RARE BOOKS LIB.

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

Ern Chen Loo

A thesis submitted in fulfilment of the requirements for the degree of

Doctor of Philosophy

The University of Sydney

June 2006

[2007]

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

Loo EC, McKerchar M and Hansford A 2005. An international comparative analysis of self assessment: what lessons are there for tax administrators? proceedings of 2005 Australasian Tax Teachers' Association Conference, 26-28 January, Wellington, New Zealand.

Loo EC, McKerchar M and Hansford A 2005. An international comparative analysis of self assessment: what lessons are there for tax administrators? *Australian Tax Forum*, Taxation Institute of Australia, 20(4):667-710 (refereed publication).

Loo EC 2006. Tax knowledge, tax structure and compliance: a report on a quasi-experiment, proceedings of 2006 Australasian Tax Teachers' Association Conference, 30 January – 1 February, Melbourne, Australia.

- This paper was awarded the 'Best Empirical Paper'.

Loo EC 2006. Tax knowledge, tax structure and compliance: a report on a quasi-experiment, *New Zealand Journal of Taxation Law and Policy*, June, 12:1-27 (refereed publication).

Loo EC 2006. Determinants of individual taxpayers' compliance behaviour: experience of the transition from pre to post self assessment in Malaysia, proceedings of 7th International Tax Administration Conference, 20-21 April 2006, Sydney, Australia.

Loo EC 2006. Determinants of individual taxpayers' compliance behaviour: experience of the transition from pre to post self assessment in Malaysia, chapter in Walpole M & McKerchar M (ed), *Further Global Challenges in Tax Administration*, Fiscal Publications, Birmingham.

Loo EC 2006. A qualitative case study on the impact of self assessment on individual taxpayers in Malaysia, paper presented at the Asian Academic Accounting Association Conference, 17-20 September 2006, Sydney, Australia.

List of abbreviations

ANOVA	Analysis of variance
ANSER	Automatic Answer Network System for Electrical Request
AP	Attitude towards tax
AS	Assessment system
ATO	Australian Taxation Office
CBR	Central Board of Revenue Pakistan
CI	Criminal Investigation
CRA	Canada Revenue Agency
DGIR	Director General of Inland Revenue Board Malaysia
EPF	Employees' Provident Funds
FC	Financial constraints
ITA (1967)	Income Tax Act (1967)
IR	Inland Revenue United Kingdom
IRB	Inland Revenue Board Malaysia
IRD	Inland Revenue Department New Zealand
IRS	Inland Revenue Service United States
KB	Tax knowledge on business income and deduction
KSK	Kokuzei Sougou Kanri
NBR	National Board of Revenue Bangladesh
NETFILE	Filing through internet
NRP	National Research Programme
NT	Nakasone-Takeshita
NZ	New Zealand
OAS	Official assessment system
PAYE	Pay As You Earn
PAYG	Pay-As-You-Go
SA	Self assessment
SE	Self-employed
SW	Salary and wage earners
STD	Schedular Tax Deduction
TCMP	Taxpayer Compliance Measurement Programme
TELEFILE	Filing via telephone
TIN	Tax Identification Number
TK	Tax knowledge
TPB	Theory of Planned Behaviour
TRA	Theory of Reasoned Action
TS	Tax structure features
UK	United Kingdom
US	United State of America
USAS	Universal Self Assessment Scheme
VAT	Value added tax
YA	Year of assessment

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.

Acknowledgements

My first acknowledgement and thanks go to Professor Kevin Parton, Campus Director of the University of Sydney, Orange for granting me the tuition fees waiver for my PhD studies and to MARA University of Technology for its generosity in granting me all the assistance it did whilst I was on study leave.

I am extremely indebted to my Principal Supervisor, Associate Professor Dr. Margaret McKerchar for all the invaluable assistance rendered prior to my enrolment at the University of Sydney. Thank you for your guidance, support, encouragement, understanding, patience, friendship and kindness, both before and during the duration of my studies. I am also extremely indebted to my Associate Supervisor, Dr. Ann Hansford for her invaluable advice, constructive comments and supportive suggestions.

I am extremely fortunate and privileged to have two wonderful supervisors who had shared with me their critical views as well as their academic and professional expertise. My work had benefited extremely from their advice, guidance, assistance and support. Their critical reviews and constructive suggestions of the earlier draft of this thesis provided the inspiration and direction that moved me towards its completion.

My sincere gratitude and appreciation also go to Ms. Helen Nicol, the Biometrician, for offering invaluable advice, inputs and suggestions during the course of developing the experimental design for my research and during the process of conducting the statistical analysis. Thank you for guiding me through the maze and labyrinth of statistical data.

Special appreciation and thanks also go to Lindy Eggleston and her library staff, particularly David Woodside and Helen Brown at the Orange Campus for their resourceful assistance; and to Fiona Wylie who had never failed to accommodate my countless requests to source for articles, books and materials.

To the IT staff of Orange Campus, thank you very much for your prompt responses to put in place all the software that I needed for my research and for attending to all the problems related to IT that I encountered.

I acknowledge and thank the University of Sydney for several PRSS funding that made it possible for me to present part of my research findings at international conferences.

I would also like to extend my thanks to Professor Dr. Ibrahim Kamal Abdul Rahman, Dean, Faculty of Accountancy, MARA University of Technology, Shah Alam Campus and Associate Professor Dr. Abd Halim Mohd Nor, Deputy Director, Academic Affairs, MARA University of Technology, Malacca Campus for their kind consent to permit students at the two respective campuses to participate in my research experiment.

This study would not have been possible without the understanding and strong support of my husband, my two children and my other immediate family members, especially during the duration of my absence from home.

I wish to record my special indebtedness to all those who had participated in my survey, experiments and case studies. Without their contributions, this research could not have been successfully undertaken. Last, but not the least, to those whom I am indebted, but are numerous and cannot all be named, thank you very much.

Table of contents

ABSTRACT ii
DECLARATION v
Publications/conference papers produced from thesis vi
List of abbreviations vii
Dedications viii
Acknowledgements ix
Table of contents xi
List of tables xvi
List of figures xviii

Chapter 1 Introduction

1.1 An overview of the Malaysian income tax system 2
1.1.1 Historical background of Malaysia 3
1.1.2 Historical background of taxes in Malaysia 3
1.1.3 Direct taxes in Malaysia 6
1.1.4 Income tax: current status 8
1.1.5 Ascertainment of chargeable income 9

1.2 An overview of personal taxation in Malaysia 11
1.2.1 Personal relief 12
1.2.2 Tax rebates and tax chargeable 14
1.2.3 S110 Tax credit 14
1.2.4 Joint and separate assessment 15

1.3 Research problem statement 16

1.4 Research in Malaysia 18

1.5 Objectives of study 20

1.6 Outline of research 20

Chapter 2 Literature Review

2.1 Self assessment in Malaysia 22
2.1.1 Implementation 23
2.1.2 Rationale 24
2.1.3 Objectives and strategies of IRB 25
2.1.4 Self assessment for companies in Malaysia 26
2.1.5 Self assessment for individuals in Malaysia 27
2.1.5.1 Preparedness of individual taxpayers 29
2.1.6 Compliance 30
2.1.7 Tax audits and penalties 31
2.1.7.1 Tax audits 31
2.1.7.2 Penalties 32

2.2 Self assessment in other regimes 33
2.2.1 Principles of self assessment 33
2.2.2 Tax reforms and self assessment in practice 34
2.2.2.1 United States 35
2.2.2.2 Canada 39
2.2.2.3 Japan 42
2.2.2.4 Pakistan 46
2.2.2.5 Bangladesh 49
2.2.2.6 New Zealand 51
2.2.2.7 Australia 54
2.2.2.8 United Kingdom 57
2.2.3 Summary of operations of self assessment 62
2.2.4 Characteristics of self assessment 63
2.2.4.1 Staged implementation 64
2.2.4.2 Burden shift 64
2.2.4.3 Tax rulings 64
2.2.4.4 Penalty provisions 64
2.2.4.5 Proper record keeping by taxpayers 65
2.2.4.6 Emphasis on enforcement 65
2.2.4.7 Education and support 65
2.2.5 Successful implementation of self assessment 66
2.2.6 Lessons for Malaysia 68

2.3 Tax compliance research and compliance models 70
2.3.1 Economic models 71
2.3.1.1 Economic deterrence theories and models 72
2.3.1.2 Prospect theory 76
2.3.1.3 Other economic models 78
2.3.2 Psychological and sociological models 84
2.3.2.1 Fiscal psychology model 87
2.3.2.2 Social psychological model 88
2.3.3 Expanded model 91

2.4 Integration of factors affecting compliance behaviour 94
2.4.1 Economic and deterrence factors 96
2.4.1.1 Tax rate 96
2.4.1.2 Tax audit, probability of detection, audit rate and prior audit 97
2.4.1.3 Enforcement, penalties and fines 101
2.4.1.4 Positive inducements 102
2.4.2 Social factors 103
2.4.2.1 Attitudes 103
2.4.2.2 Education 105
2.4.2.3 Income level 106
2.4.3 Institutional variables 107
2.4.3.1 Institutional uncertainty 107
2.4.3.2 Tax knowledge and complexity of tax law 108
2.4.4 Equity variables 111
2.4.4.1 Fiscal policy 111
2.4.4.2 Perceptions of fairness 111
2.4.4.3 Political factors 113

2.4.5 Ethics and morals 113
2.4.5.1 Tax morale and moral appeals 114
2.4.5.2 Social norms 115
2.4.5.3 Opportunity to evade 115
2.4.6 Other variables 116
2.4.6.1 Demographic variables 116
2.4.6.2 Culture 117
2.4.6.3 Other factors 118

2.5 Research questions 119

2.6 Theoretical model for personal income tax compliance 120

Chapter 3 Research Design

3.1 Research design 126
3.1.1 A mixed method approach 128

3.2 Survey 129
3.2.1 Instrument and procedures 131
3.2.2 Data analysis techniques 134

3.3 Experimental design 138
3.3.1 Instrument and procedures 141
3.3.2 Data analysis techniques 142

3.4 Case study 144
3.4.1 Procedures 146
3.4.2 Data analysis techniques 148

3.5 Linkage with research questions 149

Chapter 4 Results

4.1 Survey 153
4.1.1 Profile of respondents 153
4.1.2 Tax knowledge 158
4.1.3 Joint assessment, relief and rebates 159
4.1.4 Penalty 166
4.1.5 Computation of tax liability 168
4.1.6 Arrears 168
4.1.7 Business deductions and receipts 169
4.1.8 Income tax returns 172
4.1.9 OAS vs. SA system 176
4.1.10 Levels of confidence 178
4.1.11 Service of tax agents 178
4.1.12 Attitude towards tax 179
4.1.13 Dependent variables vs. category vs. gender 187
4.1.14 Factor analysis 189
4.1.15 Validity and reliability 191

4.1.16 Ordinal stepwise logistic regression 192
4.1.16.1 Determinants for all groups 193
4.1.16.2 Determinants for the SW 200
4.1.16.3 Determinants for the SE 206
4.1.17 Correlation 215

4.2 Experimental design 218

4.3 Case study 226

Chapter 5 Analysis

5.1 Research question 1: Has changing from OAS to SA system affected compliance behaviour of Malaysian individual taxpayers? 236

5.2 Research question 2: Do tax structure features (tax rates, tax audit and penalty) affect compliance behaviour? 239

5.3 Research question 3: Does taxpayer's attitude towards tax affect compliance behaviour? 243

5.4 Research question 4: Does taxpayer's tax knowledge affect compliance behaviour? 247

5.5 Research question 5: Do financial constraints of taxpayers affect compliance behaviour? 249

5.6 Mediating effects of demographic variables 251

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)? 254

Chapter 6 Conclusions

6.1 Overview of the research and its findings 262

6.2 Contribution of this research to the body of knowledge 278

6.3 Policy implications to tax administrators and others 280

6.4 Strengths, limitations and future direction for research 282

References 286
Appendices 310
Appendix I: Federation of Malaysia: chronology from British influence and rule to independence 310
Appendix II: Exemption in relation to income derived from Malaysia 311
Appendix III: List of public rulings as at 31 March 2006 317
Appendix IV: Summary of offences and penalties 319

Appendix V: Compliance model used in Australia and New Zealand 323
Appendix VI: Questionnaire 324
Appendix VII (a): Covering letter for pre SA survey 335
Appendix VII (b): Covering letter for post SA survey 336
Appendix VIII (a): Simulation for salary and wage earners 337
Appendix VIII (b): 2003 Tax return 341
Appendix IX: Simulation for the self-employed 350
Appendix X (a): 2004 Tax return for the self-employed 356
Appendix X (b): 2004 Tax return for the salary and wage earner 369
Appendix XI: Experimental design 378
Appendix XII: Case study protocol 379
Appendix XIII: Factor analysis results 384

List of tables

Table 2.1: A summary of operations of SA 63
Table 3.1: Response rate 134
Table 3.2: Variables and types of data 136
Table 3.3: Key research questions and data collection specifications 151
Table 4.1: Questionnaires returned 153
Table 4.2: Gender and marital status 153
Table 4.3: Ethnic background 154
Table 4.4: Highest level of education 155
Table 4.5: Sector of employment vs. occupation 155
Table 4.6: Type of business 156
Table 4.7: Tax knowledge 157
Table 4.8: Level of education vs. knowledge rated 158
Table 4.9: Children 158
Table 4.10: Taxable, exempted or casual income and allowable and non-allowable deduction 161
Table 4.11: Joint assessment and spouse relief 162
Table 4.12: Child relief 163
Table 4.13: Section 46 relief 164
Table 4.14: Rebates 165
Table 4.15: Penalty 167
Table 4.16: Computation of tax liability vs. amount computed 168
Table 4.17: Year chargeable for arrears received 169
Table 4.18: Business deductions and receipts 171
Table 4.19: Person who prepared tax returns vs. problems in completing returns .. 173
Table 4.20: Problems experienced while preparing tax returns 174
Table 4.21: Problems ranked most difficult 175
Table 4.22: Problems vs. harder or easier to complete tax returns 175
Table 4.23: OAS vs. SA System 176
Table 4.24: Perceptions on change from OAS to SA System 177
Table 4.25: Levels of confidence in handling SA 182
Table 4.26: Using and reason for using services of tax agents 183
Table 4.27: Reasons for not using services of tax agents 184
Table 4.28: Attitude towards tax administration and tax system 185
Table 4.29: Attitude towards tax 186
Table 4.30: Dependent variables vs. category vs. gender 188
Table 4.31: Descriptions of the components of factors 190
Table 4.32: Result of validity and reliability analysis test 191
Table 4.33: Factors associated with reporting of taxable income (DV 1) - All groups (pre SA) 194
Table 4.34: Factors associated with reporting of taxable income (DV 1) - All groups (post SA) 195
Table 4.35: Factors associated with reporting of exempted income (DV 2) - All groups (pre SA) 196
Table 4.36: Factors associated with reporting of exempted income (DV 2) - All groups (post SA) 197

Table 4.37: Factors associated with reporting of casual income (DV 3)
- All groups (pre SA) 198
Table 4.38: Factors associated with reporting of casual income (DV 3)
- All groups (post SA) 199
Table 4.39: Factors associated with reporting of taxable income (DV1)
- SW (pre SA) 201
Table 4.40: Factors associated with reporting of taxable income (DV 1)
- SW (post SA) 202
Table 4.41: Factors associated with reporting of exempted income (DV 2)
- SW (pre SA) 203
Table 4.42: Factors associated with reporting of exempted income (DV 2)
- SW (post SA) 204
Table 4.43: Factors associated with reporting of casual income (DV 3)
- SW (pre SA) 205
Table 4.44: Factors associated with reporting of casual income (DV 3)
- SW (post SA) 206
Table 4.45: Factors associated with reporting of taxable income (DV 1)
- SE (pre SA) 207
Table 4.46: Factors associated with reporting of taxable income (DV 1)
- SE (post SA) 208
Table 4.47: Factors associated with reporting of exempted Income (DV 2)
- SE (Pre SA) 210
Table 4.48: Factors associated with reporting of exempted income (DV 2)
- SE (post SA) 211
Table 4.49: Factors associated with reporting of casual income (DV 3)
- SE (pre SA) 212
Table 4.50: Factors associated with reporting of casual income (DV 3)
- SE (post SA) 214
Table 4.51: Correlation of causes and moderating variables (pre SA) 216
Table 4.52: Correlation of causes and moderating variables (post SA) 216
Table 4.53: Pre-test and post-test mean score 219
Table 4.54: Analysis of variance with four-factor interaction for SW 219
Table 4.55: Analysis of variance with two-factor interaction for SW 219
Table 4.56: Table of means - SW 220
Table 4.57: Analysis of variance with four factor interaction for the SE 220
Table 4.58: Table of means – SE 221
Table 4.59: Analysis of variance with four factor interaction – SW and SE 222
Table 4.60: Table of means: main - effects 222
Table 4.61: Table of means – SW and SE 223
Table 4.62: Table of means – SW and SE 224
Table 4.63: Table of means – SW and SE 224

List of figures

Figure 1.1: Diagrammatic representation of research problems 19
Figure 2.1: Voluntary compliance rate of income tax as a function of size of refund or balance due 78
Figure 2.2: Factors determining a person's behaviour 86
Figure 2.3: Theory of planned behaviour 86
Figure 2.4: Theory of planned behaviour with moral reasoning 90
Figure 2.5: Fischer (1991) expanded model of tax compliance 91
Figure 2.6: Chan, Troutman and O'Bryan (2000) international model 93
Figure 2.7: A theoretical model of personal income tax compliance behaviour 123
Figure 3.1: One group pre-test-post-test design 139
Figure 3.2: Single unit case study [adapted from Yin (1994:49)] 147
Figure 4.1: Age of respondents 154
Figure 4.2: Annual gross income 156
Figure 4.3: Rated knowledge on Malaysia income tax law 157
Figure 4.4: Problems in completing latest tax returns 172
Figure 4.5: Interaction effects for SW and SE 225
Figure 5.1: A general model of personal income tax compliance behaviour 258

Prior to the implementation of self assessment (SA) for individual taxpayers in Malaysia in 2004, income tax was assessed under the official assessment system (OAS).[1] When filing returns under the OAS, taxpayers only needed to truthfully disclose all the facts necessary for the Inland Revenue Board Malaysia (IRB)[2] to correctly assess their tax liability. That is, the onus was on the tax assessors to comprehend, interpret and correctly apply the relevant provisions of the tax law to the circumstances of the taxpayers. However, the rate of returns filed by taxpayers was unsatisfactory (Sheikh Obid 1996; Kasipillai *et al* 1999; IRB 2002; Mottiakavandar *et al* 2003; Shanmugam 2003) resulting in delays in revenue collections and loss of revenue. These undesirable outcomes were further exacerbated by the IRB's inability to finalise assessments within the stipulated timeframe (Sheikh Obid 1996; Shanmugam 2003).

