliant.

329 For more discussion, see 2.3.2.2.
330 Ibid.
5.4 Research question 4: Does taxpayer’s tax knowledge affect compliance behaviour?

In the search for evidence to address this research question, all the three research methods were relevant. Although different methods\textsuperscript{331} of data collection were utilised, it is pertinent to note that the findings in relation to tax knowledge that emerged from the three different research methods were consistent.

The successful implementation of a SA system would rely partly on the taxpayers’ ability to file appropriate and complete tax returns. To be able to file appropriate and complete tax returns, taxpayers must possess adequate knowledge on related tax issues. The question is whether one will be more compliant (or otherwise) given more tax knowledge. Previous research has provided conflicting results as to whether tax knowledge resulted in improved taxpayers’ compliance behaviour. Some researchers\textsuperscript{332} have suggested that having better tax knowledge would enable taxpayers to be more compliant as unintentional non-compliance would be reduced. On the other hand, others\textsuperscript{333} have suggested that with better tax knowledge, one is able to find loopholes in the tax system, resulting in increased intentional non-compliance and greater avoidance of tax.

One clear result arising from the experiment conducted as part of this research is that an increase in tax knowledge significantly increased reporting compliance. Regardless of the category of participants and the number of hours of lesson given on tax knowledge, having more tax knowledge did significantly improve their reporting compliance (see Table 4.53). This implies that taxpayers would improve their reporting compliance if they have better knowledge of the income tax law. Conversely, lack of tax knowledge would eventually lead to non-compliance, either unintentional non-compliance or unintentional over compliance.\textsuperscript{334} Further, the

\textsuperscript{331} In the survey, a list of questions related to tax knowledge were posed to solicit information. In the experiment, the participants were given lessons on tax knowledge and were required to compute their own tax liabilities. In the case study, tax returns prepared by the subjects were scrutinised against the supporting documents, and where necessary, clarifications were sought from the subjects on matters in relation to their tax knowledge. For more discussion on the three research methods, see 3.2 for survey, 3.3 for experiment and 3.4 for case study.

\textsuperscript{332} For example, see Erikson & Fallon 1996; Kasipillai, Aripin & Amran 2003; Sarker 2003.

\textsuperscript{333} See review by Jackson & Milliron 1986; Crane & Nourzard 1990; Chan, Troutman & O’Bryan 2000.

\textsuperscript{334} Similar discussion as in 5.3 above, where the lack of tax knowledge had led to the lack of confidence in handling one’s own tax affairs, particularly in respect of reporting casual income.
findings of the case study revealed that tax knowledge did affect individual taxpayers’ compliance behaviour. Based on the pattern that emerged from the case study, there was evidence that the lack of tax knowledge did cause numerous errors in tax returns furnished by individual taxpayers, particularly those who prepared their own tax returns. These errors had resulted in unintentional non-compliance. Meanwhile, ignorance on certain exemptions and deductions available had resulted in over compliance that obviously favoured the tax authority rather than taxpayers.

The results of the simulation experiment and case study were further strengthened by the results of all logistic regression analyses carried out based on the data obtained from the post SA survey. As compared to the other categories of causes (namely tax structure features, attitude towards tax and financial constraints) the results of the logistic regressions revealed that more factors under the components of tax knowledge [TK (for both categories of taxpayers) and KB (for the SE only)] were significant determinants of compliance behaviour in the post SA models. For both categories of taxpayers, knowledge of joint assessment, rebates and tax computation (TK4) showed significant effects on compliance behaviour in relation to the two dependent variables, i.e. reporting of taxable income (see Table 4.34) and reporting of casual income (see Table 4.38). It is pertinent to note that tax knowledge (TK4) had more significant \( p<0.001 \) effects on the compliance behaviour of the SW than of the SE.

As for the SE, more factors on tax knowledge in relation to business income and deductions (KB) were determinants in determining their compliance behaviour. Knowledge on understanding the deductibility of expenses incurred, free gifts provided, capital allowances and the chargeability of receipts or compensation received from disposal of assets (KB4) appeared to be more significant \( p=0.003 \) than other factors (see Table 4.46). In conclusion, the results of the logistic regressions confirmed that at different respective levels of significance, tax knowledge was a significant determinant of the compliance behaviour of individual taxpayers regardless of the category of individual taxpayer or the type of income involved (taxable income, exempted income or casual income).