To address these shortcomings, SA[3] was introduced to replace the OAS.[4] The broad rationale of SA includes the improvement of taxpayers' compliance rates; the speedier processing of assessments; the reduction of compliance costs and the facilitation of tax collections (Kasipillai 1998b; Singh & Bhupalan 2001; Somasundram 2003). Under SA, the responsibility for assessing tax liability lies with taxpayers (Butler 1993; Silvani & Baer 1997: Rehan 1998: Cowdroy 1998; Singh & Bhupalan 2001). On the surface, SA may be seen as a simple 'do-it-yourself' process (Cornell 1996:12), however,

> *"...SA goes far further than this simple concept. It significantly alters the taxpayer's degree of responsibility by placing upon him the full responsibility for his compliance with the law. It also requires a total change in the way in which the revenue authorities carry out their functions... This involves...changes in attitudes of taxpayers towards their obligations under*

[1] In Malaysia, the traditional assessment system is known as the official assessment system (OAS). The OAS was replaced with self assessment (SA). For companies, SA was first applied, effective from the year of assessment 2001. For individual taxpayers, including both salary and wage earners and those who are self-employed, SA was first applied effective from the year of assessment 2004.

[2] The Inland Revenue Board Malaysia (IRB) was previously known as the Inland Revenue Department.

[3] The IRB's objectives for adopting SA were: (1) to modernise and to coordinate tax administration, (2) to create a system that was more efficient and for a more timely collection of tax and (3) to enhance the rate of tax compliance (Loo & Ho 2005:46; IRB 2006).

[4] See above n 1.

the law and a change in attitude between taxpayer and tax gatherer" (Cowdroy 1998:2).

SA is an increasingly common phenomenon throughout the world as tax administrators seek to collect revenue as efficiently and cost effectively as possible. To be successful, SA relies on high levels of voluntary compliance by taxpayers. That is, SA requires taxpayers to understand the tax system and its procedures, to possess adequate tax knowledge, to be aware of their compliance obligations and to be prepared to comply. How taxpayers respond to SA has important implications on their compliance behaviour.

The introduction of SA for individual taxpayers in Malaysia in 2004 provided a unique opportunity to study the influence of SA on taxpayers' compliance behaviour, which is the subject of this research. This research is presented in six chapters, namely Introduction, Literature Review, Research Design, Results, Analysis and Conclusions.

This first chapter begins with an introduction to the Malaysian income tax system and its evolution from inception to SA. This is followed by an overview of the current system of personal taxation in Malaysia, including details of the technical knowledge expected of individual taxpayers under SA. Against this background, the research problems pertaining to compliance behaviour resulting from the introduction of SA are discussed and a preliminary diagrammatic representation presented. The significance of the research problems to Malaysia, and the contributions that could potentially be made by this research are considered in the light of other contemporary research that is being conducted in Malaysia. This then leads to the identification of the objectives of the research. Finally, the chapter concludes with a brief outline of the contents of each of the chapters that follow.

1.1 An overview of the Malaysian income tax system

In Malaysia, income is currently assessable to tax under the Income Tax Act (ITA) (1967), which is the successor to the Income Tax Ordinance (1947) (Malaya); the Income Tax Ordinance (1956) (Sabah) and the Inland Revenue Ordinance (1960) (Sarawak). These three ordinances were introduced during the era of British colonial rule and influence (of nearly 180 years) which left its mark not only on Malaysia's

constitutional and administrative structure (Gullick 1981), but also on its legal and tax system (Singh A 1982). As a consequence, the income tax system in Malaysia has its roots in the British System (Chin 1997).

1.1.1 Historical background of Malaysia

As one of the successor states to the former British colonies and protectorates in South East Asia, Malaysia today consists of Peninsular Malaysia, and the States of Sabah and Sarawak on the island of Borneo. Peninsular Malaysia and Singapore were previously divided into three British administrative territories namely, the Straits Settlements;[5] the Federated Malay States;[6] and the Unfederated Malay States.[7] These three territories, excluding Singapore, emerged as a nation known as the Federation of Malaya[8] and gained independence from Britain on 31 August 1957.[9]

In North Borneo, Sarawak indirectly[10] came under British influence when James Brooke, an Englishman, became its governor and independent ruler in 1846.[11] The Brooke family ruled Sarawak until it was ceded to Britain in 1945. Sabah came under British influence when it was governed by the British North Borneo Company that was granted a British Royal Charter in 1881, until it became a British colony proper in 1946 (Shaikha 1986). The Federation of Malaysia[12] was formed on 16 September 1963, with the merger of the Federation of Malaya, Singapore, Sabah and Sarawak. On 9 August 1965, Singapore was separated from the Malaysian Federation (Clutterbuck 1984).

1.1.2 Historical background of taxes in Malaysia

In 1910 the British made the first attempt to introduce income tax in part of what is now Malaysia. However, the attempt was aborted due to strong local opposition

[5] The Straits Settlements were the British Crown Colonies of Penang, Malacca and Singapore.
[6] The Federated Malay States were Perak, Selangor, Pahang and Negeri Sembilan.
[7] The Unfederated Malay States were Kedah (including Perlis which was then part of Kedah), Johor, Kelantan and Terengganu.
[8] The three territories, excluding Singapore were known as Malaya, not Malaysia.
[9] Singapore then remained a British colony until 1963 (Shaikha 1986) (see n 12).
[10] As the result of helping to put down rebellions against the Sultan of Brunei, the Sultan ceded the territory under Brooke's rule to Brooke and his family, and not to the British Crown (Nicol 1977, reprint 1982).
[11] Although the British Royal Navy assisted James Brooke against the rebels in Sarawak (see above n 10) and pirates in and around the waters of Sarawak, the British Government still did not recognise James Brooke as the ruler, or make Sarawak a British protectorate (Turnbull 1989).
[12] A summary of the formation of the Federation of Malaysia is presented in Appendix I.

(Chin 1997). Income tax, in its present form, was first introduced in Malaya[13] in 1947; in the State of Sabah[14] in 1956 and in the State of Sarawak[15] in 1960. These three income tax statutes[16] were subsequently repealed and replaced with the current Income Tax Act (1967) (Act 53), which now applies to the whole of Malaysia with effect from the year of assessment (YA) 1968 (Subramaniam & Teo 1989).

Prior to the introduction of British rule, traditionally the largest political unit in the peninsular was the State, each ruled by a Sultan.[17] In addition, a chief, whose main source of power was the freedom to raise revenue, ruled each district.[18] With British colonial rule, the British took over the functions that were previously performed by the district chiefs, including the collection of revenue (Emerson 1964; Butcher 1979).

Before attempts were made to introduce a tax on income in the early 1910s, authorities in the Straits Settlements had to rely on excise revenue, raised almost entirely from the sale of opium, *arak toddy*[19] and other commodities (Turnbull 1989). Gambling farms[20] and the opium monopoly were the major sources of revenue throughout the 19th century (Sadka 1970). Stamp duties were introduced in 1863, but were abolished in 1867 (Turnbull 1989). In the Federated Malay States, the principal sources of revenue were port dues and river tolls, export and import duties, and excise duties (Emerson 1964). The bulk of revenue came from tin export duties (Turnbull 1989) and from import duties on opium, the preparation of cooked opium, sale of spirits, running of spirits, gambling and pawn shops (Sadka 1970; Butcher 1979). In the Unfederated Malay States, the principal sources of revenue were import duties and the sale of opium and land (Emerson 1964).

In Sarawak, until World War II, most revenue came from excise on opium farms[21] and on spirits, royalties on minerals, and from poll taxes (Andaya & Andaya 1982; Turnbull 1989). Sabah, under the administration of the British North Borneo

[13] Income Tax Ordinance (1947) (Malaya).
[14] Income Tax Ordinance (1956) (Sabah).
[15] Inland Revenue Ordinance (1960) (Sarawak).
[16] This is referring to n 13, n 14 and n 15.
[17] A Sultan is a Malay Ruler.
[18] For the purpose of administration, a State was divided into several districts.
[19] *Arak Toddy* is an alcoholic drink made from the sap obtained from the pods of coconut palms.
[20] Gambling were prohibited unless these activities were carried out in legally licensed establishments, which were referred to as 'gambling farms'. The government would issue licenses to private operators to operate such establishments from which taxes were collected.
[21] Sale and consumption of opium were prohibited unless these activities were carried out in legally licensed establishments, known as 'opium farms'.

Company, was managed avowedly for profit. Taxes were minimal and were based on the production of minerals, extraction of forest products and plantation crops such as tobacco and rubber. Tariffs were imposed on imports, such as on imported rice in 1885, but were lifted in 1903 (Tate 1979).

A Bill was introduced in the Straits Settlements Legislative Council to impose a tax on income, effective from 1912, but was withdrawn. During the First World War, the British Colonial Government was successful in introducing income tax in the Straits Settlements, but not in the Federated Malay States (Lee 1972b).

In 1916 a proposal was put forward to supplement the contributions towards the Imperial War Expenditure by means of an income tax. This led to the passing of a Bill, which became Ordinance No. 8 (1917), to impose a tax based on income, effective from 1 January 1917. For the following two years, taxes on income were levied under the War Tax Ordinance of 1918 and that of 1919. From 1920 to 1922, the 'war tax' was replaced with an income tax. The public protested, and given that the war had ended, income tax was abolished and did not reappear until 1940.

In 1940, two Bills modelled on the War Tax Ordinance (1919) were passed, one for the Straits Settlements and the other for the Federated Malay States, their objective being to defray war expenditure. The Bills allowed for the imposition of a tax on profits and income for only one year effective from 1 January 1941. With the same objective, similar Bills were passed in December 1941 for the imposition of income tax in 1942.

Under the Japanese occupation during World War II, the military regime did not 'introduce' any income tax. However, a Joint Income Tax Organisation was set up to recover arrears of the 'war taxes' that were assessed in 1941; and to collect the remaining unassessed taxes for 1941.

In 1946, after the Japanese surrender in August 1945, the British colonial governments in Malaya and Singapore set up a Select Committee to consider the possibility of re-introducing a tax on income in the two respective colonial territories. The governments of the two territories appointed R.B. Heasman as their adviser (Lee 1972b). In February 1948, the governments of the two territories accepted the

Heasman Report[22] which led to the re-introduction of income tax in Malaya and Singapore respectively by passing the Income Tax Ordinance No. 48 (1947) and the Income Tax Ordinance No. 39 (1947). Both the ordinances that came into effect on 1 January 1948 were based on the Colonial Territories Model Income Tax Ordinance (1922) (Singh V 2003a). In Sabah and Sarawak, income taxes were introduced respectively with the passing of the Income Tax Ordinance (1956) and Inland Revenue Ordinance (1960).

On 16 September 1963, the four territories, consisting of the Federation of Malaya,[23] Singapore, Sabah and Sarawak merged into a single nation state, known as the Federation of Malaysia. From the mid 1950s until the formation of Malaysia, tax policies and amendments to the tax ordinances in the four territories took different, but not very diverse, paths (Lee 1972a).

Under the Malaysian Federal Constitution, income tax is a matter for the Federal Government,[24] but for a brief period, the Federation of Malaysia was governed by four different tax ordinances. Thus, a process to harmonise the taxation systems in the four territories was put into motion, with the introduction of The Modification of Laws (Income Tax) Order (1964). Although Singapore was separated from Malaysia on 9 August 1965, the policy towards harmonisation of the taxation systems continued in the remaining three territories of the Federation of Malaysia.

1.1.3 Direct taxes in Malaysia

For the purpose of tax administration in Malaysia, all direct taxes[25] are administered by the IRB. The direct taxes currently being imposed in Malaysia are Income Tax, Petroleum Income Tax, Stamp Duty and Real Property Gains Tax. Other direct taxes that had been previously imposed but subsequently revoked include Land Speculation Tax, Share Transfer Tax, Development Tax, Excess Profit Tax, Tin Profits Tax, Timber Profits Tax, Estate Duty and Film Hire Duty (Singh V 1993a).

---

[22] R.B. Heasman, a tax expert from the United Kingdom, was appointed to advise the Government of the Malayan Union and Singapore and to study the possibility of the re-introduction of income tax in the two territories.

[23] The Federation of Malaya gained political independence from the British on 31 August 1957. (Also see above n 9 and n 12).

[24] The Malaysian Federal Constitution, Article 96 states that "No tax or rate shall be levied by or for the purposes of the Federation except by or under the authority of federal law".

[25] Indirect taxes are administered by the Royal Customs and Excise Department.

Currently, income tax in the Federation of Malaysia is governed by the ITA (1967) which came into effect on 1 January 1968 and imposed income tax on a 'World Income Scope' basis. In 1974, the 'World Income Scope' was replaced with the 'derived' and 'remittance' basis.[26] Under the 'derived' and 'remittance' basis, tax was charged on income derived in Malaysia and on income received in Malaysia from outside Malaysia.[27] However, for non-resident taxpayers, income received in Malaysia from outside Malaysia would be exempt from income tax.[28]

The 'derived' and 'remittance' basis was in place until the 'remittance' basis was removed in stages from YA 1995. As a consequence, income received in Malaysia from outside Malaysia by all resident companies became exempt from tax.[29] Effective from YA 1998, all resident companies and unit trusts are subject to tax only on income derived from Malaysia.[30] Finally, effective from the YA 2004, all income received in Malaysia from outside Malaysia became exempt from tax.[31] This effectively placed the scope of taxation on the 'derived basis' for all taxpayers (except for income derived from air or sea transport operations, and banking and insurance businesses).[32]

Income taxes in Labuan[33] are governed by the Labuan Offshore Business Activity Tax Act (1990) and the ITA (1967). Under the Labuan Offshore Business Activity Tax Act, for any year of assessment, an offshore company[34] deriving income from offshore trading activities may opt to be taxed at either 3 per cent of the audited net profit or at a fixed sum of RM20,000.[35] Income derived from non-offshore trading activities and from non-business sources is taxed under the ITA (1967).

Prior to the introduction of the ITA (1967), companies deriving income from 'petroleum operations' and 'non-petroleum operations' were taxed on income under

[26] However, income derived from sea or air transport operations, banking and insurance businesses of resident taxpayers continues to be charged to income tax on the 'world scope basis'.
[27] Section 3, ITA (1967).
[28] Paragraph 28, Schedule 6, ITA (1967) as at the YA 1974.
[29] Section 3C, ITA (1967). Section 3C was later repealed (see n 30).
[30] Income Tax Exemption (No 48) Order (1997). Section 3C was repealed and exemption provisions pertaining to resident companies were incorporated in this exemption order.
[31] Paragraph 28, Schedule 6, ITA (1967), amended as at 2004.
[32] See above n 26.
[33] Labuan is a 92 kilometre^2 island in the South China Sea, about 18 kilometres off the coast of Sabah. Labuan is a tax haven and was established as an International Offshore Financial Centre in 1990 (Choong 2005a).
[34] An 'offshore company' is a company incorporated under the Offshore Companies Act (1990).
[35] Section 7(1), Labuan Offshore Business Activity Tax Act (1990).

the respective income tax ordinances. When the unified ITA (1967) was introduced, a separate statute, known as the Petroleum (Income Tax) Act (1967) was legislated to impose tax on income derived from petroleum operations (Selvendran 1982). That is, any person deriving income from petroleum operations in Malaysia is not subject to tax under the ITA (1967), but instead is subjected to tax under the Petroleum (Income Tax) Act (1967).[36] The basis of taxation under the Petroleum (Income Tax) Act is very similar to that of the ITA (1967) (Singh V 2003a).

Prior to 6 December 1973, there was no tax on capital gains in Malaysia; although there was an attempt in 1964 to introduce one (Subramaniam 1982). However, a law to impose tax on capital gains was enacted and came into force on 6 December 1973. Unlike the current tax on capital gains in the United Kingdom (UK), the Malaysia capital gains tax, known as the Real Property Gains Tax, is imposed only on capital gains arising from the disposal of 'chargeable assets'.[37]

1.1.4 Income tax: current status

Given its history, the Malaysian income tax statute is very much influenced by the principles practised in the UK and other countries and territories of the British Commonwealth. Further, references are often made to judicial decisions of these other countries (Singh A 1982). Although such judicial decisions are not binding on the Malaysian judicial system, they nevertheless do have persuasive authority (Singh V 1993a), and thus have contributed to the development of tax principles and practices in Malaysia.

Although the ITA (1967) imposes a tax on income, the Act does not define the meaning or scope of 'income'. However, it does set out the classes of income upon which income tax[38] is chargeable, namely:

[36] Persons chargeable to Petroleum Income Tax were not subjected to Development Tax and Excess Profits Tax.

[37] 'Chargeable assets' are real properties situated in Malaysia, shares of controlled companies and of real property companies. A controlled company is defined as a company with not more than 50 shareholders, and controlled by not more than 5 shareholders. Generally, only shares received as consideration for the transfer of any real property by existing shareholders to the controlled company are classified as 'chargeable assets'. A real property company is defined as a controlled company holding at least 75 per cent of its total assets in the form of real properties or shares in another real property company.

[38] Section 4, ITA (1967).

a. Gains or profits from a business for whatever periods of time carried on;

b. Gains or profits from an employment;

c. Dividends, interest or discount;

d. Rents, royalties or premiums;

e. Pensions, annuities or other periodical payment; and

f. Gains or profits not mentioned above.

By virtue of the last category, i.e. 'gains or profits not mentioned above', the scope of the classes of income is very wide. Essentially, any gain or profit that is revenue in nature and derived from Malaysia would be assessable to income tax.

Prior to the year 2000, income tax was assessed on the preceding year basis. However, since then, and under the SA regime, income tax is assessed on the current year basis. The basis of taxation of a person's[39] chargeable income for a YA is ascertained by reference to the income derived in the basis period for that YA. Generally, for income from non-business sources, and for sole proprietor businesses, the basis period for a YA is the calendar year that coincides with the YA.[40] However, in the case of companies whose accounting years do not end on 31 December, the basis period for a YA would be the accounting year that ends in that YA.[41]

1.1.5 Ascertainment of chargeable income

The chargeable income of a person[42] for a YA is ascertained in the following manner:[43]

a. First ascertain the basis period for each of the person's sources of income for that year;

b. Next, ascertain the gross income from each source for the basis period for that year;

[39] A 'person' includes individuals and companies.
[40] Section 21, ITA (1967) and Public Rulings No. 3/2000 and 6/2001.
[41] Section 21A, ITA (1967) and Public Rulings No. 2/2000 and 7/2001.
[42] See above n 39.
[43] Section 5, ITA (1967).

c. Next, ascertain the adjusted income from each source for the basis period for that year;

d. Next, ascertain the statutory income from each source for the basis period for that year;

e. Next, ascertain the aggregate income and then the total income for that year; and

f. Next, ascertain the chargeable income for that year.

Generally, the gross income of a person from a source is ascertained in accordance with Section 22 of the ITA (1967). However, specific provisions are applicable in ascertaining gross income from specific classes of income.

The adjusted income from each source is derived by deducting from the gross income all outgoings and expenses wholly and exclusively incurred in the production of gross income for that source,[44] but subject to the prohibition of deductions[45] as specified under the ITA (1967).

For income from a business source, an adjusted loss will arise in the event where the allowable deductions exceed the gross income. The statutory income from a business source is then arrived at by adding balancing charges to, and deducting capital allowances from, the adjusted income.

For income from a non-business source, should allowable deductions exceed the gross income, the adjusted income is deemed to be zero, as losses are not recognised by the ITA (1967). No balancing charges or capital allowances are applicable to income from non-business sources, thus the adjusted income will also be the statutory income.

The statutory income from each business source is then aggregated, and from such aggregated statutory income, any unabsorbed business adjusted loss or losses brought forward from the previous years are deducted to arrive at the 'net statutory income' from all business sources. The aggregate income is then ascertained by aggregating

[44] Section 33, ITA (1967) generally spells out that only outgoings and expenses wholly and exclusively incurred in the production of gross income are allowed for deduction.
[45] Section 39, ITA (1967) generally spells out outgoings and expenses that are specifically prohibited for deduction.

the 'net statutory income' from all business sources with the statutory income from all non-business sources. The total income is arrived at by deducting the following[46] from the aggregate income:

- Business adjusted loss or losses (of the basis period)
- Schedule 4 Deduction (Abortive Expenditure on Prospecting Operations)
- Schedule 4A Deduction (Capital Expenditure on Approved Agriculture Projects)
- Schedule 4B Deduction (Qualifying Pre-operational Business Expenditure)
- Schedule 4C Deduction for Approved Food Production Projects
- Gifts/Donations to the Government or Approved Institutions

Generally, for taxpayers other than resident individuals, their total income is also their chargeable income. A more detailed discussion of personal taxation is presented in the following sections.

1.2 An overview of personal taxation in Malaysia

Personal taxation in Malaysia refers to the administration of income taxes that are applicable to those individuals who are self-employed (SE) as well as those who are salary and wage earners (SW). Individual taxpayers in these two categories are required to file their annual tax returns based on income derived during each calendar year.

SW are those individuals who derived income from employment. They may also derive income from other non-business sources, such as dividend, rent, interest, royalties and pension. SE taxpayers are those who derived income from business operations and perhaps also from sources similar to that of the SW. However, for individuals who are either SW or SE, exemptions[47] are available in relation to income derived from Malaysia in respect of employment, dividend, interest, royalties and pension income.

[46] Schedule 4B and Schedule 4C deductions are available only to resident companies, while expenditure under Schedule 4 is unlikely to be incurred by self-employed (SE) individuals.
[47] See Appendix II for exemptions available.

1.2.1 Personal relief

For individuals who are residents,[48] personal relief[49] are allowed to be deducted from their total income to arrive at their chargeable income. Non-resident individuals are not eligible to claim personal relief, thus their total income is also their chargeable income.

The types and amount of personal relief available to a resident individual would depend on factors such as the individual's marital status; the number of dependents; and in the case of a husband and wife (or wives), on their option for joint or separate assessment. For the year 2004, briefly, the following types of relief are available:

	Types of relief and conditions applicable to YA 2004	**Amount**
1(a)	Relief for self	RM8,000
1(b)	Medical expenses of parents	Actual sum incurred or RM5,000 whichever is lower
1(c)	Expenses incurred on purchase of basic supporting equipment for the taxpayer, spouse, children or parents who are disabled persons	Actual sum incurred or RM5,000 whichever is lower
1(d)	Relief for disabled taxpayer	RM5,000
1(e)	Fees for education of taxpayer for approved courses	Actual sum incurred or RM5,000 whichever is lower
1(f)	Medical expenses of taxpayer, spouse or children who are suffering from serious diseases	Actual sum incurred or RM5,000 whichever is lower (but inclusive of a maximum of RM500 incurred for a complete medical examination)
1(g)	Expenses incurred on purchase of books, magazines and journals for taxpayer, spouse or children	Actual sum incurred or RM500 whichever is lower[50]
1(h)	Interest on loan to acquire first residential property	Actual sum incurred or RM3,000 whichever is lower[51]

[48] The residence status of an individual is determined in accordance with Section 7(1) of the ITA (1967).
[49] Personal relief are allowed in accordance to Sections 46-49 of the ITA (1967).
[50] Effective from YA 2005, this relief has increased from RM500 to RM700.

2(a)	Relief for wife – available to husband in the event of joint assessment under his name	RM3,000 [see 2(b) below]
2(b)	For a male taxpayer who pays alimony to his ex-wife	Actual sum incurred or RM3,000 whichever is lower. The maximum sum available for relief under 2(a) and 2(b) is restricted to RM3,000
2(c)	Relief for spouse – available to a wife in the event of joint assessment under her name	RM3,000
2(d)	Relief for disabled spouse – available either to the husband or wife in the event of joint assessment either under his or her name	RM2,500[52]
3(a)	Relief for maintenance of unmarried children, under 18 years of age	RM1,000 in relation to each child
3(b)	Relief for maintenance of unmarried children who are still receiving full time education	RM1,000 in relation to each child
3(c)	Relief for maintenance of unmarried children who are still receiving full time education at tertiary level in Malaysia	RM4,000 in relation to each child
3(d)	Relief for maintenance of unmarried, disabled children	RM5,000 in relation to each child
4(a)	Contributions to the Employees' Provident Funds and payment of life insurance premium of the taxpayer or spouse	Actual sum contributed/ paid or RM5,000 whichever is lower[53]
4(b)	Payment of education or medical insurance premium of the taxpayer, spouse or children	Actual sum paid or RM3,000 whichever is lower
4(c)	Payment of annuity insurance premium to the Employees' Provident Funds by taxpayer	Actual sum paid or RM1,000 whichever is lower

* Note: In the case of separate assessment, for a husband and wife, either he or she may opt to claim the child relief in relation to each child.

[51] It should be noted that interest incurred on loans are allowed over three years (YA 2003, 2004 & 2005) where the amount of deduction shall be a maximum of: i) RM5,000 for the YA 2003; ii) RM3,000 for YA 2004; and iii) RM2,000 for YA 2005.
[52] Effective from YA 2005, this relief has increased from RM2,500 to RM3,500.
[53] Effective from YA 2005, this relief has increased from RM5,000 to RM6,000.

1.2.2 Tax rebates and tax chargeable

Non-resident individuals are charged to tax at 28 per cent on their chargeable income.[54] No rebate is available to non-resident individuals. For individuals who are residents, a progressive tax rate[55] ranging from zero to 28 per cent is applicable and in addition, the following rebates[56] are available to offset against the tax chargeable:

	Types of rebates and conditions applicable to YA 2004	Amount
1	If the taxpayer's chargeable income does not exceed RM35,000	Rebate of RM350
2	If the taxpayer's chargeable income does not exceed RM35,000 and the taxpayer is entitled to a relief for wife or relief for spouse	Rebate of another RM350 will be available to him or her
3	Mandatory payment of *zakat*[57] (religious tithe) by Muslims	Actual sum of *zakat* paid
4	Purchase of computers for personal use. Available to the taxpayer or spouse, but only once every five years	Rebate of RM400[58]
5	Fees paid to the Malaysian Immigration Department for application of Employment Permit for foreigners	Actual sum paid

1.2.3 S110 Tax credit

For individual shareholders who derived dividend income from resident companies in Malaysia where tax has been withheld at source, the amount of tax so withheld will be available to the individuals as a tax credit[59] to be offset against their respective tax liabilities.

[54] Schedule 1, Part 2, ITA (1967).
[55] Schedule 1, Part 1, ITA (1967).
[56] Schedule 6A and 6C, ITA (1967).
[57] *Zakat* is a mandatory religious tithe payable annually by Muslims.
[58] Effective from YA 2005, this rebate has increased from RM400 to RM500.
[59] Section 110, ITA (1967).

1.2.4 Joint and separate assessment

The issue of joint or separate assessment is only applicable to the administration of personal taxation for a husband and his wife (or wives).[60] Joint assessment is a process whereby the income of a husband and that of his wife (or wives) are combined to determine their joint tax liability, while under a separate assessment, the income tax liabilities of the husband and that of his wife (or wives) are determined separately.

Prior to the YA 1975, the ITA (1967) provided only for joint assessment, whereby the income of the wife (or wives) would have to be aggregated with that of her (or their) husband and be jointly assessed under his name. The wife (or wives) would than be deemed to have no income.

Between the YA 1975 and YA 1990, some form of partial separate assessment was provided for under the ITA (1967). When separate assessment was first introduced in the YA 1975, a wife was given the option to be assessed separately only on her income from employment.[61] Income from non-employment sources were still jointly assessed with that of her husband.

In the YA 1978, a wife was given the option to have her income from employment and from exercising a recognised profession[62] assessed separately. However, her income from other sources would still be jointly assessed with that of her husband. Between the YA 1975 and YA 1990, should a wife have not opted for separate assessment, all her income was jointly assessed with that of her husband.

Effective from the YA 1991, all the income of a wife were automatically assessed separately, unless she opted for a joint assessment with her husband. When a wife opted for joint assessment, she was deemed to have no income, and all her income was assessed under the name of her husband. However, a husband was not given any option to have his income jointly assessed with that of his wife until the YA 2000.

---

[60] Section 45, ITA (1967) governs the process of joint and separate assessment for a husband and his wife/wives.

[61] A wife's employment income could only be separately assessed if her employment income was not derived from her employment in a business controlled by either her husband, herself or both.

[62] Recognised profession includes a "...qualified accountant, advocate and solicitor, architect, dentist, engineer, medical practitioner, or pharmacist registered under any written law, or from the exercise of any profession, the practice of which requires such registration and approved by the Minister of Finance..." (Ludin 1978:25).

With effect from the YA 2001, all income of both the husband and his wife (or wives) is assessed separately, unless any one of them opts for joint assessment. However, where no spouse exercises the option for joint assessment, their respective tax liabilities are assessed separately.

1.3 Research problem statement

The objective of this research is to investigate the influence of the introduction of SA on the compliance behaviour of individual taxpayers in Malaysia. The previous section provided an overview of personal taxation in Malaysia. With the introduction of SA in Malaysia, all taxpayers will be required not only to file their respective tax returns, but also to assess their own income tax liability. The implementation of SA will require taxpayers to have a thorough understanding of compliance rules underlying the Malaysian income tax law and, at the same time, the administration will need to understand the compliance behaviour of individual taxpayers. Hence, in this context, tax compliance is an important issue for both administrators and taxpayers.

Compliant taxpayers would submit or file their returns within the stipulated deadlines, truthfully and accurately report all relevant information pertaining to their tax liabilities and in accordance with the tax law, and pay the taxes due without the need for further enforcement by the tax agency (Alm 1991; Singh V 2003a). Taxpayers who are non-compliant may make intentional or unintentional decisions about their behaviour that may result in over (McKerchar 2002) and under compliance. Findings of research had indicated that the SE tend to comply less as compared to the SW (Andreoni, Erard & Feinstein 1998). The former may be more likely intentionally non-compliant compared to the latter whose non-compliance may more likely be unintentional.

The introduction of SA, coupled with other causes, could possibly affect the compliance behaviour of these two categories of individual taxpayers in Malaysia. In the following chapter the literature on the influences on compliance behaviour is reviewed in detail. At this stage of the research, it was expected that these influences

or 'other causes' would fall into five categories,[63] namely the 'assessment system', 'tax knowledge', 'tax structure features', 'financial constraints' and 'attitudes towards tax'. A brief discussion follows on the rationale of each of these categories.

Factors incorporated in the category of 'assessment system' include taxpayers' attitudes towards the change from the OAS to the SA system and their tax knowledge (which may affect how well they coped with the SA system in terms of compliance). Tax knowledge encompasses the quantitative aspects of deriving one's tax liability. Perhaps more importantly, it includes having an understanding of the income tax law including the complexity of its provisions and its frequent changes, and further, being certain of its requirements (Wallschutzky 1992; Kasipillai & Baldry 1998; Cuccia & Carnes 2001: Forest & Sheffrin 2002).

Factors in the category of 'tax structure features' include tax rates, the probability of being audited and penalties for non-compliance (Allingham & Sandmo 1972; Tauchen & Witte 1985; Butler 1993; Wallschutzky 1992; Kasipillai & Baldry 1998; Slemrod, Blumenthal & Christian 2001). Factors included in the category of 'financial constraints' are the financial commitments likely to be experienced by taxpayers that are attributable to their income level, the quantum of tax burden and the financial needs of dependents such as spouse and children (Becker 1968; Andreoni, Erard & Feinstein 1998).

Finally, factors in relation to 'attitudes towards tax' include personal attitudes, prior experience in dealing with tax administrators and perceptions towards tax and the tax administration (Ajzen & Fishbein 1980; Song & Yarbrough 1978; Lewis 1982b; Fischer, Wartick & Mark 1992; Eriksen & Fallan 1996; Wenzel 2004). In addition to these five categories of causes, demographic variables provide another dimension (as moderating variables) to the analysis of compliance behaviour. Based on the literature, these demographic variables commonly include age, gender, level of education and ethnic background (Jackson & Jaouen 1989; Fallan 1999; Chan, Troutman & O'Bryan 2000; Chung & Trivedi 2003). That is, the demographic variables could be expected to be moderating factors within each of the five categories of causes of taxpayers' compliance behaviour.

[63] At this early stage, the researcher can only theorise on the five categories of causes that may influence the compliance behaviour of individual taxpayers in Malaysia. The appropriateness of these categories of causes will be reviewed at the end of Chapter 2.

Diagrammatically, the above problem statement can be presented in Figure 1.1.

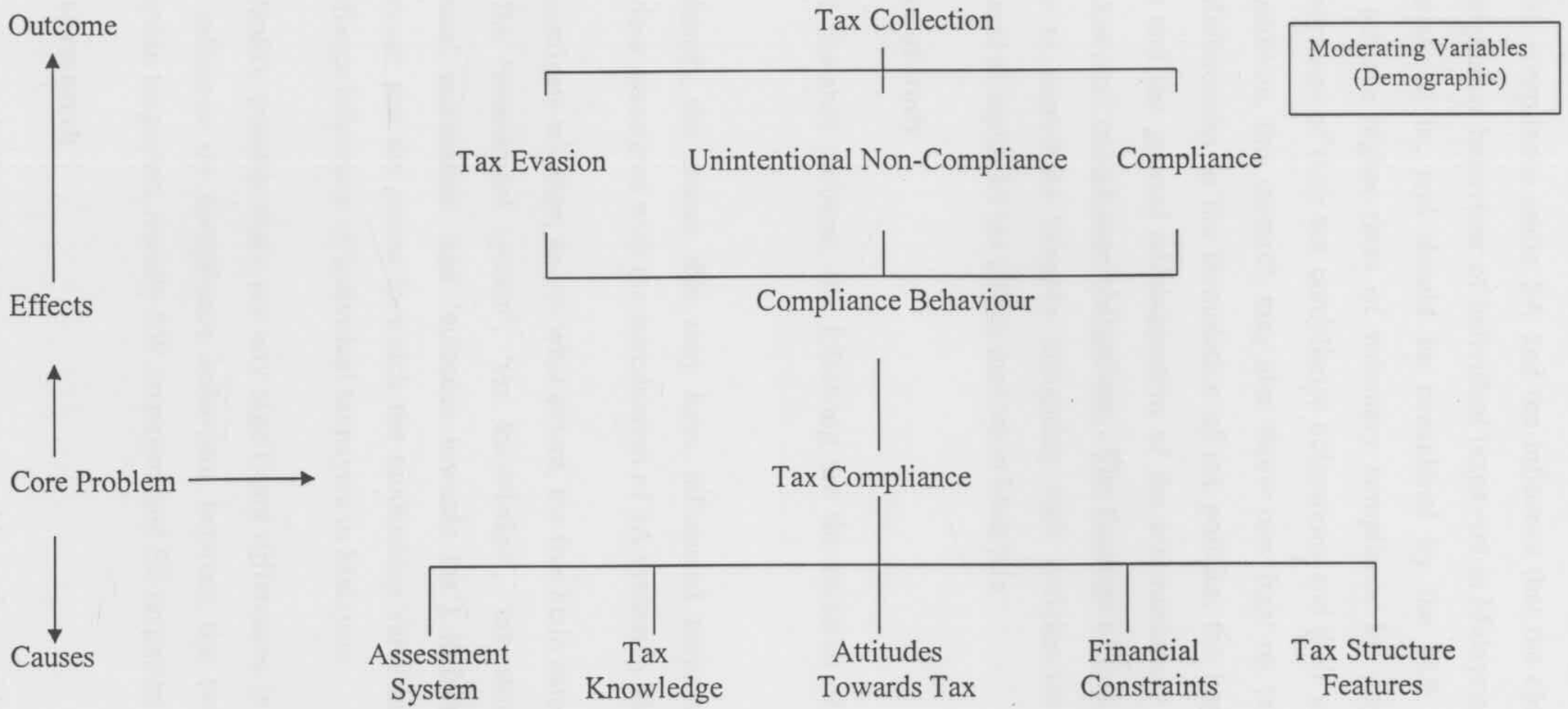
1.4 Research in Malaysia

To achieve a higher rate of voluntary compliance, the IRB traditionally recognises the deterrence effect of penalties and enforcement activities (Singh & Bhupalan 2001) including the undertaking of criminal proceedings against errant taxpayers (Shanmugam 2004)[64] rather than negotiating for settlements (Yong K 2005).[65] Such strategies may be appropriate in addressing non-compliance that is intentional, but there may be other causes[66] influencing taxpayers' compliance behaviour for which these strategies are inappropriate. The IRB appears not to be focusing on the necessity for it to identify, evaluate and take cognisance of these causes, particularly in light of the introduction of SA.

Further, there is minimal research and reports on tax compliance in Malaysia, particularly in relation to personal income tax under the SA regime. Among these are studies on factors influencing the compliance behaviour of small business entrepreneurs (Mottiakavandar *et al* 2003); on the influence of education (Kasipillai, Aripin & Amran 2003); of moral values on compliance behaviour (Kasipillai, Mat Udin & Ariffin 2003); and on the competency and readiness of salaried individuals in coping with the SA system (Madi & Kamaluddin 2003; Loo & Ho 2005). Other tax compliance research has focused on corporate income tax compliance costs (Loh *et al* 1997); compliance costs of small and medium enterprises (Saad, Mansor & Ibrahim 2003); tax evasion (Kasipillai 1997; Somasundram 2003); ethical decision making of tax professionals (Singh V 2003b) and on the tax gap that was attributable to non-compliance (Abdul & Sheehan 2003, 2004).

[64] The IRB "...has recently announced that...criminal proceedings may be undertaken to act as deterrence for taxpayers to evade tax and breach of trust under the SA system. In other words, the IRB wants a 'pound of flesh' instead of a monetary settlement" (Shanmugam 2004:17).
[65] The Director General of the IRB was reported to have announced that the IRB would see taxpayers in court and that taxpayers "...can forget about negotiating for settlements" (Yong K 2005:23).
[66] In this research, five possible causes were identified for investigation – see 1.3.