The findings of the three research methods used herein are consistent with that of other studies (Fischer, Wartick & Mark 1992; Christensen, Weihrich & Newman
1994; Kasipillai et al 1999; Saad, Mansor & Ibrahim 2003). That is, tax knowledge and compliance are correlated and there is a strong positive co-relationship between tax knowledge and the level of compliance. As stated, having a low level of tax knowledge would not contribute to higher levels of compliance (Saad, Mansor & Ibrahim 2003). However, the findings of this research contradict that of other studies (Eriksen & Fallan 1996; Mottiakavandar et al 2003) which revealed no relationship between tax knowledge and compliance behaviour (Eriksen & Fallan 1996; Mottiakavandar et al 2003). These two studies found that tax knowledge was more strongly related to attitude towards tax. The findings of the previous studies that used different research methods of data collection were inconsistent, and these inconsistencies probably could be due to the multidimensional definitions of fairness or attitude tested as variables in the studies (Jackson & Milliron 1986).

To conclude, the outcomes of this research (specifically based on the evidence gathered from the experiment and case study) suggested that individual taxpayers would improve their reporting compliance when they had better tax knowledge. However, it must be acknowledged that for some taxpayers, having more tax knowledge could enable them to exercise better tax planning in terms of tax avoidance and some may even venture into realm of tax evasion. Regardless of the type of compliance behaviour, the effect of tax knowledge on individual taxpayers’ behaviour remained robust and prevalent.

5.5 Research question 5: Do financial constraints of taxpayers affect compliance behaviour?

Similar to the research questions 1 and 3 (in 5.1 and 5.3 above), only two research methods, namely survey and case study were used to address research question 5. The demographic variables of the participants (students) in the experiment did not suit the criteria of financial constraints as defined in this research, hence the experimental design was inappropriate and not relevant to this question.

Economic theories suggest that individuals would weigh the costs and benefits of their behaviour when they were faced with financial distress. An individual who had

335 The tax knowledge here refers to the more advanced knowledge on taxation which would enable one to understand the differences between the exercising and consequences of tax avoidance and tax evasion.
severe financial constraints would probably try to avoid paying more taxes (Vogel 1974; Wärneryd & Walerud 1982; Roy-Chowdhury 2003). Lack of funds appeared to be a strong motivator relating to intentional non-compliance (Ritsema, Thomas & Ferrier 2003).

The results of the logistic regressions (i.e. the post SA models for ‘All groups’) of the survey revealed that as a whole, factors under financial constraints (FC) were not determinants or predictors in determining the compliance behaviour of individual taxpayers (see Table 4.34, Table 4.36 and Table 4.38). However, financial constraints (FC) was included in the post SA models as a determinant but had an insignificant \( (p>0.10) \) effect on the compliance behaviour of the SW (see Table 4.40 and Table 4.42). In contrast, FC2 (i.e. income level and use of the service of tax agents) was found to be a significant \( (p<0.05) \) determinant or predictor on reporting compliance of taxable income for the SE (see Table 4.46). This showed that the components of FC2 had only affected the compliance behaviour of the SE but not the SW.

The components of FC1 (family commitment comprising of marital status and number of children) were not determinants for both categories of individual taxpayers for all the three dependent variables, namely reporting of taxable income, reporting of exempted income and reporting of casual income. Perhaps marital status and the number of children were not the main issues of financial constraints since for married taxpayers, under specific circumstances, either one of the spouses was entitled to spouse relief in the event of a joint assessment. In addition, eligible taxpayers were given child relief for an unlimited number of children provided that the children fell within the qualifying category. 336 Indirectly, these items of relief would have reduced the amount of chargeable income and eventually reduced the tax liability. One piece of robust evidence supporting this was obtained from the case study where a particular subject (in the SW category) fell within the income group of RM50,000 and above. 337 After taking into consideration all the child relief and rebates that were available to this subject, he/she finally did not have to pay a single

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336 Child relief is generally allowable for the maintenance of children under the age of 18 years. For the maintenance of children above the age of 18 years, the child relief is allowable provided a child is still receiving full time education in any educational institution. However, a child relief is only allowable for the maintenance of an unmarried child. Also see 1.2.1 for more discussion.