Figure 1.1: Diagrammatic representation of research problems



It is expected that the findings of this research could provide insights into the causes associated with compliance under SA and the influence that the change to SA has had on the compliance behaviour of individual taxpayers in Malaysia. Such insights would be beneficial to, and should be considered by the IRB when devising strategies to achieve higher rates of voluntary compliance by way of enhancing taxpayers' awareness of their tax compliance obligations and their understanding of tax law. In addition, this research may also throw new light on yet unknown and unidentified deficiencies in the formulation of tax policies, the implementation of such policies and the general administration of the tax machinery in Malaysia in relation to taxpayers' compliance obligations. The findings of this research would then be able to contribute towards mitigating such deficiencies and could be beneficially used as inputs by tax policy makers in Malaysia.

1.5 Objectives of study

Based on the research problem, the following are the research objectives of this research:

1. To identify the causes that may have influenced taxpayers' compliance behaviour associated with the introduction of SA system in Malaysia.

2. To investigate whether, and to what extent, the five main categories of causes (i.e. the 'assessment system', 'tax knowledge', 'tax structure features', 'financial constraints' and 'attitudes towards tax') influence compliance behaviour; and the extent to which the moderating variables impact on the compliance behaviour of individual taxpayers in Malaysia.

3. To identify whether there are any significant differences in the causes and their influence on compliance behaviour between the two categories of Malaysian taxpayers, namely SW taxpayers and SE taxpayers.

1.6 Outline of research

The research is organised in the following manner. Upon the conclusion of Chapter 1, the next chapter (i.e. Chapter 2) contains a review of the literature, including the implementation of SA in Malaysia and the readiness of individual taxpayers to cope

with the new system. The operation of SA in eight other tax regimes is also reviewed, the aim of which is to identify the lessons that may be beneficial to the IRB in administering SA in Malaysia. Chapter 2 then includes a broader review of models underlying compliance behaviour (such as the economic and sociological-psychological models) and the factors associated with compliance behaviour. Based on the literature review and given the objectives of the research, a set of research questions is then developed and a theoretical model of tax compliance behaviour constructed to provide a framework for research and investigation in the context of Malaysia.

The research design, drawing from both the quantitative and qualitative paradigms, is developed in Chapter 3. This chapter also includes the rationale for the mixed method design used in this research (comprising a survey, an experiment and a case study), and discussion on data collection for each method and the respective data analysis techniques. In Chapter 4 the findings derived from each of the three research methods adopted are systematically and independently reported. In Chapter 5 a cross-method analysis of the findings is undertaken, the aim of which is to triangulate the outcomes of the three research methods into a more comprehensive view and thereby address each of the six research questions (that were derived in Chapter 2). Based on the overall findings, a model of personal income tax compliance for individual taxpayers in Malaysia is then presented. The final chapter (i.e. Chapter 6) contains an overview of the research as a whole, its major findings and its limitations. The policy implications are discussed, the contribution to the body of knowledge identified, and finally, recommendations are made for future research.

The previous chapter presented the background of the research and the statement of research problems in respect of the introduction of SA for individual taxpayers in Malaysia. The objectives for investigating the compliance behaviour of these taxpayers were also identified. In this chapter, a review of literature is presented from which a set of research questions and a theoretical framework for investigating and analysing tax compliance behaviour are developed. That is, the research questions and theoretical framework are directed at addressing the statement of problems in relation to SA in Malaysia, as set out in Chapter 1.

As SA in Malaysia is still in its infancy stage and as the objective of this research is to explore the influence of SA on the compliance behaviour of individual taxpayers in Malaysia, a review of the Malaysian SA system in relation to the readiness of these taxpayers in facing the new tax system is first presented. This is followed by a review and analysis of SA in eight other tax regimes to identify any lesson that Malaysia may find relevant and useful.

The next two sections of this chapter provide a brief review of various compliance models, including theories and factors associated with compliance behaviour. The review provides significant input to the development of a theoretical model for investigating tax compliance behaviour in the Malaysian setting. Finally, a theoretical model for personal income tax compliance in the context of Malaysia is developed and presented.[67] This model represents a refinement of the model presented in Chapter 1. It provides the basis for the development of the research questions and the research design that would then be presented in Chapter 3.

2.1 Self assessment in Malaysia

As early as the 1980s, there were calls in Malaysia for the introduction of SA, and in particular, for it to be modelled on the Japanese SA system (Yong P 1983). This was in line with the Malaysian Government's then 'Look East'[68] policy. The principal objective of the calls for the introduction of SA was to enable the IRB[69] to deploy its

[67] The theoretical model is constructed and developed to address the research problems that were identified in Chapter 1 (see 1.3), a summary of which was presented in Figure 1.1.
[68] In the 1980s, the Malaysian Government launched the 'Look East' policy in respect of labour, management and productivity. 'Look East' particularly referred to looking at the Japanese. However, this did not incorporate 'looking at' the Japanese tax system.
[69] See above n 3.

staff to more productive functions and to encourage taxpayers to better understand and know their tax affairs (Singh V 1993b; Kasipillai 1998b).

However, it was only in the year 2000, as one aspect of tax reform, that the Malaysian Government introduced SA (Butler 1993; Cowdroy 1998; Kasipillai 1998b; Ong 2001) to replace, in stages the OAS. The implementation of SA commenced with companies in 2001; followed by sole proprietorship business, partnerships and cooperatives in 2003 and SW in 2004.[70] To streamline the implementation of SA for taxpayers other than companies (i.e. sole-proprietorships, partnerships, co-operatives and SW), a Bill[71] was introduced and passed, coming into effect on 1 January 2004.

Another aspect of tax reform in the year 2000 was the introduction of the current year basis of assessment to replace the preceding year basis of assessment. Although income is now assessed on the current year basis, annual tax returns on income derived in a particular year will only be filed in the following year. To facilitate the operations of the current year basis of assessment, companies are required to furnish the tax authority with statements of their estimated tax liabilities for the current year and to pay taxes based on the estimates. For SW, it is a statutory requirement that employers withhold income taxes upon paying remunerations to their employees on the 'Pay As You Earn' (PAYE) basis. When tax returns are filed in the following year, based on the actual and known income, the actual amount of taxes assessed are reconciled with the taxes already paid or deducted at source.

2.1.1 Implementation

SA can be defined as a 'do it yourself' process (Cornell 1996:12) whereby taxpayers are required to file their tax returns, reporting their respective income that is assessable to tax and determining their respective tax liabilities on the basis of their tax returns (Butler 1993; Silvani & Baer 1997; Rehan 1998; Cowdroy 1998; Singh & Bhupalan 2001; Hansford & McKerchar 2004). Under SA, the onus is placed squarely on the taxpayers to understand, interpret and apply the laws to their own circumstances (Lim 2002). In addition, taxpayers are responsible for timely and accurate reporting and to make payment of taxes by the due date. Hence the SA

[70] See above n 1.
[71] The Bill refers to the Income Tax (Amendment) Bill 2001 on the implementation of the SA system.

regime makes it imperative that taxpayers are adequately conversant with the tax legislation, guidelines, rulings and administrative procedures in order to ensure appropriate compliance. SA also places on taxpayers greater responsibilities in relation to their tax affairs. Thus with the change to SA the onus is on taxpayers to comprehend, interpret and to comply with the relevant provisions of the tax law that are applicable to their respective circumstances (Shanmugam 2003), while the IRB's onus is to review and verify tax returns based on the IRB's interpretation and application of the tax law.

Prior to the implementation of SA, taxpayers were only required to file their returns and report their incomes that were assessable to tax. The IRB would assess the taxpayers' tax liabilities and would issue notices of assessment. Upon receipt of the notices of assessment, taxpayers would be required to pay their respective taxes within 30 days from the issue date. Under SA, the tax returns filed by taxpayers are deemed as notices of assessment, and the IRB is not required to issue any such notices. Taxpayers are therefore required to pay whatever taxes that are due to the IRB by the specified due dates.[72]

2.1.2 Rationale

The main objectives of adopting SA in Malaysia were to enhance voluntary compliance among taxpayers, to minimise administrative cost and to lessen the burden of the IRB (Kasipillai 1998b; Saad, Mansor & Ibrahim 2003). Under the OAS, the rate of compliance in terms of lodgement of returns was regarded as unsatisfactory, as it was reported that, in 1997, the compliance rate of returns[73] filed was only 69.2 per cent (Kasipillai *et al* 1999). Further, it was reported that from 1990 to 1996, approximately 20 to 30 per cent of the returns filed were not finalised by the end of the year by the IRB (Kasipillai 1998a, 1998b). This trend continued, as it was reported that in the year 2002, although nearly 3 million tax returns were finalised, they represented only 61.8 per cent of returns lodged (IRB 2002);[74] and in

[72] Section 103(1), ITA (1967) states that "...tax payable under an assessment for a year of assessment shall be due and payable on the due date...". Section 103(12), ITA (1967) states that 'Due date' means "...30 April in the year following the year of assessment". This is applicable to any taxpayer (other than company, trust body or co-operative society).

[73] There were about a total of 2.6 million tax returns issued.

[74] For the year 2000, out of the nearly 3 million tax return forms issued by IRB, only about 70 per cent of the returns were lodged (Mottiakavandar *et al* 2003).

more recent years the IRB processed only about 80 per cent of the tax returns lodged (Shanmugam 2003).

The OAS therefore was considered to be costly, inefficient and complex to administer, especially since the assessment and appeal processes placed a heavy burden on the IRB. The high volume of returns lodged resulted in backlogs of unassessed cases, and delays in processing and issuing of returns. This was also partly attributed to by the dependence on the correctness and completeness of the information submitted by taxpayers. Weak enforcement due to lack of qualified staff and shortage of staff to carry out enforcement activities added to the administrative problems experienced by the IRB under the OAS (Kasipillai 1998b, 1998c; Shanmugam 2003). Several studies (Barr, James & Prest 1977; Sandford & Wallschutzky 1994a, 1994b; James 1996) indicated that SA could successfully address such problems and the IRB apparently also subscribed to such a view judging from the three very vague objectives that were set for SA (IRB 2006).[75] The benefits of SA are still debatable, if not illusory (Baldry 1999a, 1999b; Inglis 2002a, 2002b; Hansford & McKerchar 2004).

The IRB reported that with the implementation of SA, income tax collections had increased from RM13.9 billion in 2000 (under OAS) to RM20.8 billion in 2001[76] and that the increase was attributable to the implementation of SA (Abdul Razak & Mohd Foad 2002). However, the increase in income tax collections could have been due to other factors including the improved economic situation after the 1997/1998 downturn and financial crisis. Another contributing factor could have been that the taxes collected were based on estimated tax payable under the newly introduced current year basis of assessment, and the IRB might have had to refund the excess collections. That is, while the introduction of SA may have had a positive impact on collections, it is unlikely to have been the only factor.

2.1.3 Objectives and strategies of IRB

The IRB listed three main objectives for adopting SA. Firstly, to modernise and to coordinate tax administration; secondly to create a system that is more efficient and

[75] See above n 3 and 2.1.3 for the three objectives.
[76] An increase of RM6.9 billion in revenue collected as reported by the Minister of Finance (Abdul Razak & Mohd Foad 2002).

for a more timely collection of tax; and thirdly, to enhance the rate of tax compliance (IRB 2006). Other implicit objectives appeared to be the reduction of collection costs, the acceleration of tax payments and the reduction of tax arrears (Singh & Bhupalan 2001; Shanmugam 2003).

Various plans and strategies for the implementation of SA had been formulated to ensure that the above objectives were achieved. These plans and strategies included the issue of simple and clear interpretations of tax legislations and procedures; the installation of a new computerised system; the restructuring of the IRB's responsibilities and functions; and the preparation of taxpayers and tax agents for the implementation of SA (Ridzuan 2003).

The issuing of simple and clear interpretations of tax legislation included the issuance of public rulings,[77] guidelines and the provision of information through various forms of media including the IRB website. The installation of the new computerised system would allow the IRB to develop an integrated database on taxpayers including their profiles, information on returns filed and the status of taxpayers' ledgers. As SA places the onus and responsibility on taxpayers to assess their own tax liabilities; hence, in the absence of a reviewing process, the IRB could deploy its personnel to undertake enforcement functions, such as tax audits and investigations.

To ensure a smooth transition to SA, the IRB had actively conducted extensive consultative meetings and dialogues with the professional bodies[78] with the aim of obtaining feedback on technical and administrative matters in relation to the implementation of SA (Ridzuan 2003).

2.1.4 Self assessment for companies in Malaysia

Companies in Malaysia commenced SA effective from the YA 2001. A survey[79] found that a sizeable number of respondent companies were not prepared to successfully move to SA, even though a majority of 90.7 per cent of the respondents

[77] As at 31 March 2006 the IRB has issued 36 public rulings including three revised rulings (see Appendix III).
[78] The professional bodies include Malaysian Institute of Taxation, Malaysian Institute of Accountants and the Malaysian Institute of Auditors.
[79] This survey was carried out in 1999 by Ernst and Young Malaysia and themed 'Self Assessment-Being prepared'.

acknowledged that SA was a significant business issue at the time of its introduction (Banoo 1999). More than a year after the implementation of SA for companies, there were still uncertainties and anxieties as the IRB and tax practitioners were still adjusting to and familiarising themselves with the technicalities and processes of SA (Lim 2002; Shanmugam 2003).

To facilitate the payment of income tax on the current year basis under the SA system in Malaysia, companies are required to furnish an estimate of their tax payable to the IRB not later than 30 days before the beginning of the basis period for a particular YA. Should a company estimated that it would have no tax liability for a particular YA, it is also required to furnish the 'estimated zero' tax payable within the stipulated time frame (IRB 2006). Based on the estimates, taxes would be paid through monthly instalments. Taxpayers may make revisions to the estimation of taxes payable in the 6th and 9th month of the basis period for a YA by furnishing the revisions in a prescribed form[80] together with the revised monthly instalments. For a company that had just commenced its business operations in a particular year, an estimate of its tax liabilities needs to be furnished within 3 months from the date of commencement of its business operations.

Similar to the practices in other developed countries,[81] companies in Malaysia are required to submit their completed Income Statement Form to the IRB. In addition, companies are required to maintain proper records, as these may be used as evidence in the event of reviews or audits by the IRB. Although taxpayers assess their own tax liabilities, the IRB does subject the submitted tax returns to scrutiny, especially in the case of companies suspected to have a high risk of default in tax payment (CPA 2002b).

2.1.5 Self assessment for individuals in Malaysia[82]

In the year 2005, for the first time in Malaysia, individuals were required to file their tax returns under the SA system. Income tax is assessed on the current year basis with assessments to be filed by 30 April of the following year. Hence, for income

[80] CP204 for estimation and revision of tax payable.
[81] In the UK, companies are required to submit a Statement of Account. For further detail, see 2.2.2.8.
[82] Individuals include salary and wage earners and self-employed who are subject to personal taxation.

derived in the calendar year 2004, assessments would have to be filed by 30 April 2005.

The implementation of SA for individual taxpayers is based on the concept of 'Pay, Self-Assess and File' (IRB 2006). Currently, for SW, monthly tax deductions are made through the Schedular Tax Deduction (STD)[83] scheme. Under the STD scheme, it is mandatory for employers to deduct tax from their respective employees' remuneration. The amount of tax to be deducted is based on a schedule issued by the IRB. The amounts of taxes so deducted are remitted by employers to the IRB. SW are still required to file their tax returns and assess their own tax liabilities in accordance with the provisions of the income tax law. The amount of taxes deducted at source during a particular YA are reconciled with the amount of taxes so assessed for that particular year. For any taxpayer, should the amount of taxes deducted exceed the self assessed tax liabilities, there is an entitlement to a refund. Should there be a short fall, the taxpayer is required to pay the difference to the IRB.

SE taxpayers are required to pay their taxes in six bi-monthly instalments commencing in March of the respective year. The instalments are based on the notice of instalment payments issued by the Director General of IRB (DGIR) (IRB 2006). The amount payable by any individual taxpayer is only an estimate. Amendment to any estimated tax payable is allowed via an application that an individual concerned may make before 30 June each year (Lim 2002; Chow 2004). Similar to the SW, a SE taxpayer needs to file his/her tax return, as well as assessing his/her own tax liability and pay the difference of tax due. In contrast with SW, tax returns submitted by SE taxpayers must be accompanied by a profit and loss account of their business operations, the tax computations and details of the capital allowances pertaining to assets used in the business operations. In addition, proper records[84] must be maintained at all times as these records form the basis of all

[83] Under the STD scheme, income taxes are deducted from employees' monthly remuneration. The amount of deduction is based on a prescribed schedule provided by the IRB. It is a form of withholding tax that is similar to PAYE or PAYG as practised in other developed countries such as Australia, NZ and the UK. However, the amount of tax deducted is not the final tax, and it varies with different taxpayers. The taxpayer's marital status, the numbers of children and the amount of monthly remuneration are factors that determine the amount of tax to be deducted.

[84] For SE taxpayers, the necessary records include records of all sales, purchases, stock and other business expenses; receipts, bill, bank statements and cheque butts; analysis of subcontracts received if business is involved with subcontracts and any other relevant document. SW taxpayers must ensure that the Statement of Employment Income (EA/EC Form), monthly pay slips showing the STD by

information filed in the tax returns. Complacency in not maintaining proper records would place the taxpayers at a greater risk in the case of being reviewed or investigated (Kasipillai 2002).

2.1.5.1 Preparedness of individual taxpayers

Under the Malaysian SA regime, taxpayers are required not only to be honest in disclosing their income and expenditure, they must also be aware of all the tax laws, rules, guidelines and administrative procedures of the IRB. Should there be discrepancies in any return, pleading ignorance of the law is not an acceptable excuse (CPA 2002a). To be aware of these compliance requirements, taxpayers must possess a reasonable level of tax literacy.

In the early 1990s, under the then OAS, it was found that more than 50 per cent of taxpayers surveyed were 'tax illiterate' (Bardai 1992). Even years later, the rate did not vary much as tax knowledge among secondary school teachers in Sarawak[85] was found to be quite low (James G 1998), while lecturers at a tertiary education institution in Klang Valley[86] were found to be unaware of their obligations to file tax returns (Mohd Nor 1996) in spite of the fact that teachers and lecturers possess higher education qualifications. Observations by Sheikh Obid (1996) indicated that individuals who were SE and who traditionally possessed very low educational standards were ignorant of the tax law. In comparison, factory workers in the Klang Valley, who generally possessed lower educational qualifications, were found to have a relatively high level of tax knowledge in relation to allowable tax relief (Darus 1996).

A study on sole proprietors and partners in Sarawak revealed that the level of taxpayers' education was linearly and significantly associated with the level of tax knowledge (Madi 1999); which is consistent with the contention that a low level of tax knowledge among taxpayers would not contribute to a higher level of compliance (Saad, Mansor & Ibrahim 2003). With regards to SA, a recent study revealed that

---

their employer, original receipts for all claims and other relevant document be kept to substantiate all claims made.