337 Under normal circumstances, a marginal tax rate of 13 per cent and above is applicable to an individual having this level of income.
cent of income tax. Given the various relief and rebates available to individual taxpayers, even those who fall within the high level of income category may not have to pay any income tax.

As such, in this research, FC [particularly the component of FC2 (i.e. income level and use of the service of tax agents)] was found to be affecting one category of taxpayer (i.e. the SE) but did not have any strong effect on the compliance behaviour of the SW. This mixed finding is consistent with the mixed and inconsistent evidence derived from the literature that revealed that FC,\textsuperscript{338} at particular income levels was found to be negatively correlated with non-compliance behaviour (Christian & Gupta 1993, quoted in Hite 1996:4; Alm, Jackson & McKee 1992a). Others found a positive relationship between income and non-compliance behaviour (Clotfelter 1983; Young 1994), while Witte and Woodbury (1983, 1985) suggested that those with higher income were more compliant. Perhaps the issue of FC was not a main concern among the respondents or subjects in the new SA regime in Malaysia. Another explanation is that personal income tax in Malaysia is comparatively lower than in some other countries. In conclusion, FC only had direct and strong influence on one category (i.e. the SE) of Malaysian individual taxpayers’ compliance behaviour.

5.6 Mediating effects of demographic variables

To arrive at more comprehensive and complete findings, the mediating effects of the demographic variables\textsuperscript{339} on taxpayers’ compliance behaviour need further discussion. Literature\textsuperscript{340} has suggested that different compliance behaviour, particularly among tax paying communities, was mediated by differences in their demographic variables, such as age, gender, level of education and occupation. In

\textsuperscript{338} It should be noted that two factors, i.e. FC1 and FC2 (see Table 4.31) under the component of FC were analysed in the logistic regression. The components of FC1 (i.e. family commitment comprising of marital status and number of children) and the components of FC2 (i.e. income level and use of the service of tax agents) in this research were not exactly the same as the variables used in other studies.

\textsuperscript{339} Data on the demographic variables was mainly collected via the survey. Only minimal demographic variables such as Gender, Age, Language Proficiency, Level of Education and Ethnic background were included in the case study. It is also worth mentioning that in the experiment, no demographic variables were collected as the participants were almost ‘homogeneous’ in terms of age, language proficiency and level of education.

\textsuperscript{340} For example, see Jackson & Miiliron 1986; Roth, Scholz & Witte 1989; Fischer, Wartick & Mark 1992; Glen 1998; Andreoni, Erard & Feinstein 1998; Chan, Troutman & O’Bryan 2000; Kasipillai, Aripin & Amran 2003; Richardson 2005.
this research, in line with the current context in Malaysia, two variables\textsuperscript{341} were added to the demographic variables, i.e. Language Proficiency\textsuperscript{342} and Ethnicity.\textsuperscript{343} Out of the demographic variables\textsuperscript{344} tested in the survey as well as gathered from the case study, only a few variables showed mediating effects on taxpayers’ compliance behaviour. For both categories of taxpayers (i.e. SW and the SE), the three common variables which showed mediating effects on their compliance behaviour were Language Proficiency, Age and Ethnicity.

However, interestingly, for the three different types of income (taxable income, exempted income and casual income), no mediating effects were shown by the demographic variables on taxpayers’ reporting compliance in relation to exempted income particularly in the post SA logistic regression models (see Table 4.36, Table 4.42 and Table 4.48). Similar patterns also emerged from the case study where the subjects were not mediated by their demographic variables in relation to the reporting of exempted income.

In respect of reporting compliance in relation to taxable income, Language Proficiency (A2) and Age (A4) were significant individual predictors that had significant mediating effects on the compliance behaviour of individual taxpayers (see discussion related to Table 4.34). Those respondents who were proficient only in the English language appeared to be more non-compliant, albeit unintentionally, while those between the age of ‘31-40 years’ and ‘51 years and above’ were more compliant than their respective reference level (‘21-30 years’). A pattern similar to that of the survey also emerged in terms of Language Proficiency in the case study, where the subjects were non-compliant. Perhaps those who were proficient in both ‘Malay and English Language’ were more able to comprehend the contents of the tax returns than those who were proficient only in English. This is so, as the tax returns were prepared only in the ‘Malay Language’. Hence, those being proficient only in

\textsuperscript{341} The first variable (Language Proficiency) was not found in any literature reviewed. For the second variable (Ethnicity), minimal research has been undertaken in respect to tax compliance and nationality. For example, Song & Yarbrough (1978) studied differences between races; Roth, Scholz & Witte (1989) used ‘white’ and non-white’, and found ‘white’ was more compliance.

\textsuperscript{342} It should be noted that Malay is the official language in Malaysia. However, being a formal British colonial territory, the English language is still being widely used, particularly in the private sector.

\textsuperscript{343} See above n 263.

\textsuperscript{344} The demographic variables gathered from survey were Gender, Language Proficiency, Age, Level of Education, Ethnicity, Category, Sector of Employment, Occupation, Type of Business and Level of Tax Knowledge Rated.
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English would have encountered problems in understanding the terms or phrases used in the tax returns. For the SW, another variable i.e. Sector of Employment (A9) as shown in the post SA logistic regression model (see Table 4.40) also showed a marginal ($p=0.09$) mediating effect on their reporting compliance. However, there was no difference in compliance behaviour between the SW employed in the public sector and in the private sector.

Comparatively, for the SE, there were greater number of demographic variables having significant ($p<0.10$) mediating effects on reporting compliance of taxable income (see Table 4.46) than for the SW. In addition to the demographic variables mentioned above (i.e. Language Proficiency, Age and Ethnicity), the Level of Education (A6) and Types of Business (A11) also showed mediating effects on the compliance behaviour of the SE. For the SE, proficiency only in the English Language had resulted in unintentional non-compliance. Those within the age of ‘51 years and above’, the ‘Ethnic Chinese’, those who possessed ‘university degree’, those who were engaged in the provision of ‘management or consultancy services’ and those who were operating ‘construction business’, were more compliant than their respective reference levels. It is implied that younger SE with only school education, as well as those engaged in trading, were less compliant compared to other SE. In terms of age, the findings of this research were consistent with that of other studies\footnote{See Vogel 1974; Jackson & Milliron 1986; Beron, Tauchen & Witte 1988.} which found that older taxpayers were more compliant than their younger counterparts. Perhaps younger taxpayers are categorised as risk-takers, inexperienced in filing their tax returns, or are lacking in tax knowledge that had resulted in them being less compliant. However, the findings of this research contradict those of other studies\footnote{For example, see Clotfelter 1983; Porcano 1988; Collins, Milliron & Toy 1992; Smith K 1992.} which failed to detect any relationship between age and compliance. In terms of Language Proficiency and Ethnicity, no direct comparison could be made with the existing literature, as these two variables were unique\footnote{See above n 341, n 342 and n 343.} in the Malaysian context.

In respect of reporting casual income, it is interesting to note that only Ethnicity was a significant ($p=0.002$, see Table 4.38) predictor for the post SA model of ‘All groups’. Ethnicity was a highly significant ($p<0.001$, see Table 4.44) determinant for
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the SW but not a predictor for the SE. Perhaps the SE treated all income as business income rather than differentiating these incomes as taxable income and casual income. In both the post SA models (for ‘All groups’ and the SW), the Ethnic Chinese appeared to be more compliant than the reference level (the Ethnic Malay). It is likely that the Ethnic Chinese were more aware of the taxability of casual income and of the statutory requirement to report such income as compared to the other Ethnic groups. As a consequence, their knowledge in understanding the meaning of casual income made the Ethnic Chinese more aware of the taxability of such income and hence they were more compliant. The results of the survey are complemented by evidence derived from the case study which showed that the majority of the SW subjects were Ethnic Malays who did not derive casual income. This explains why the Ethnic Malays were less aware of the taxability of casual income and thus less compliant in this respect in comparison to the Ethnic Chinese.