[85] Sarawak is one of the states in the Federation of Malaysia and is geographically situated on the island of Borneo.

[86] Klang Valley is the geographical area consisting of the Federal Capital of Kuala Lumpur, and the area approximately within a radius of 40 kilometre of Kuala Lumpur.

very few salaried taxpayers in Sarawak were able to demonstrate high tax literacy. Further, a majority of them were not aware of the implementation of SA and still preferred the IRB to assess their tax liabilities (Madi & Kamaluddin 2003). These findings indicate that salaried individuals might not be prepared for SA.

Likewise, in the northern states of Peninsular Malaysia, although more than half of the individuals surveyed indicated that they were able to compute their own taxes, almost all were in favour of receiving more tax instructions from the IRB. This is so as the majority of them indicated that the income tax law was ambiguous and subject to frequent changes (Kasipillai *et al* 1999).

2.1.6 Compliance

One of main criteria for a successful adoption of SA is appropriate compliance among taxpayers. Appropriate compliance is

> *"...taken to mean that one's tax liability is correctly computed,...after taking into account all factors that have a bearing on the tax liability, and that the person who prepares the tax return should be competent to comprehend the relevant tax laws, rules, regulation, guidelines and the IRB's administrative procedures"* (Loo & Ho 2005:46).

Since SA presupposes that taxpayers will be honest, it would be reasonable to state that most of them are likely to comply. In fact, Malaysian taxpayers supported the need to comply, agreeing that violating tax law was unethical and that a penalty should be imposed if returns were not filed within the stipulated period (Kasipillai, Mat Udin & Ariffin 2003). Although in a study, strong positive co-relationship was found between tax knowledge and the level of compliance (Kasipillai *et al* 1999), another study (Mottiakavandar *et al* 2003) covering the northern states of Peninsular Malaysia revealed that the level of tax knowledge had no effect on non-compliance behaviour. Instead, there were positive co-relationships between attitude towards one's own compliance with the attitude towards other taxpayers' compliance, effectiveness of the IRB and fairness of the overall tax system (Mottiakavandar *et al* 2003).

Nevertheless, for taxpayers to understand their compliance obligations and to file their returns accurately, they need to be informed (Singh & Bhupalan 2001). Thus, compliance under SA was expected to place an onerous burden on taxpayers, particularly the burden of having to learn and understand the tax laws (Saad, Mansor & Ibrahim 2003).

2.1.7 Tax audits and penalties

While taxpayers need to understand their compliance obligations, the IRB too needs to ensure that the taxpayers comply with the provisions of the tax law. The IRB has adopted the traditional approach of recognising penalties and probability of detection (through tax audit) as the important variables to ensure compliance among taxpayers (Singh V 1993b). Apparently, tax audits appeared effective in relation to taxpayers' compliance (Kasipillai 2002) and penalties were an effective form of deterrence among taxpayers. However, taxpayers' compliance behaviour is not influenced only by penalties or tax audits, but also by the perception of fairness, taxpayers' grievances and inadequate enforcement strategies (Kasipillai 1998b). Further, uncertainty of the tax law appears to be the main concern of Malaysian taxpayers as currently there are conflicting explanations and interpretations in relation to public rulings and related decisions of case law (Singh & Bhupalan 2001; Somasundram 2002; Choong 2005b; Josef 2005).[87]

2.1.7.1 Tax audits[88]

Under the SA regime in Malaysia, tax returns would be accepted by the IRB at face value. However, there is the likelihood of increased exposure to some form of review or audit. The conduct of tax audits would be expected to be a common and regular feature under SA, as emphasis would be placed on post-assessment audit and examination (Singh V 1993b; Lim & Chang 1999). Such post-assessment activities are likely to be stepped up with the shift of focus and duties of IRB staff.

[87] Public rulings would help taxpayers considerably if they gave explicit guidelines. Some of the IRB's rulings are ambiguous, and "...often making implications and leaving the public to draw inferences from the guidelines given" (Josef 2005:38). In fact, there are contentions that a particular ruling (Public Ruling 1/2004) clearly violates "...the established principles of law, an act tantamount to contempt of Court" (Choong 2005b:11).

[88] Currently, under SA, the IRB carries out two types of audits, namely desk audit and field audit. A desk audit requires the taxpayer to be present at the IRB office and usually deals with straightforward issues and some tax adjustments. A field audit involves checking of the taxpayer's business and non-business records, and usually takes place at the taxpayer's premises.

Tax audits essentially serve as a policing function to ensure that taxpayers comply with the law (Lim & Chang 1999). In line with this 'policing function', a Tax Audit Division was set up by the IRB to monitor the expansion of audit activities. The Division also coordinates the audit programme and the education and training activities[89] that together are aimed at promoting voluntary compliance (Ridzuan 2003; IRB 2006).

Although there is a time frame for the review of assessments, self assessed returns are considered open ended in that there is no certainty of finality until the expiration of the specified time frame. In the Malaysian scenario, after a taxpayer has filed his/her return with full and true disclosure, and the return is accepted without being questioned or challenged, the taxpayer needs to wait for six years after filing before an assessment becomes final and conclusive. In the event of being reviewed or audited, the onus of adequate compliance is on the taxpayer.

2.1.7.2 Penalties

As with tax audits, penalties also play significant roles in the SA system. The penalty[90] sanctions under the SA system remained similar to those under the OAS. For instance, a late payment penalty[91] is raised if taxpayers do not pay their taxes within the stipulated period. If a tax audit is carried out and it is discovered that there has been underreporting or omission of income, a penalty up to 60 per cent of tax undercharged may be imposed (Lim 2002; Kasipillai 2002). A similar penalty may be imposed on any taxpayer who does not comply with the interpretation of the IRB and does not make proper disclosure in his/her tax returns. In addition, severe penalties may be imposed on any taxpayer or any person who knowingly assists the taxpayer in understating his/her tax liability (CPA 2002a).

As with other tax regimes, some teething problems could be expected in Malaysia as a result of the switch from OAS to SA. Under SA, taxpayers are faced with a more difficult task as compared to the OAS. It is only when these problems are overcome that the IRB and the taxpayers might be able to benefit from the system.

[89] As at June 2003, a total of 1536 seminar and talk sessions under the taxpayers' education programmes had been conducted.
[90] Summary of offences and penalties is available in Appendix IV.
[91] Under OAS, a 10 per cent penalty would be imposed if the tax is not settled within 30 days after notice of assessment being issued and a further 5 per cent if the balance remains unpaid after 60 days.

Nevertheless, for the SA system to be successful, the cooperation and joint responsibility between the IRB, tax professionals and the taxpayers are of utmost importance.

As several other tax regimes are already practising SA, it is not a new phenomenon. The experiences of these other tax regimes in introducing and practising SA may provide valuable lessons for Malaysia. Thus, a comparative analysis of SA in eight other regimes was undertaken as part of the literature review and is presented in the next section.

2.2 Self assessment in other regimes

Canada and the United States of America (US) first implemented SA in the 1910s, followed by Japan in 1947 (Ishi 2001). Over the last two decades there has been considerable growth in the adoption of SA by tax regimes in both developed and developing countries. For example, Sri Lanka introduced SA in 1972, Pakistan in 1979, Bangladesh and Indonesia in 1984, Australia in 1986-87, New Zealand (NZ) in mid 1980s and the UK in 1996-97 (Cornell 1996; Rehan 1998; Cowdroy 1998; Baldry 1999a, 1999b; Kasipillai *et al* 1999; Singh & Bhupalan 2001). There have been variations in the extent of adoption of SA, with some regimes moving to full adoption, while others have adopted SA only in part.

2.2.1 Principles of self assessment

Across the regimes identified, namely Canada, US, Sri Lanka, Pakistan, Bangladesh, Indonesia, Australia, NZ and the UK, the objectives for adopting SA have generally been to simplify the tax assessment system and to encourage voluntary compliance. While the reasons for adopting SA vary, the most fundamental (and common) reason appears to have been the desire to achieve administrative cost savings. It is envisaged that SA would improve the efficiency and effectiveness of tax administration; reduce tax administration cost and tax evasion and ensure timeliness in tax collections (James & Nobes 2000; Sarker 2003). With the introduction of SA, taxpayers have to assume greater responsibilities and need to be more aware of their own tax affairs, which in turn should encourage and enhance voluntary compliance

and reduce non-compliance[92] (Cornell 1996; Kasipillai 1998a, 1998b, 1998c; NAO 2001; Sarker 2003). This also represents "...a transfer of costs from the Revenue to the taxpayers" (Sandford 1994:679). Evidence shows that with the introduction of SA there is commonly an increase in the percentage of taxpayers using the services of tax agents, thereby increasing monetary compliance costs (Bird 1993; Nasir 2001; The Treasury 2004).

To the tax authority, SA should be more cost effective as the tax authority needs only to select certain cases for scrutiny rather than having to assess all returns as practised under a traditional assessment system. Hence, SA releases the tax authority from its assessment functions; encourages an earlier and timely collection of taxes and may reduce corruption practices among its personnel. Further, the more timely collection of taxes should enable the tax authority to implement a more efficient tax administrative system (James & Nobes 2000; Sarker 2003).

From the taxpayers' perspective, SA allows for the democratic exercise of taxpayers' rights, resulting in an increased involvement by the taxpayers in their own tax affairs (Sarker 2003). However, two possible negative outcomes under SA could arise, namely, increased taxpayer compliance costs and increased tax evasion (Sandford 1994; James 1996; IEA 2003; Hasseldine & Hansford 2003; Turnier & Little 2004). Increased evasion could result from the low probability of being detected under SA compared to the traditional assessment system. This is so simply because under SA, audits tend to be random in nature compared with the thorough checking of every return as practised under a traditional assessment system. However, there is a lack of reliable evidence that SA leads to increased tax evasion (Sandford 1994).

2.2.2 Tax reforms and self assessment in practice

Regardless of the advantages or disadvantages that SA might bring about to the tax authority or the taxpayers, SA nevertheless has been part and parcel of tax reforms in many countries. Hence, it is relevant to examine the series of tax reforms that have been undertaken together with the implementation of the SA in a number of countries. The following sections highlight the introduction, implementations and

[92] The meaning of compliance may include filing compliance (i.e. timely lodgement of returns), paying compliance (i.e. paying the correct taxes) or reporting compliance (i.e. reporting the true income).

practices of SA and related tax reforms in eight developed and developing countries in chronological order based on the year when SA was first implemented.

2.2.2.1 United States

Historically, income tax in the US was first introduced during the Civil War in the 1800s. When the Civil War ended in 1872, the war income tax ceased to be imposed (Miller 1895; Egger 1982; IRS 2006). About two decades later, in 1894, the US Congress attempted to impose a similar tax by passing the Tariff Act (1894) (Miller 1895). However, in 1895, the US Supreme Court ruled that the imposition of income tax was unconstitutional. The constitutional requirement to enable the imposition of income tax was put in place in 1913 by the Sixteenth Amendment, and hence the imposition of a Federal Income Tax was reinstituted (IRS 2006). Since then taxes have been imposed on a full SA basis, that is, taxpayers assess their own tax liability and pay taxes or receive a refund. This system is premised on 'voluntary compliance' (The Treasury 2004).

A series of tax reforms and changes had taken place in the US since the introduction of SA almost a century ago. These reforms have been aimed at improving the convenience of payment and collection of taxes; reducing evasion and underreporting; and at having a faster response to revenue lag (the timing of collection). They included the introduction of a withholding tax system (i.e. deduction of tax at source) in July 1940 by the Income War Tax Act (1940) followed by the 'Pay As You Go' (PAYG) system in 1943 (Lent 1942; IRS 2006). In the 1940s, wage-earners were assessed half-yearly on the basis of their earnings as reported by their employers for each half-year, ending in April and October respectively. The annual returns then had to be filed in September or October by employees (Lent 1942). The limitations of the system at that time were in relation to coverage and yield; exemptions; annual equalisation; the 'cost of compliance'; the administrative problems pertaining to record keeping; the problems of transition and the incidence of tax. Further, the adoption of withholding tax was found to be unfavourable among certain taxpayers (Lent 1942).

The then income tax administration was being shaped by a few major events such as the development of the standard deduction, per capita exemption, PAYG withholding

tax and the reorganisation of the income tax administration in 1951 and 1952. As a result, in 1953, the Bureau of Internal Revenue was replaced with the Inland Revenue Service or IRS (Cohen 1966; IRS 2006). Subsequently, automatic data processing was introduced in 1959 together with the introduction of legislation for direct filing of tax returns.

With the formation of the IRS, tax collection costs were reduced and it was reported that only half a cent was expended for every dollar of tax collected (Cohen 1966). Deterrence of tax evasion and avoidance among corporations and the rich were significant tax compliance problems. In order to put a stop to corporations and the rich from avoiding taxes, the Tax Reform Act (1969) was introduced (IRS 2006).

Reforms were also instituted in respect of tax administration to improve training and equipment, and to modernise facilities to cope with the increasing workload. An automatic data processing system was implemented, not to minimise the impact of voluntary compliance, but to be used as a valuable tool by tax auditors in performing systematic checks. The automatic processing system encompassed three principal features: a master file of taxpayers, a taxpayer account numbering system and a system of employer identification numbers (Caplin 1962; IRS 2006).

It was claimed that the success of tax structure lay with "...the confidence of the American people in its administration and their faith in the democratic tradition" (Cohen 1966:269). In actual fact, after World War II, the income tax base was converted from a narrowly-based tax affecting some 8 million taxpayers to a broadly-based tax that affected about 70 million taxpayers (Cohen 1966). Due to the inability to audit all tax returns, taxpayers were required to assess their own tax liabilities and to send in their returns together with their payments of tax.

During the 1960s and 1970s, SA was viewed with national pride and regarded as the great strength of the American tax system (Caplin 1962; Cohen 1966; Smith W 1970). Even without direct enforcement activities, 97 per cent of total revenue collected came from self-assessed or voluntary compliance. The remaining three per cent was collected by direct enforcement (Caplin 1962). The good compliance rate among taxpayers was attributed to patriotism, good citizenship and common honesty (Smith W 1970).

In terms of voluntary compliance, early efforts were centred on the service programme for auditing returns (Smith W 1970). This programme relied heavily on the Taxpayer Compliance Measurement Programme (TCMP) which was launched in the mid 1960s and designed to nurture and support the SA system (Cohen 1966). The IRS also utilised computer processing to replace the heavy manpower commitment involved in selecting returns for audit. For those classes of returns characterised as 'low level of compliance', audits were carried out - 50 per cent of which were carried out in the field and the remainder were carried out in the offices of the IRS (Smith W 1970; Egger 1982).

The audit programme was then expanded to cover taxpayers who had previously not been examined. This approach comprised three major elements, namely pre-identification of large corporate taxpayers; coordinated control to assure prompt audit results and the use of audit teams to conduct uniform audits (Caplin 1962).

The US tax administration's policy was focused on three main goals, namely seeking more reasonable and responsive interpretations of the tax laws; providing better service to American taxpayers and continuing a vigorous enforcement programme to discourage and deter tax abuse. To ensure that the IRS's employees possessed the appropriate knowledge and skills to achieve these objectives, classroom and on-the-job training were provided. Consultants were employed to help to improve on the clarity and polite tone of letters and notices sent to taxpayers (Cohen 1966; Smith W 1970).

However, the TCMP was discontinued indefinitely in October 1995 (Horn 1995), citing budget concerns and a congressional cost-benefit review of the programme. In May 2000 a new taxpayer compliance measurement project entitled 'National Research Programme (NRP)' was launched to replace the TCMP (White 2001; Mills 2004). The main difference between the audit approach under the two programmes was that NRP auditors appeared 'more friendly' by requesting 'reasonable substantiation' for income and deductions claimed by taxpayers. The objectives of NRP were wide ranging and included the provision of compliance data, determination of the compliance rate on voluntary reporting and improving IRS operations by providing specific information about non-compliance.

The IRS then endeavoured to speed up and improve the resolution of tax cases; to streamline the management of refund cases; to perfect audit procedures and to strengthen district conference procedures. In addition, the Restructuring and Reform Act (1998) provided the IRS with more flexibility to handle personnel issues (such as the termination of any personnel for misconduct) internally and to implement a new training programme emphasising customer service (White 2000).

The early philosophy of the IRS was to let taxpayers help themselves (Cohen 1966). The current mission statement of the IRS is to "...provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all" (IRS 2006:4). As such, the IRS has taken steps to monitor and to improve its taxpayers' assistance and education programmes (Caplin 1962; White 2001). Various programmes, including the Public Information Programme, have been introduced to educate school children. In addition, revenue rulings[93] are made available to taxpayers. It was envisaged that taxpayers might be able to learn about their responsibilities through the education process and the mass media (Caplin 1962; Cohen 1966; Smith W 1970; IRS 2006). Moreover, the Restructuring and Reform Act (1998) had greatly expanded taxpayers' right and established a Taxpayer Advocate Service to assist taxpayers with problems that remained unsolved through normal channels (IRS 2006).

The tax returns and instructions have been simplified. Common problems encountered by taxpayers, particularly in relation to the type and colour of return, were identified through national surveys. As a result, different taxpayers are issued with different forms and instructions to accommodate their needs (Caplin 1962; Smith W 1970; IRS 2006).

Although income tax compliance is better in the US than in most other countries, the IRS estimated roughly 15 per cent of individuals' income remained unreported (Pechman 1990). The annual tax gap[94] is estimated to be $200 billion of which three-quarters is attributed to individual taxpayers (Dubin 2004), with non-filers representing a significant problem (Rady 1989; Rosage 1996; Erard & Ho 2001).

[93] Individual rulings were originally issued to specific taxpayers. However, if any were found to be generally applicable, these individual rulings would be converted to revenue rulings.
[94] Tax gap is defined as the difference between taxes owed and taxes paid.

There was also concern that the growth of American affluence might have heightened the motives and opportunities for fraud. One survey showed that fraud occurred most frequently among low and middle income taxpayers. Numerous complaints about taxes imposed on taxpayers appeared to motivate non-compliance (Smith W 1970). It was found that the low penalty[95] for not filing contributed to its increase (Erard & Ho 2001). Thus a withholding tax may be a better option in terms of both improving compliance and reducing administrative costs (Pechman 1990; Turnier & Little 2004).

There were concerns that the US tax system was too complex, with unclear rules with which taxpayers had difficulty keeping abreast. For instance, there were more than 800 changes to the existing tax code released by the Tax Relief Act (1997) (Rady 1989; IRS 2006). Filing errors among taxpayers have been found to be very significant. The frequent causes of tax filing errors included failure to indicate dependent status and the incorrect calculation of the standard deduction (Minarik 1988). The conduct of the IRS in undertaking its audit activities had, to some extent, actually caused emotional stress to some taxpayers (Banoff & Lipton 2004). It appeared that "...the public wants simplicity...low withholding and big refunds...high taxes on today's rich and low taxes on future rich" (Minarik 1988:296).