Some demographic variables used in this research had slight differences as compared to other previous research. Other than those findings that were discussed above, the findings in relation to the mediating effects of these variables were not fully comparable with that of other previous studies. Nevertheless, these findings have addressed the calls to investigate the effects of demographic variables on tax compliance behaviour (Fischer, Wartick & Mark 1992; Chan, Troutman & O’Bryan 2000). It is concluded that irrespective of the different category of taxpayers, different demographic variables, to some extent, have different influences on the compliance behaviour of individual taxpayers.

5.7 Research question 6: Are there relationships between the five causes
    (assessment system, tax knowledge, tax structure features, attitude towards tax and financial constraints)?

The outcomes arising from the mixed method design discussed above did provide evidence about the relationships between the five categories of causes and individual taxpayers’ compliance behaviour. Are these five categories of causes related, and if so, how? This section will address the last research question as to whether there are any relationships between these five categories of causes. The discussion in this
section is based on evidence derived from the three research methods, namely the survey, experiment and case study.

The first evidence of these relationships was shown by the statistical correlation analysis (see Table 4.52) derived from the post SA survey data. Although results of the analysis showed no strong relationships among the five categories of causes, there were nevertheless some relationships ranging from weak ($r=-.10$ to $.29$ or $-.10$ to $.29$) to moderate ($r=.30$ to $.49$ or $.30$ to $.49$). The correlation results showed that attitude towards tax (AP) was significantly and negatively correlated with two causes i.e. financial constraints (FC) and tax knowledge (TK), but significantly and positively correlated with the assessment system (AS). In addition, TK had highly significant positive correlation with tax structure features (TS). The relationship between these two causes (i.e. tax knowledge and tax structure features) was further enhanced by the clear evidence shown in the interactive effects arising from the outcomes of the experiment. Participants showed improvement in their reporting compliance when tax structure features (particularly audit and penalty) interacted with tax knowledge.

The results of this research also revealed that, in the case of individual taxpayers in Malaysia, the imposition of tax structure features (namely audit and penalty) would have a positive impact on their attitudes and responsibilities towards tax and on their tax knowledge. It is implied that as a result of the introduction of SA, taxpayers would assume more responsibilities for their own tax affairs in order to avoid being penalised for failure to file tax returns or for the filing of erroneous tax returns. To discharge these responsibilities, taxpayers would try to acquire more or improve their tax knowledge. As a result of the improvement in their tax knowledge, their attitudes towards tax in terms of confidence in handling their tax own tax affairs would eventually show positive improvement.

Meanwhile, the participants in the experiment also showed improvement in reporting compliance after having acquired better tax knowledge. In this context, the Malaysian individual taxpayers’ compliance behaviour is consistent with the

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$^{348}$ A relationship is considered strong when $r=.50$ to $1.0$ or $-.50$ to $-1.0$ (Cohen 1988, quoted in Pallant 2005:126).

contention of the general economic deterrence theory, that taxpayers would weigh
the costs and benefits before making any decision as to whether or not to comply.

However, on the contrary, the findings of this research (from survey and case study)
also revealed that increases in taxpayers' tax knowledge would have a negative
impact$^{350}$ on some taxpayers' attitudes towards the tax administration and on their
perceptions of the IRB officers' roles$^{351}$ as well as on their perceptions of having a
fair share of benefits funded by tax revenue. This is further evidenced by the
respondents' self-rated Level of Tax Knowledge (A14) that had a significant
negative ($r=-.271$) relationship with their attitudes towards tax. Respondents with
higher self-rated Level of Tax Knowledge (A14) did exhibit better tax knowledge,
but the negative correlation also indicated significant negative impact on their
attitudes towards tax. In this respect, enhancement of tax knowledge did not
necessarily enhance some respondents' attitudes towards taxation. This aspect of the
research findings appeared to contradict the general contention of some other studies
which found that having better tax knowledge would improve one's attitudes towards
taxation (Song & Yarbrough 1978; Lewis 1982b; Eriksen & Fallon 1996; Trivedi,
Shehata & Mestelman 2005). On the other hand, a study by Tan and Chan (2000)
found that increased tax knowledge did not have significant impact on the
perceptions of fairness and tax compliance attitudes.

In terms of taxpayers' perceptions on the change of assessment system, a negative
impact on their attitudes towards tax was shown in the post SA survey and in the
case study. The reasons for this negative impact were firstly due to the insufficient
publicity on the operations of the new SA system; and secondly, the insufficient tax
education provided before the actual implementation of SA. As a result, individual
taxpayers were not ready$^{352}$ for the new assessment system and most were of the
opinion that the IRB was transferring its responsibilities to the taxpayers.$^{353}$ This
negative impact is also linked to the level of moral reasoning among some of the
individual taxpayers in Malaysia. This is so as studies have found that having higher
levels of moral reasoning would have positive impacts on individuals' compliance

$^{350}$ The experimental design is relevant to the 'tax knowledge' but not relevant to 'attitude towards
tax'.
$^{351}$ For detail on the perceptions on the IRB officers' roles, see Table 4.28.
$^{352}$ More discussion on the readiness of individual taxpayers is at 2.1.5.1.
$^{353}$ See Table 4.24 for detailed perceptions on the change from the OAS to SA.
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Taxpayers who encountered more financial constraints have more negative attitudes towards tax. These are linked to the close relationship with their demographic variables\textsuperscript{354} such as Ethnicity, Level of Education, and Category of taxpayers which had significant relationships with financial constraints as presented in Table 4.52. Presumably, those with more family commitments and those who engaged the services of tax agents\textsuperscript{355} to file their returns would not seek to enhance their attitudes towards the overall tax administration. These research findings are consistent with that of other research findings that revealed mixed and inconsistent evidence (Vogel 1978; Clotfelter 1983; Witte & Woodbury 1985; Jackson & Milliron 1986; Dubin & Wilde 1988; Alm, Jackson & McKee 1992a; Young 1994; Ritsema, Thomas & Ferrier 2003). Perhaps, compliance costs might be the principal issue closely linked to the financial position of an individual.

Based on the findings that were presented and discussed in the preceding sections, it can be concluded that to some extent, relationships among the five causes and between the five causes and demographic variables did exist. The relationships between the five causes and the demographic variables in the context of the Malaysian individual taxpayers’ compliance behaviour are presented in the model at Figure 5.1.

\textsuperscript{354} The discussion was mainly based on the findings of the survey rather than those of the case study. In the case study, only minimal demographic variables were recorded (see above n 339), hence it could not provide the full view of the relationship between the demographic variables and the five main causes. In addition, the case study, as intended, was to be conducted based on the qualitative paradigm; hence no statistical analysis was carried out.

Figure 5.1: A general model of personal income tax compliance behavior.
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The relationships between the assessment system and the tax structure features as theorised in Figure 2.7 have been proven and are represented in Figure 5.1. It was revealed that the assessment system was closely linked to tax structure features. This implied that the change in assessment system would affect the tax structure features (for instance, change in the enforcement activities such as tax audit and penalty) that eventually would affect the compliance behaviour of individual taxpayers. The imposition of tax audit and penalty has also directly affected taxpayers' compliance behaviour. In addition, both the assessment system and the tax structure features also impacted on taxpayers’ attitude towards tax. This implied that the change of assessment system (from OAS to SA) coupled with tax audit and penalty were affecting taxpayers’ attitudes towards tax, which in turn would affect their compliance behaviour. However, the relationship of the two causes (i.e. assessment system and tax structure features) collectively did not affect the financial constraints of individual taxpayers in Malaysia as theorised earlier. Instead, financial constraints were found to be mediated by the demographic variables and found to be correlated with the taxpayers’ attitudes towards tax as well as directly\(^{356}\) affecting taxpayers’ compliance behaviour. Thus, it may be construed that the level of taxpayers’ education, particularly in the case of SW, was affecting their choices of occupation and as a consequence, affecting their level of income, and eventually affecting their financial positions.