To date, instead of concentrating on taxpayers as a whole as part of its continuing effort to ensure tax compliance, the IRS had taken steps to ensure that its employees meet their tax filing and payment obligations so as to accommodate the statement by the Commissioner of the IRS that "...enforcement begins at home" (IRS 2004:1).

SA has been in place in the US for almost a century. Thus the operations of the implementation of SA are no longer critical issues to the IRS, instead the issue of compliance seems to be the central focus of SA in the US.

2.2.2.2 Canada

Although the tax systems of the US and Canada have some differences, they actually have remarkable similarities in many important areas, as one seems to have borrowed

[95] The penalty for not filing is five per cent of the unpaid tax liability for each month of delay in filing the return, subject to a maximum of 25 per cent.

from the other. Their similarities became even more significant after the radical reform [Tax Reform Act (1986)] of the US system. The Reform Act (1986) had brought the two systems closer in areas such as corporate profits and taxes, and individual tax rates (Boidman & Gartner 1986).

However, the US Federal-State and the Canada Federal-Province tax systems are not as similar in design. For instance, since 1931, the Province of British Columbia had imposed taxes at source of 1 per cent on all income over 14 dollars per week (Lent 1942:720). In contrast, the Province of Quebec had its own separate statute by which individuals determine their tax liability according to provincial income tax statutes although the tax base is the same as that arising from the Federal Statute (Boidman & Gartner 1986; Plamondon & Zussman 1998). In 1998, several Provinces[96] introduced reductions in personal income tax, except Ontario, which continued to implement the multi-year reduction. In addition to federal taxes, individual taxpayers in Canada need to pay provincial or territorial taxes.

Just as in the US, taxes were first imposed in Canada during the Civil War in the early 1800s. Until the Confederation in 1867, the Colonial Governments in Canada collected and sent taxes to England and France. After the Confederation, the provinces began to impose various taxes until the introduction of the Income War Tax Act (1917) and the commencement of SA (The Treasury 2004). With the commencement of the imposition of Federal Income Tax in Canada, the Department of National Revenue, currently known as Canada Revenue Agency (CRA), was created in 1927.

Since 1970, the personal income tax system has undergone a series of reforms; among these were the major reforms of 1971 and 1987. However, the tax structure has undergone little change (Perry 1996). The current personal tax system is a hybrid system comprising of a combination of a consumption tax and a comprehensive income tax (Dahlby 2001). In spite of various reforms that had taken place, it has been claimed that the current tax system (compared to a flat tax system) is a failure based on the principles of Canadian tax policy namely efficiency, fairness and simplicity (Clemens, Emes & Scott 2001).

[96] British Columbia, Alberta, Saskatchewan and Manitoba.

SA is considered to be the most economical and efficient way to collect income tax. Under SA, taxpayers are responsible to pay their taxes according to the Income Tax Act (R.S.C. 1985).[97] For the convenience of taxpayers, three modes of filing returns, namely NETFILE (filing through internet), TELEFILE (filing via telephone) and mail filing of return are available. Taxpayers must file their tax returns by 30 April, except for cases that are granted exceptions under the Fairness Provision (CRA 2006).[98]

The objective of the Fairness Provision is to ensure that fair treatment be given to taxpayers. Taxpayers must apply in writing and explain in detail the reasons for not filing on time. The CRA, in exercising its discretionary authority, would conduct the necessary reviews and decide on whether the penalty imposed for late submission be cancelled or waived, or the late return(s) be accepted. Returns must be filed together with payments, or alternatively, taxpayers may make payments electronically (CRA 2006). The CRA issues notices of assessment after tax returns are filed. Taxpayers are then allowed to amend[99] their returns after receiving the notices of assessment, following which notices of reassessment are issued (CRA 2006).

Decades ago, issues pertaining to compliance problems were closely related to the complexity of tax law and the government.[100] During that time, the SA system in Canada required taxpayers to collect the necessary information before filing their returns. It was assumed that taxpayers knew what to do without realising that the law was too complex and that taxpayers might not know how to correctly apply the law. In fact, complexity of the tax law was not only confined to the Federal tax code but applied also to the provincial tax laws. In the eyes of Canadian tax authority, "...ignorance is not bliss" and the taxpayer "...who does not comply through misunderstanding or lack of knowledge is guilty regardless" (Dancey 1982:220).

Taxpayers felt that they had to play too many 'tax games' and that the tax laws were unfair. Taxpayers also perceived that the government did not treat them equally and

[97] This Act may be cited as the Income Tax Act (R.S.C. 1952) <http://laws.justice.gc.ca>.
[98] This provision is meant for taxpayers who were unable to file their return on time due to extraordinary circumstances or difficulties such as a natural disaster, error in CRA publications, disruption of services (e.g. postal strike) or financial hardship.
[99] The amendments could be in relation to increases in deductions.
[100] The government means Department of Finance, the Department of National Revenue (Revenue Canada) and ultimately Parliament.

fairly. It appeared that in Canada, the upper and middle-income earners and the rich were taxed more heavily than lower income earners (Dancey 1982; Speirs 1999).

Various measures to overcome the problems have since been taken. For instance, the CRA conducts an annual Review Programme among taxpayers to promote awareness of compliance with the tax laws. Taxpayers' common areas of misunderstanding are highlighted through the client educational programme. As part of customer service, vision-impaired taxpayers are able to download the Braille version of information from the CRA website. To ensure a high standard of public compliance, vigilant and continuous inspection of returns is maintained. A matching programme is used to compare certain information in the returns with other returns from other sources such as employers, banks and corporations that paid interest and dividends. Just like other SA regimes, the keeping of records is essential. In Canada, these need to be kept for a period of six years (CRA 2006).

Non-compliance among salary and wage earners in Canada seem to be relatively low, as their taxes due are collected through payroll deductions and their income is verified by references submitted by their employers. Hence, less audit activity is conducted on these taxpayers. Instead, the audit programmes are targeted at the self-employed, professionals, corporations and trusts. In addition, a post assessment review programme is carried out to discourage tax avoidance (CRA 2006). In the post assessment review, comparison is made of deductions claimed by taxpayers with those in the previous years' returns, and with third party sources and other databases.

2.2.2.3 Japan

Japan first introduced SA in 1947 to replace the authoritarian assessment system as a result of a post-war wave of democratisation. The main objective of SA was to raise the rate of appropriate tax filings and payment of taxes through taxpayers' cooperation. Initially, the Japanese tax authority encountered difficulties in trying to achieve a high level of compliance due to the low level of tax literacy among taxpayers and poor management by the tax authority. Over the years, the situation has improved as a result of taxpayer education programmes and the tax authority's efficiency in handling tax issues (Yong P 1983; Ishi 2001; Sarker 2003).

In addition to the establishment of SA, two other systems were established namely the 'Blue Return' System and the Guidance (or 'White Return') System. Under the Guidance System, taxpayers are called to the tax authority and informed of the amount of tax payable, which had been determined in advance through tax audits. This system focused on those who failed to file their returns or had filed false or incorrect returns. To some extent, the Guidance System is contradictory to SA. Hence, attention is more focused on the Blue Return System to encourage small business to set up simple books of account. The Blue Return System normally does not require reassessments to be made unless the tax authority found errors in the entries of taxpayers' accounting records (Yong P 1983; Kaizuka 1992; Ishi 2001; NTA 2006).

The earlier sources of revenue in Japan had been primarily from indirect taxes. However, based on the recommendation of the Shoup Mission[101] (1949-1950), a consistent application of comprehensive income taxation was introduced (Kaizuka 1992; Ishi 2001; NTA 2006). The Shoup Mission recommended an overhaul to the Japanese tax system in order to attain vertical equity. The tax base shifted to a heavy reliance on direct taxes, which in turn resulted in fluctuations in revenue collections due to the phases of business cycles (Hatta 1992; Kaizuka 1992; Ishi 2001). The tax system had also moved from the schedular tax system to the single system, with a reduction in the top tax rate from 85 per cent to 55 per cent. Further, credit was allowed at personal tax level for dividend income received. Overall, the whole tax system was focused on voluntary compliance in assessing tax liabilities (Kaizuka 1992; Ishi 2001; NTA 2006).

Soon after the implementation of Shoup Report[102] in 1951, a modification to the original recommendation of the Shoup Mission took place whereby collection of taxes at source was restored. The modification included treatments on gains or losses from securities where such transactions were no longer treated as coming under income tax but would come under the security transaction tax. The personal income tax system reverted back from the single system to the schedular tax system (Kaizuka 1992). As a consequence of this modification, the actual structure of taxes

[101] Members of the Shoup Mission included Carl Shoup, William Vickery and Howard R. Bowen (Hatta 1992:231).
[102] A report prepared by the members of the Shoup Mission.

was considerably different from those proposed by the Shoup Mission. Nonetheless, too much reliance on withholding taxes had resulted in an inequitable tax system, an inefficient tax administration and where the self-employed routinely evaded taxes through underreporting (Kaizuka 1992; Ishi 2001; NTA 2006).

Meanwhile, in 1989, Value Added Tax (VAT)[103] was implemented through a series of tax reforms under the Nakasone-Takeshita Tax Reform (NT Reform) (Hatta 1992; Ishi 2001). The implementation of VAT reduced the unfairness associated with different compliance rates and subsequently enhanced horizontal equity. The NT Reform brought about two major changes; firstly, the establishment of a flat rate of tax (20 per cent) on interest income, thereby ending income tax exemptions for small savers and a large deduction on the personal income tax rate. Secondly, a PAYG system was introduced for all salary and wage workers.

The tax compliance[104] rates under SA in Japan were "...about 90 per cent for salary workers, 60 per cent for non-farm self-employed workers and 40 per cent for farmers" (Hatta 1992:233). The poor compliance rate among the self-employed was due to four basic reasons. Firstly, there was no system of identification such as practised in the US social security system; thus it was possible that, in Japan, an individual was able to open saving accounts and hold financial assets under fictitious names. Secondly, there was a lack of enforcement in relation to penalties on tax evasion. It was reported that only 10 people were imprisoned annually for tax evasion. Thirdly, the budget allocation for a computerised system was low, only about 10 per cent of that budgeted for in the US. Lastly, there was a severe shortage in tax collectors even though the number of businesses filing tax returns had increased threefold since the Shoup Mission. Statistics showed that the ratio of tax collectors in Japan was 1 to every 2200 people, which was comparable with that in the US, where the ratios was 1 to every 2600 people. In other countries such as the UK, West Germany and France, the ratio was 1 to every 500 (Hatta 1992).

Currently, SA is firmly established as part of the Japanese tax system. The success of the SA system has been due to the efficiency of the Japanese tax administration in

[103] A similar VAT system was recommended by the Shoup Mission, but it was deferred by the Japanese Government at that time. Even so, the introduction of VAT was encountered with strong opposition based on the comprehensive income tax (Kaizuka 1991, quoted in Kaizuka 1992:222).
[104] In this context, compliance refers to paying compliance.

taking both legislative and administrative measures to support the system. These measures include appropriate implementation of withholding taxes and provisions for proper bookkeeping requirements. The introduction of the national tax comprehensive management system known as Kokuzei Sougou Kanri (KSK system) has also contributed to the success of SA in Japan.

The KSK system is a computerised or automatic data processing system that is able to store taxpayers' information, carry out administrative tasks, present statistical information and issue certificates for taxpayers who pay their taxes promptly. The system is able to identify deficient returns and classify them into two categories: those that require tax officials' visits and those that do not require tax officials' visits to premises of taxpayers (Ishi 2001; Sarker 2003).

The Japanese tax system continuously focuses on enhancing tax compliance through having good relationships with customers (taxpayers) and undertaking enforcement activities. For instance, taxpayers may choose to submit their returns by postage-free filing or through electronic filing. Where taxpayers require more explanation, taxpayer information services (including tax counselling) are provided. In terms of enforcement, strong and disciplined audit teams conduct three types of examination: General Examination (where basic details are required), Special Examination (dealing with complicated and tax evasion matters) and Point Examination (covering field examination of specific items). For delinquent taxpayers, an appropriate audit would be conducted coupled with the imposition of a range of penalties.

In terms of improving voluntary compliance, SA has been successful in Japan through the focus of the tax authority on the 'four pillars of tax compliance' (Sarker 2003:20); namely public relations, tax education, tax consultation and guidance and examinations.

For public relations, the media is widely used to keep taxpayers up to date on changes to tax law. A 'know your tax' week is organised for similar purposes. Tax education is also provided to students who are presumably future taxpayers. For this purpose, supplementary textbooks on tax education, classes and sponsorship of essay writing competitions on tax topics are provided, while seminars on public finance

and the economy are conducted for students (Yong P 1983; Kaizuka 1992; Ishi 2001; NTA 2006).

As for tax consultation, a formal consultation service, ANSER,[105] is provided through telephone or Internet. Lastly, the tax authority, assisted by private cooperative organisations such as Blue Return Associations, Corporation Associations and the Indirect Tax Association, provide guidance on, and examinations of, taxpayers' record keeping to improve standards and the compliance of tax returns (Sarker 2003).

The success in implementing SA in Japan has not come about overnight. It is as a result of almost half a century of experience, coupled with strong co-operation between the tax authority and taxpayers.

2.2.2.4 Pakistan

Upon gaining independence in 1947, Pakistan adopted the Indian Income Tax Act (1922). Numerous amendments have since been made through the various Finance Acts or Finance Ordinances. Revenue collections were derived mainly from withholding and presumptive taxes regimes even though the number of taxpayers has grown to around one million in year 2000 (CBR 2006).

SA[106] was introduced under the Income Tax Ordinance (1979) with the view of keeping pace with the economic and social development of the country. SA was applicable to only certain categories of taxpayers such as companies, registered and unregistered firms, Hindu undivided Families and Association of Persons. Not long after the implementation of SA, the Central Board of Revenue (CBR) excluded companies and financial institutions from SA, but taxpayers having income above RS2 Million were still subjected to SA (Rehan 1998).

For the YA 1995-96, a change in legislation required all taxpayers, other than companies, to file returns under SA irrespective of the quantum of income declared. The returns were to be filed voluntarily by 30 September 1995 and there were many

[105] Automatic Answer Network System for Electrical Request.
[106] SA in Pakistan is referred to as Self Assessment Scheme rather than Self Assessment System.

other conditions[107] imposed including that the taxes to be paid must be 20 per cent higher than those of the preceding year.

Despite SA being operational for more than two decades, it is interesting to note that repeated public reminders have been made regarding its implementation. For instance, the Finance Act (1998) promulgated SA for the YA 1998-1999. Since then, an annual circular[108] has been issued with regards to the scope of the implementation of SA and variations appeared to be applicable from year to year. Such problems arose because of the absence of thorough measures when a particular policy was to be implemented, frequent and *ad hoc* changes in legislation and administration, and the hasty manner of implementation of certain policies (Nasir 2001; CBR 2006).

Although previous governments attempted to reform both the tax system and the tax collection machinery, and in spite of considerable efforts to enhance the efficiency of the tax administration, there has been an ongoing lack of alignment between the administrative framework and changes in tax policy. For example, the switch to full SA was not accompanied by increased enforcement activity such as proper tax audits (CBR 2006).

Problems of compliance under SA persisted and currently the relationship between taxpayers and tax collectors is largely adversarial. Very often, there are allegations of coercion and collusion. In addition, Pakistan's fiscal crisis has caused a crisis of confidence between taxpayers and the government. This has led to the appointment of a task force to review the tax administration and make recommendations for improvement (CBR 2006).

There have been further reforms and revamps to the CBR and the tax administration such as the introduction of the Universal SA Scheme (USAS) by the Income Tax Ordinance (2001). The USAS has proven to be a useful scheme (Amjad 2003; Hussain A 2004) and also "...the cornerstone of the reform strategy of CBR" (Mughal 2004:2).

[107] Other conditions include: a) if the declared income is greater than RS1million, wealth tax return under the Wealth Tax Act (1963) had to be filed together with an income tax return; b) the tax payable under Section 54 must be paid; c) the income declared was not a lump sum figure and d) the taxpayer was not involved in any pending appeal cases.
[108] Annual circular issued for YA 1999-2000, 2000-2001, 2001-2002 and 2002-2003.

With the objective of attaining uniformity and equity, the USAS is an optional scheme that is available to all existing and new taxpayers.[109] Under the USAS, tax returns are accepted, provided submissions are made within the stipulated time periods, and taxes due are paid along with the returns. Assurances have been given that "...there would be no arbitrary selection of cases for audit or scrutiny" (Hussain S 1999:2). Instead, counselling by the Regional Commissioner would be carried out in cases of possible concealment or evasion by taxpayers before any proceeding would be taken under the law. These benefits are not applicable to certain taxpayers.[110] With regards to returns, three copies[111] of returns are required for qualified non-corporate taxpayers.

The USAS has not received favourable responses from owners of large businesses or from tax practitioners (Rizvi 2001; Rana 2002; Raza 2003). Tax practitioners are of the view that the USAS has caused losses in revenue rather than increases in tax collection, as the tax authority would accept any return irrespective of whether losses or profits were declared by large business taxpayers. Furthermore, only 15 per cent of these large business taxpayers would be selected for detailed audit. This has created the feeling of unfairness on the part of those who have been selected for audit.

Nevertheless, for the YA 2002, under SA,[112] taxpayers[113] needed to file their returns that would be accepted under the similar conditions as for the YA 1998-1999. All submissions had to be accompanied by relevant documents such as salary statements. Business and professional taxpayers needed to furnish relevant accounts[114] to the CBR. Tax returns (other than those reporting income from salary and property) would be subjected to selection for tax audit. The selection would be through a

[109]These include non-residents, public companies quoted on the stock exchange, banking companies, leasing companies, Modarabas, cases in relation to income under declared and those cases on appeal.
[110] Ibid.
[111] Para 12 (a) Circular no. 18 of 1999 states "...one copy to be retained by the Bank, the other by the department & the third copy shall be signed and stamped by designated Income Tax Authority".
[112] This was stated in the circular No 7 of 2002 as SA rather than USAS.
[113] Some taxpayers are considered ineligible for SA and are subject to total audit if a) loss has been declared in the return; b) income reported as a lump sum figure; c) the taxpayer is a non-resident; d) pending appeal cases; e) there is evidence of concealment of income or f) the return has been selected for total audit.
[114] These accounts are copies of trading/manufacturing, profit and loss accounts, balance sheet, receipts and expenditure statement, and depreciation schedule (if applicable).

computerised balloting system, where 20 per cent of the tax returns would be selected either randomly or parametrically as deemed fit by the CBR (Ahmad 2002).

The success of SA or USAS in Pakistan will depend heavily on the simplicity of the tax structure, the tax educational level of taxpayers, the efforts made by the tax authority to gain the confidence and co-operation of taxpayers and the willingness of taxpayers to comply with the tax law. In addition, reducing the discretionary power and corrupt practices among tax officers would likely contribute towards the enhancement of tax compliance in Pakistan.

2.2.2.5 Bangladesh

Income tax in Bangladesh originated in 1886 via the Indian Income Tax Act. It was subsequently streamlined by the Income Tax Act (1922). Over the decades, until 1984, income tax was imposed under the Income Tax Act (1922) albeit with modifications.