It has been shown that taxpayers’ tax knowledge has direct effect on taxpayers’ compliance behaviour. The relationship between tax knowledge and tax structure features suggested that tax enforcement activities did indirectly ‘force’ taxpayers to acquire more tax knowledge in order to comply. Taxpayers’ financial constraints (such as marital status and number of children) is also affecting their tax knowledge in relation to understanding of relief and rebates available. In addition, taxpayers’ tax knowledge was also being mediated by their demographic variables. For instance, the level of education was affecting the level of tax knowledge that the individual would acquire. This in turn was affecting their attitudes towards tax and eventually affecting their compliance behaviour.\(^{357}\)

\(^{356}\) Financial constraints have direct effect more on SE (see 5.5 for more discussion).

\(^{357}\) Attitude towards tax is more applicable to SW (see 5.3 for more discussion).

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Of the five categories of causes, it is pertinent to note that tax knowledge had the most effect in determining individual taxpayers' compliance behaviour. Hence, the major impact of the introduction of SA was closely linked to the level of tax knowledge that taxpayers possessed. As a result of the introduction of SA, in order to discharge their tax obligations, taxpayers needed to have reasonably adequate tax knowledge at least to enable them to fill in their tax returns and to be able to compute with reasonable accuracy their tax liabilities. The tax knowledge that taxpayers acquired would also enable them to understand the chargeability of specific income as well as knowing the deductibility of specific expenses incurred. This appeared to be critical as taxpayers’ tax knowledge could affect their attitude especially in terms of confidence in handling their tax affairs, which eventually would affect their compliance behaviour. Hence, any lack of tax knowledge on understanding of the chargeability of any income and deductibility of any expense would eventually lead to unintentional non-compliance or over compliance.

This research also provides insights into taxpayers’ reactions towards the IRB’s current enforcement policies, particularly in respect of tax audit and penalty sanctions. To a certain extent, these two enforcement strategies could be effective deterrence tools. However, not all taxpayers are alike in terms of how tax audit or penalty affects them, particularly the SW. For the SW, whom withholding tax was imposed on their employment income, tax audit was a less effective tool as most of the SW were more keen to report and file their tax returns in order to claim refund of excess payment of taxes that were ‘overwitheld’.

In the context of the multi-ethnic Malaysian society, this research has provided further insights into the different needs of the different ethnic groups in relation to the language of communication and the language of (and need for) tax education programmes. Further, this research has provided insights into how different taxpayers deal with their tax affairs as well as their attitudes towards tax. This research has also provided evidence on the different compliance behaviour in reporting of different types of income.

The five categories of causes theorised earlier in Chapter 2, were found to be causes in determining the compliance behaviour of individual taxpayers in relation to the introduction of SA in Malaysia. Although other causes did emerge from the case
study, however these were too insignificant to be considered as affecting individual taxpayers' compliance behaviour. These causes were taxpayers' political preferences and accounting knowledge, particularly in relation to the SE in the preparation of their accounting statements.

This research had addressed the objectives listed in 1.5 in terms of identifying the influence of the introduction of SA on individual taxpayers in Malaysia. Arising from the objectives, the six research questions that were raised had been answered. As a result of the introduction of SA, tax knowledge emerged as having the major impact on taxpayers' compliance behaviour. Tax structure features were found to have reasonably strong effect on individual taxpayers' compliance. The other three categories of causes (viz. the assessment system, attitudes toward tax and financial constraints) to some extent were also found to have affected individual taxpayers' compliance behaviour. Finally, only two of the five causes (viz. attitude towards tax and financial constraints) showed significant differences in affecting compliance behaviour of the SE and SW individual taxpayers in Malaysia. Attitude towards tax did affect the compliance behaviour of the SW but not that of the SE. However financial constraints did affect the compliance behaviour of the SE but not that of the SW. As with all other research, this research is not without strengths and weaknesses. The strengths and weakness of this research will be discussed in the next chapter.