In 1984, the Income Tax Ordinance, which is the current legislation, came into effect. The SA system was introduced by the Finance Act (1981) along with the existing OAS. Thus, the current income tax system is a combination of the OAS and SA. The initial intention for the introduction of SA was to relieve marginal taxpayers from the statutory formalities of the OAS (Sarker 2003). Seven years later, in 1991, SA was extended to include all taxpayers other than companies and directors holding more than 5 per cent of shareholdings. Those exempted were still assessed under the OAS (Sarker 2003).

With the introduction of SA in Bangladesh, the major problem encountered was the filing of returns.[115] In fact, the majority of taxpayers were still submitting their returns through the OAS. While in other countries the emphasis of SA was on taxpayer compliance, it appeared that in Bangladesh, the objective of the SA system was to increase the number of taxpayers using SA instead of the OAS (Sarker 2003).

The problems faced by the Bangladeshi tax administration in implementing SA included the narrowness of the tax base, the existence of excessive evasion and

[115] In 2000-01, it was reported that of the total tax returns submitted, only about 20 per cent were done so via SA (NBR Research and Statistics 2000, quoted in Sarker 2003).

avoidance of tax and an inadequate[116] tax administration. While the higher income group[117] contributed the most in terms of income tax revenue, this was principally collected in the form of withholding taxes and indirect taxes (Sarker 2004).

The excessive levels of evasion and avoidance were due to several reasons. Generally, the earnings of taxable individuals were not transparent. The tight family structure with high dependency[118] on the taxpayer has contributed to this problem as the taxpayer would always have the "...motivation to avoid and evade tax because he thinks for other family members who are dependent on him" (Chowdhury 2003:1). The discrimination felt by the employees of private firms also encourages tax avoidance and evasion.[119] Therefore, it appeared that in Bangladesh the "...SA system encourages underreporting and tax evasion" (Sarker 2003:17).

In terms of tax administration, there was an enormous backlog of cases with some of those listed as pending by the National Board of Revenue (NBR) being dated as far back as 10 years. The backlog was largely due to the 'freedom' available for taxpayers to appeal if they were not satisfied with the NBR's rulings, or where taxpayers might file a writ of petition if they were charged for tax evasion (Byron 2004). The tax administration appeared to be weak and its control mechanisms such as audit, investigation and inspection did not function independently of the assessment process (Chowdhury 2003).

As a result, the Finance Act (1999) introduced drastic changes to tax administration in Bangladesh. The changes included simplifying SA in that taxpayers lodging returns via SA were required to submit their returns together with the taxes due. A computerised system is used to randomly select 20 per cent of tax returns submitted for audit. If the income reported in any return was 15 per cent greater than the preceding year's, no audit would be needed (Sarker 2003, 2004; NBR 2006).

[116] In terms of resources, skill, size and efficiency in carrying out assessment.
[117] It was reported that for fiscal year 1999-2000, there were nearly 700,000 individual taxpayers. However, only about 73 per cent of personal income tax was collected from 13 per cent of the taxpayers having income above 125,000 Taka and also having high marginal rates (NBR Annual Report 2000). A large number of registered taxpayers remained in the lower income group and basically pay very minimal tax. This is due to the excessive incentives and exemptions available to this group of taxpayers (Sarker 2004).
[118] Bangladesh has among the highest dependency ratio in the world. High dependency means having family members or relatives who are dependent on the taxpayer as the family breadwinner.
[119] Income taxes for government employees are deemed paid by the Government of Bangladesh. However, for employees in the private sectors, similar payments would be subjected to additional tax (Sarker 2004).

As for a business operator, a certificate carrying the taxpayer's Tax Identification Number (TIN) has to be displayed at the taxpayer's business premises. To differentiate the types of taxpayers, a separate numbering system is used for those involved with VAT. It is proposed that the TIN and VAT numbers be merged in the near future so as to minimise the overall administrative costs.

A 'Spot Assessment' system was also introduced to target non-filers (Sarker 2003). Should a non-filer be identified (i.e. 'spotted') by tax investigators, an 'on the spot' filing would be required. In addition to adopting the above strategies, other strategies were also implemented to enhance compliance. For instance, in order to eliminate corruption and to simplify the assessment system, recognitions and prizes are awarded to those tax officials who manage to collect extra revenue. Recognitions and prizes have also been proposed for taxpayers who comply promptly. The Commissioner of Taxes would only conduct direct purview on a certain percentage of SA cases, and thus would be able to reduce the discretionary powers among the tax officials. Other strategies include tax counselling for taxpayers and the use of the mass media and Internet to educate taxpayers.

Needless to say, the current practice of operating parallel assessment systems, i.e. both SA and the OAS, has failed to achieve a satisfactory level of compliance. There is a need in Bangladesh to change to a fully fledged SA system. To effectively implement SA, first and foremost, there is a need to have a proper process of auditing tax returns. Secondly, non-compliant taxpayers should be dealt with justly and swiftly so as to encourage others to comply. Thirdly, taxpayers' level of tax education needs to be raised so that they would be better able to comprehend and understand the tax law and their tax obligations. Fourthly, proper accounting standards and record keeping among business operators must be enforced. Lastly, to ensure compliance, there must be a balance between the elements of incentives and disciplinary action (Chowdhury 2003).

2.2.2.6 New Zealand

SA was introduced in NZ as a result of tax reform in the mid 1980s (The Treasury 2004). Tax reform was an integral part of an economic restructuring and liberalisation process to meet market forces. Basically, tax reform was necessary due

to the failure of the then existing system to collect sufficient revenue to finance government expenditure. The old system offered too many tax incentives and loopholes, and was too costly to administer. The high tax rates[120] on personal income tax had resulted in tax avoidance and evasion (McCaw 1982, quoted in Stephens 1993). Furthermore, the introduction of SA was expected to "...add and enhance other improvements being made to simplify tax administration" (IRDNZ 2001:1).

The NZ tax administration adopted the practice of SA for many years before implementing the necessary legislative changes. The government felt that this situation caused deficiencies in the tax system and gave rise to a duplication of responsibilities in the sense that taxpayers would self-assess their own tax liabilities, but the Commissioner was still required by the then existing legislation to make an assessment. This duplication in actual fact caused inefficiencies and thus was uneconomical in terms of administration (Birch 1998).

Subsequently, the SA system was legislated effective from 1 April 1999. This reform was essential to bring the Tax Administration Act (1994) in line with existing administrative practice. The legislation provided a legal framework that was consistent with the other administrative reforms such as penalty provisions, disputes resolution procedures and binding rulings legislation[121] (Birch 1998; IRDNZ 2001).

Although SA in NZ has been legally established, taxpayers are given the option of either assessing their own tax liability or electing for the tax authority to undertake the assessment. This seems to be inconsistent with the objective of SA as practised in other countries. The argument put forward by the Commissioner was that the Inland Revenue Department (IRD) was merely doing a service by assessing the tax liabilities on behalf of taxpayers. This would effectively help in establishing the date of notice of assessment, as the date of filing the return is deemed to be the date of the

[120] Over the years from 1984 to 1990, the tax system has moved from a 19-tier scale to a 5-tier/bracket personal tax rate scale where the highest rate was reduced from 66 per cent to 33 per cent (Stephens 1993). The top rate of 33 per cent was applied until the year of 2000 and then increased to 39 per cent. Currently, the personal tax rate is utilising a 3-tier scale with the lowest rate of 19.5 per cent and the highest rate remaining at 39 per cent (IRDNZ 2006).

[121] The system of binding rulings was introduced before the legislation of SA.

notice of assessment. The tax authority only issued a statement[122] confirming the amount of tax due, as no notice of assessment is issued (Birch 1998).

In addition to the assessment of tax liability, SA (as legislated) also allows for an assessment of any net loss and terminal tax or refund due (IRDNZ 2001). In the case of adjustments to the returns, a two-month period from the date of return being lodged is given to taxpayers who may wish to make any necessary amendment in respect of their respective tax returns. In contrast, the tax authority requires a four year period[123] to refund any excess tax to taxpayers. These are examples of some of the issues causing ongoing disputes between the IRD and taxpayers.

The issue of disputes arose even before the SA system was legislated and has since become a major concern. Consequently, in July 2003, a discussion document entitled 'Resolving Tax Disputes: A Legislative Review' was issued. The purpose of this discussion document was to review the dispute provisions introduced in 1996. The aim of the dispute resolution process was to have fairer, more efficient and quicker legislative and administrative practices in the tax system before a case was brought to a court of law (KPMG 2004). The tax authority recognised that taxpayers' compliance was generally affected by their perceptions of fairness and the speed with which disputes were resolved. There was also concern that the tax legislation need to be consistent with the act of self assessing (Pallot 2006:2). To achieve this, the legislative changes[124] came into effect on 1 April 2005 to enhance the implementation of SA (Pallot 2006).

The NZ SA system is firmly established with extensive reliance on the tax withholding system for wages, salary, interest and dividends. Many taxpayers are not required to file tax returns but are required by the Tax Administration Act (1994) to keep and maintain certain records. In some specific circumstances, the Commissioner has the discretion to require further accounts or records to be kept or maintained. In the case of 'non-filing' taxpayers, the NZ SA system is similar to that

[122] A Personal Tax Summary or Statement of Earning is issued upon request and the taxpayers are required to confirm the correctness of this statement.
[123] Prior to legislation for SA, an eight year period was needed.
[124] Following the proposal outline in the government discussion document entitled "Legislation for self assessment of tax liability" issued in April 1998.

of the UK in relation to the finality of an assessment. A non-filer[125] is to "...be considered to have assessed their tax liabilities for an income year to ensure their respective tax positions for a year become certain and final in the same way as for filing taxpayers" (IRDNZ 2001:5; James 1996; Hale & Chien 2003).

2.2.2.7 Australia

The introduction of SA was part of the tax reform process in Australia, which began in 1986, and has been well integrated into the overall Australia taxation system (Sandford 1994; Cowdroy 1998). The Australian Tax Office (ATO) recognised that the traditional assessment system of 'checking and ticking' (Sandford & Wallschutzky 1994b; Marshall, Smith & Armstrong 1997) was not cost effective and had little effect on the overall compliance with the income tax law (D'Ascenzo 2001).

SA was expected to provide a better avenue for improvement in the efficiency and effectiveness of ATO as well as operating as a vehicle for enhancing taxpayer compliance (Cooper 1995; ATO 2006; Inglis 2002a). Although the move to SA by the ATO was reflective of an adaptive and responsive organisation (D'Ascenzo 2001), the essence of SA was explicitly meant to shift the burden of assessment from the tax authority to taxpayers.

In Australia, SA was introduced on a piecemeal basis. Firstly, it was applicable in part only to individual taxpayers, but was subsequently extended in full[126] to companies and superannuation funds. Individuals taxpayers are currently still subjected to a modified form of SA i.e. a hybrid between a traditional assessment system and a true SA regime[127] (Dirkis & Payne-Mulcahy 2002) where taxpayers complete and lodge their returns and the ATO computes the tax liabilities.

Subsequent to the implementation of SA, modifications to improve the system were carried out in 1992. The modifications included the introduction of public and private rulings, interest for under payment or late payment of tax and a new penalties

[125] Taxpayers having only wages, salary, interest or dividend income would not be required to file any returns as their tax payments have been withheld by their employers or banks.
[126] Full SA means the lodging of a return is deemed as an assessment issued.
[127] The true SA regime means a full SA where taxpayers will assess their own tax liabilities and pay the taxes due. In other words, the tax authority does not compute the tax liability.

regime (Sandford & Wallschutzky 1994a; Cooper 1995; Dirkis 2002; D'Ascenzo and Poulakis 2002). Public[128] and private rulings are meant to deal with specific and different circumstances encountered or likely to be encountered by taxpayers. As such, different public rulings such as product rulings[129] and class rulings[130] were subsequently introduced (Meredith 2002). In addition, a shorter period of review for individual resident taxpayers with simple tax affairs was implemented with the intention of reducing record keeping obligations (D'Ascenzo & Poulakis 2002).

Under SA, the tax returns filed by non-individual taxpayers are deemed as an assessment issued by the Commissioner of Taxation for various purposes under the Income Tax Assessment Acts. For individual taxpayers, a notice of assessment is issued by the ATO. The ATO accepts most returns at face value and processes them without any review. Instead, emphasis has shifted to taxpayers' advisory services and post assessment checking including tax audit. The ATO may query or audit any claim made, and may impose penalties and/or charge interest on unpaid taxes that may be discovered (D'Ascenzo & Poulakis 2002; Inglis 2002a; The Age 2003).

After nearly two decades since the implementation of SA in Australia, it has enabled the ATO to better utilise its resources and to focus on taxpayer services and post-assessment compliance activities (D'Ascenzo 2001; D'Ascenzo & Poulakis 2002). The ATO's success in implementing SA is partly attributed to its comprehensive compliance programmes.[131] The annual compliance programme is drawn up by the ATO for various categories of taxpayers. The programme sets out the ATO's compliance priorities and approaches in tackling aggressive tax planning and spells out clearly what it intends to do to ensure the integrity of the tax system (Paddock & Oates 2003). This programme also adopts a general approach to providing assistance and education to support taxpayers in self-assessing their taxable income and entitlements. The information needed is made available through publications such as 'Taxpack', 'e-tax (electronic lodgement)', 'Retirees TaxPack' and 'Short tax return'

[128] As of year 2002, the ATO issued approximately 3,500 public tax rulings (Inglis 2002a:5).
[129] Product rulings usually deal with an investment product, whereby the Commissioner rules publicly on the availability of any tax benefits.
[130] Class rulings enable the Commissioner to provide legally binding advice in response to a request from an entity in relation to a specific class of persons regarding a particular arrangement.
[131] In the year 2005, the ATO published for the fourth year the general compliance programmes with the goal to openly share with the community the strategies and the results achieved in the previous year (ATO Compliance Program 2005-2006).

in which explanations on common mistakes are included. To ensure that taxpayers comply with the law, complex audits and reviews or enquiries before returns being lodged or assessments issued were conducted. Finally, to assist taxpayers in understanding their rights and how they might be dealt with by the ATO, the Taxpayers' Charter and the compliance model guide were issued (ATO 2006).

Business owners are required to prepare their own activity statements with regards to goods and service tax and income tax and also to understand their obligations in maintaining adequate records. An electronic tool was developed to enable them to self-assess their record keeping capabilities and identify possible weaknesses (ATO 2006).

Various procedural changes have also been made in order to enhance compliance. Among these, an option to move from monthly to quarterly lodgement of business activity statements for some employers withholding PAYG was given. The ATO also endeavours to identify patterns of poor compliance; competency issues among tax agents in performing their duties; and to focus on key compliance features such as tax evasion and fraud, aggressive tax planning, international tax issues and overdue debt. Taxpayers who either do not lodge or lodge late are also highlighted for further action. Lastly, for those who lodge returns and may be involved in the cash economy, their financial performance would be scrutinised against industry norms.

The introduction of SA in Australia had led to changes in the administration of the ATO (Marshall, Smith & Armstrong 1997; Baldry 1999a, 1999b) and changes in enforcement strategies by the ATO whereby post assessment activities such as audit have become significantly more important (Baldry 1999a, 1999b; Inglis 2002a). Further, the ATO, in its approach also aims to influence people's decisions in meeting their obligations (ATO 2006).

Unfortunately the major shortcoming of the SA system lies in the complexity[132] of the Australian tax laws, where taxpayers have many and various opportunities to deal with uncertainty (Cooper 1995). As a result of uncertainties in interpreting and

[132] A survey carried out by Ernst and Young (2002, quoted in Inglis 2002a:5) noted that the Income Tax Assessment Act 1936, the Income Tax Assessment Act 1997 and the Schedule to the Taxation Administrative Act (1953) contained approximately 8,500 pages of legislation.

applying the tax law, and increased enforcement activities under SA, Australian taxpayers tend to rely heavily on tax professionals for advice and also to seek assistance of tax agents to file their returns (Marshall, Smith & Armstrong 1997; Russell 2000). While the ATO has endeavoured to educate taxpayers and simplify the law (Cowdroy 1998), the "...tax administration and law still remain contentious, complex and ambiguous..." and has resulted in increases "...in appeal against penalties, tax rulings and tax law interpretations" (Niemirowski, Baldwin & Wearing 2001:207).

Even with the successful implementation of SA, improvement remains a key focus of the ATO. Consequently, the Australian Treasury released a discussion paper entitled 'Review of Aspects of Income Tax Self Assessment'[133] to provide avenues for discussion and to review possible changes to SA for both corporate and personal taxation. The review[134] had identified and addressed several features in the existing SA including improving the accuracy and timeliness of ATO's advice, reducing the period of uncertainty pertaining to the finality of an assessment, achieving a more balanced penalty arrangement and ensuring that taxpayers have a better understanding of their obligations under SA.

2.2.2.8 United Kingdom

The Australian SA model is frequently being cited in discussions in the UK public administration, and the UK tax system does appear to be heavily influenced by the ATO's practices (James 1996). Following the introduction of SA in Australia, there had been suggestions that the UK should move to SA (James & Nobes 2000). Arguments for SA were provided in the two consultation documents published by the Inland Revenue (IR) in 1991 and 1992. Subsequently, on 16 March 1993, the UK Government proposed the adoption of SA as an option to the tax system, particularly for individual taxpayers under the PAYE system.

The introduction of SA seemed to be the most fundamental reform of the personal taxation system and the biggest single change in the UK since the implementation of PAYE in 1944 (Smith D 1999; James & Nobes 2000; Hasseldine & Hansford 2003; Moneyextra 2004). As such, the introduction of SA required at the outset extensive

[133] Copy of the discussion paper can be obtained via http://www.selfassessment.treasury.gov.au.
[134] Detail report of the review is available at http://selfassessment.treasury.gov.au.

and ongoing consultation with both the public and the representative bodies on operational issues (James 1996; Barbour 1997; Hansford & McKerchar 2004).

SA was originally referred to as 'A Simpler System For Taxing the Self-Employed'[135] and 'A Simpler System For Assessing Personal Tax'[136] (Thompson & Teviotdale 1999:274). The objective of SA was to make the tax system simpler, easier and fairer to taxpayers, to make it possible for the IR to accept the Statement of Accounts without further review, and to allow taxpayers to pay the right amount of taxes at the right time without intervention by the IR. In addition, SA was expected to allow taxpayers to understand and to have more control over their own tax affairs (James 1996). This was expected to eventually open up ways for further reforms to simplify, unify and improve the system of personal taxation especially in relation to customer services through greater co-operation between taxpayers and the IR (Brodie 1999; Thompson & Teviotdale 1999).

However, it appeared that the real objective of SA was to reduce administrative costs.[137] It was reported that the administrative cost of the UK tax system as a percentage of tax revenue was much higher compared with that of Canada and Australia.[138] Further, it was reported that the cost of collection from the self-employed was 3.7 times higher as compared with the employed (Thompson & Teviotdale 1999).

Currently, SA in the UK is only applicable to one-third of those taxpayers who are required to lodge returns.[139] The remaining two-thirds (including employees and pensioners) are subjected to the PAYE system with withholding tax on their income and are not required to lodge returns (Sandford & Wallschutzky 1994b; Brodie 1999; IR 2004; Whiting 2004; Cicutti 2004). It was proposed that SA be extended to the whole population of the PAYE system in order to give these taxpayers the

[135] This was the first consultative document aimed at self-employed taxpayers, as salary and wage taxpayers were not required to file returns as they were subject to the PAYE system.
[136] This appeared to be the second consultative document.
[137] The IR estimated that over the 15-year period to 2007-2008, SA would result in administrative savings of £500 million (IR 2001).
[138] For 1986/87, it was 1.53 per cent in UK as compared to 1.13 per cent in Canada and Australia.
[139] Individuals who are required to lodge returns include the self-employed, company directors, partners in a partnership, employees with complicated tax affairs (e.g. someone using a company car), employees in receipt of income other than salary (e.g. freelance consultant) and high tax bracket taxpayers (Whiting 2004; Cicutti 2004). In addition, those whose declared income which are not subjected to withholding tax also need to furnish returns to the IR.

opportunity to comprehend their tax responsibilities. The argument against this extension was that it would result in an increase in administrative costs associated with the PAYE system; particularly in relation to the issuance of returns, as currently no tax returns were issued to those taxpayers under the PAYE system (Sandford 1994; Brodie 1999).

Similar to the NZ SA system, for those UK taxpayers who are required to lodge returns, there is a choice to opt for either assessing their own tax liability or to have the IR calculate the tax due. In the latter case, a taxpayer would furnish a similar tax return and the IR would assess the taxpayer's tax liability. This option requires taxpayers to submit their returns four months earlier than the normal stipulated time i.e. by 30 September (Cornell 1996; Turnier & Little 2004).

The operation of SA involves the submission of a Standard Accounts Analysis[140] by those who are self-employed or in business, other than a corporation (Stylianou 1997; William 1999; Brodie 1999; Cicutti 2004). Returns submitted without the Standard Account Analysis may be rejected, in which case the taxpayer is required to revise the return and resubmit by 31 January of the following year. Penalties are imposed for late submissions. The filing of returns is based on the current year basis i.e. the accounting year of the business, which appears to be confusing to new and untrained taxpayers who still preferred the fiscal year basis as practised in Australia (Sandford 1994; Thompson & Teviotdale 1999).

Under the traditional assessment system, collection was fragmented with the balance amount only being paid after settlement of the assessment (or appeal) between both the IR and taxpayer; or a year later as it was under the preceding year basis. Under SA, with the current year basis being practised, tax is paid in three parts with the majority collected on 31 January[141] each year (Thompson & Teviotdale 1999).

The self-employed, partners in partnership and landlords (owning rental properties) are required to keep and maintain records for five years after filing of returns, while

[140] This is applicable to business taxpayers.

[141] Briefly, payments on account fall on 31 January and 31 July. Should there be any balance, it needs to be paid in the following 31 January. A prudent assessment of the liability for the year will mean that there is some balance to pay and so on 31 January there is the current year payment on account plus the balance from the previous year.

other taxpayers need to keep their records for a period of 22 months after the end of the respective tax year.

There is a new reporting requirement for business owners to report the benefits provided to their employees from other associated businesses and vice versa (Cornell 1996). In such an event, SA significantly eases the administrative burden of business owners and employees as employee benefits or expenses given dispensation are no longer required to be included in the tax return. However, the employer must first seek dispensation from the Inspector of Taxes, so that the non-taxable expenses need not be filled in the new forms[142] (Cornell 1996; Cicutti 2004).

Continuous efforts to enhance compliance have become essential under SA. The current pay and file system, coupled with increased interest and penalties for non-compliance is in many ways a half-way house to SA (Collier-Keywood *et al* 1998; Blythe7 2004). Under the SA regime, the IR has a 12-month period after the normal filing date to commence enquiries and the tax officials do not need to furnish any reason or evidence as to why an enquiry is opened. Such practices are clear indications that the IR acts as a checker rather than as a primary assessor (Hansford, Pilkington & Lymer 2004; Collier-Keywood *et al* 1998). Such practices also give more enquiry powers to the tax authority, and this supports the perception that "...there is the claim that the IR sought to increase their powers via the introduction of SA..." (Thompson & Teviotdale 1999:282).

From the perspective of practitioners, research[143] had revealed a number of problems encountered, particularly in relation to procedures arising from the implementation of SA (Hansford 1999; William 1999). Firstly, many problems were encountered in completing the Statement of Accounts of which the IR acknowledged the need to make improvement (Smith D 1999: NAO 2001). Although the IR proposed that the Statement should be similar to that of the 'credit card statement', in practice, this was still incomprehensible (Brodie 1999). Secondly, SA indirectly restricted the practitioners' access to well-trained IR staff (Hansford 1999; William 1999). Thirdly, the reorganisation of Tax Service Offices and Tax District Offices coupled

[142] P11D or P9D are forms related to information on benefits received or expenses incurred by an employee.
[143] A comprehensive research study was carried out by Hansford (1999) on behalf of the Chartered Institute of Taxation, UK.

with the reduction in staff and their inconsistent training, resulted in inconsistent practices at the IR (Thompson & Teviotdale 1999). Finally, the introduction of electronic lodgement of tax returns resulted in software-related problems and this led to increased costs incurred by practitioners. Tax practitioners were unable to electronically file other documents which need certification or client signatures.

From the perspective of taxpayers, problems encountered basically arose from enquiries. For instance, the average time taken for an oral enquiry to be attended to was between one and two hours; and the inappropriate tone of notices had resulted in worries and concern on the part of taxpayers. Some taxpayers reacted in horror when questioned by the IR but the IR regarded such practices as perfectly reasonable and normal (Hansford 1999).

Although the IR emphasised the importance of customer service, its practices actually caused more distress for taxpayers. For instance, the time frame for answering a taxpayer's letter would normally take less than four weeks, however it appeared that more complicated letters would be set aside and might not be answered for months. Furthermore, some taxpayer services that had previously been personalised were to be undertaken by a team (Brodie 1999). This might have given rise to further fundamental conflict[144] and operational conflict[145] between the IR and taxpayers (Thompson & Teviotdale 1999).

In addition, the tax returns were quite difficult to master. The IR gave assurances of a simpler format but was not able to deliver as the tax system itself was too complex[146] and the vocabulary used was too unfamiliar to taxpayers (Stylianou 1997; Hansford 1999; Brodie 1999; Hinks 2000; CIOT 2002; Roy-Chowdhury 2003). At TaxAid,[147] some improvements have been detected, for example, taxpayers who sought considerable help in 1997 and 1998 were able to complete their own tax returns without much help in 1999 (Brodie 1999). However, the returns were still considered not flexible enough to accommodate the different needs of taxpayers,

[144] In that the IR set out to maximise tax collections and taxpayers wished to minimise their contributions.
[145] Based on how the tax system operates in practice.
[146] For example, tax allowances are given in two different ways - either as deductions or as credits. Income from savings and earned income are taxed at different rates.
[147] TaxAid is a registered charity established in 1992 to provide free tax advice and assistance to individuals in financial need.

especially those that frequently shifted from the 'employed individual' status to 'self-employed' status, or vice versa (Brodie 1999).

In spite of the numerous problems faced by practitioners and taxpayers, the IR claimed that the objectives of SA, as set out by the IR, had been substantially achieved. The IR acknowledged that although there were some initial difficulties, taxpayers and practitioners had coped well with SA (James & Nobes 2000). The SA system had improved the administration of income tax, made assessment more straightforward and allowed for a more focused approach to compliance work (NAO 2001:2). SA had encouraged taxpayers to disclose their existence and bring their tax affairs up to date. Further, SA had brought about innovation (such as e-filing and Orderline for national forms); education programmes for practitioners and employers; publicity and branding; and consultation with external bodies on an unprecedented scale (Smith D 1999; NAO 2001).

Needless to say, there remains room for improvement in the implementation of SA in the UK, particularly in relation to the efficiency of the IR in carrying out its operations and in dealing with taxpayers. The IR needs to adopt a more open approach to achieve better communication, liaison and consultation and to change the existing culture of tax officers (Hansford 1999; Brodie 1999; Hinks 2000; IFA 2004). In order to ensure the success of SA in the UK, acceptance by, and cooperation between taxpayers, tax practitioners and tax administrators is essential.

2.2.3 Summary of operations of self assessment

The review of SA in the eight countries revealed that SA requires voluntary compliance and that strategies to enhance voluntary compliance are needed. These strategies include the provision of tax education and the provision of consultation and counselling services to taxpayers. In terms of the time basis for filing tax returns, some countries adopted the fiscal year basis, while others adopted the current year basis. In addition, there is a move towards electronic filing in these countries. It is also noted that other than in Canada and Australia, no notices of assessment were issued. The key characteristics of the operations of SA in these eight countries as compared with that of Malaysia are summarised in Table 2.1.

Table 2.1: A summary of operations of SA

	United States	Canada	Japan	Pakistan	Bangladesh	New Zealand	Australia	United Kingdom	Malaysia
Income tax authority	IRS	CRA	NTA	CBR	NBR	IRD	ATO	IR	IRB
First introduced	1913	1917	1947	1979	1981	1980s	1986	1996	2001
Basis of return	FY(p)	FY	CY(ai)	FY(z)	FY	FY (j)	FY(f)	CY(i)	CY
Mechanism to achieve objectives of SA System:									
• measure to promote principles of compliance:	/ (q)	/	/	/	/	/ (k)	/ (g)	/	/
• public relationship	/	/ (u)	/	/		/ (l)	/	/	/
• tax education	/ (r)	/	/			/	/	/	/
• taxpayer	/ (r)		/			/	/	/	
• school children	/ (r)		/			/			
• Consultation	/ (s)	/	/			/ (m)	/		
• Telephone		/	/			/			
• Facsimile		/	/						
• etc (a)	/ (t)	/				/ (n)	/ (a)		
• guidance and exam/ tax pack	/ (r)	/ (v)	/	/ (aa)			/	/	/
• counselling			/ (c)	/ (ab)					
Withholding tax:									
• Salary & Wage (b)	/	/ (w)	/	/	/	/	/	/	/
• Dividend	/	/	/			/	/	/	/
• Interest	/	/	/	/		/	/	/	/
Tax audit	/	/	/ (d)	/ (x)	/ (x)	/	/	/	/
e-filing	/	/				/ (o)	/	/	/
Penalties	/	/	(e)	/	/ (y)	/	/	/	/
Taxpayers' Compliance	M	M	ST	W	W	M	M	M	
Public rulings	(ad)	(ae)		/ (af)	/	/	/	(ac)	/
Time limit for audit review (years)	3-6(h)	6 (h)	(d)	5		4 (h)	2-4(h)	1-5	6 (h)
Taxpayer retained records (number of years)	(ag)	6	(ah)	(ah)	(ah)	7	2-5	5	
Centralised collection			/			/		/	/
Notice issued		/					/		

Notes: FY=fiscal year; CY=current year; ST=compliance rate is high; M=compliance rate is average; W=compliance rate is low; (a) other forms such as advance rulings; (b) is either a PAYE or PAYG; (c) at time of tax return filed; (d) applicable to 'white return' taxpayers; (e) active; (f) 1 July-30 June; (g) compliance programme; (h) unlimited time limit if taxpayers found to have committed tax fraud, however in UK for the similar offence, the time limit is 20 years & 10 month; (i) depends on the accounting year end; (j) 1 April-31 March; (k) compliance model-see Appendix V; (l) working with community, family assistance; (m) online consultation for SME; (n) email; (o) for registered tax agent only/ir file for employer; (p) not necessarily calendar year; (q) NRP; (r) mainly online education; (s) taxpayer advocate service; (t) in CD-rom; (u) community volunteer Income Tax Programme to help tax-filer; (v) income tax and benefit package; (w) named as payroll reduction; (x) not significant; (y) little and inconsistent; (z) financial year; (aa) service pack or brochures; (ab) when returns with error and possible evasion; (ac) more of Statement of Practice (ad) non-binding guidelines; (ae) non-binding technical interpretation practices; (af) one advance ruling for non-resident issued recently; (ag) so long as the contents of records are material; (ah) not available; (ai) calendar year.

2.2.4 Characteristics of self assessment

Based on the summary presented for the eight countries that have implemented SA, the majority exhibit a range of common characteristics that appear to be the essence

of SA. Discussions of these common characteristics follow, though it is recognised that other characteristics might exist that reflect the political and cultural background of the respective countries.

2.2.4.1 Staged implementation

SA is typically implemented in stages. At the introduction stage, SA tends to be restricted to certain categories of taxpayers, and subsequently implemented on a wider scale (Sarker 2003; Dirkis & Payne-Mulcahy 2002).

2.2.4.2 Burden shift

Under SA, taxpayers are typically required to lodge their returns together with detailed computations of their taxable income and income tax liabilities, with the exception of Australia.[148] In other words, there is a shift of the burden and functions of assessment from the tax authority to taxpayers.

2.2.4.3 Tax rulings

In order to assist taxpayers in understanding the requirements of the tax law, rulings, such as public rulings, private rulings or other forms of rulings, are being issued. However, in some cases, conflicts between the substance of the rulings and the provisions of the tax law still exist. In the event of any such conflict, the provision of the tax law prevails.

2.2.4.4 Penalty provisions

Since "...SA is a natural extension of voluntary compliance and the associate philosophy that it is a taxpayer's responsibility to comply with the tax laws" (ATO quoted in Sandford & Wallschutzky 1994b:213), penalty provisions for non-compliance with the law pertaining to filing of returns or other related matters are introduced and enforced.

[148] Individual taxpayers in Australia are not required to compute their tax liabilities, but are required to complete their tax returns.

2.2.4.5 Proper record keeping by taxpayers

Taxpayers are required to maintain proper records as evidence to substantiate and support the particulars and computations filed in their tax returns. These records need to be kept not only for a particular YA, but for a number of years after filing.

2.2.4.6 Emphasis on enforcement

Since SA does not require the tax authority to assess and review all tax returns filed, the emphasis of officials is shifted to, and focused on, enforcement activities such as tax audits and investigations (ATO 2006). The concept of having an audit system is to put in place a preventive system against intentional dishonesty or non-compliance (Asraf 2004).

However, different taxpayers may honestly encounter different circumstances in relation to unintentional non-compliance, which may arise under SA. Unintentional non-compliance arises as a result of a non-deliberate decision. This might be due to taxpayers inability to comprehend or keep abreast with the frequent changes of the tax law (McKerchar 2003). Furthermore taxpayers may be unaware of their entitlement with regards to deductions, allowances or relief available to them. Therefore "...the tax administration should be sufficiently flexible to allow for the equitable treatment of different taxpayers" (James 1996:22).

2.2.4.7 Education and support

SA requires taxpayers to have a good understanding of the tax law, rulings, guidelines and the tax authority's administrative procedures. Hence, provision of other supporting materials and tax education programmes has become essential. The educational programmes should fully inform the public about the impact of SA and also counter disinformation about the system. As SA places heavier burdens on taxpayers, it is not only fair but also essential for the tax authority to educate the taxpayers on the understanding and application of the tax law (William 1999; Dirkis & Payne-Mulcahy 2002).

2.2.5 Successful implementation of self assessment

In the review of SA in the eight countries, several factors that had contributed to, or impeded the successful operations of SA were identified. As a relatively new SA regime, Malaysian policy makers should have a deep and full appreciation of the impact of these factors on the operation of SA, as the experiences encountered by the other SA regimes may serve as useful lessons.

One of the significant implications of SA is the transfer of the assessment functions from tax authorities to taxpayers, whereby lay taxpayers are now expected to exercise a function that was previously performed by trained tax office personnel. SA operates on the premise that every taxpayer is capable of comprehending the tax law and the related rulings and procedures, and capable of interpreting and translating them into a quantitative figure, i.e. the tax liability. In addition, SA has placed heavier burdens and responsibilities on taxpayers to keep and maintain adequate records, which ultimately will result in increased compliance costs to taxpayers in general.

For the tax authority, there is a need to revamp its operational structures to accommodate for the change to the SA to ensure the successful implementation and operation of the system. Tax authorities now focus their resources and functions on post assessment reviews and enforcement activities, rendering services to taxpayers in the contexts of issuing rulings and guidelines; providing counselling and conducting tax educational programmes. Although the implementation of the SA has been to some extent successful in the eight countries reviewed, there are also evidence of serious shortcomings.

Tax law complexity represents one of the major shortcomings of SA. Complexity of the law leads to increased compliance cost for taxpayers, while uncertainty and ambiguity of the law lead to increased opportunities for tax evasion in some countries. *Ad hoc* attempts to simplify the tax law and to plug the loopholes to reduce tax evasion has led to further complexities. In addition, constant and hasty changes to the already numerous tax codes has compounded the problem of tax law complexity, and in particular, this problem has been further exacerbated where taxpayers had a low level of tax literacy.

Inadequate trained staff, perceived and actual corrupt practices and the authoritarian and adversary approaches adopted by some tax authorities have led to an erosion of taxpayers' confidence in the tax system. These shortcomings, together with poor tax administration (in that the administrative framework was not restructured or prepared to cater for SA) coupled with weak enforcement activities, have resulted in operational conflicts. Tedious resolution processes, the lack of transparency, the exercise of discretionary power and the lack of adequate infrastructure (for example, the inadequacies of electronic data processing system) to handle large numbers of tax returns are also significant shortcomings of SA that hinder compliance.

While countries implementing SA have encountered and experienced shortcomings, some have been successful in overcoming them by making adjustments, introducing and implementing appropriate measures, exercising on-going reforms, and focusing on new directions to nurture and support SA. In some cases, economical and efficient infrastructure was put in place, such as computerised systems to facilitate easy electronic filing and to ensure prompt processing of returns and refunds. Mechanisms for prompt audit processes and resolution of disputes, the issue of relevant guidelines and rulings, together with continuous and vigorous enforcement programmes, have contributed to the success of SA.

Other successful contributing factors appear to be the tax authorities' development of good public relations with taxpayers, the provision of customer (i.e. taxpayer) service, the level of assistance rendered to taxpayers to enhance compliance, the provision of tax education and the collection of taxes at source. In terms of enhancing public relations, the more successful tax authorities have sought to adopt friendly, open approaches and better liaison, consultation and communication with taxpayers. They have taken steps to enhance taxpayers' cooperation, to work with the community, to be more flexible in handling personal issues and to be reasonable in the interpretation of tax law. These measures have contributed to the improvement of taxpayers' confidence in the tax system, and consequently led to better compliance.

Assistance rendered to taxpayers included advice on proper book keeping, provision of tax counselling, advice to taxpayers of their rights and the identification and highlighting of common compliance patterns. Tax education programmes, focusing

on both existing filers and non-filers as well as on future taxpayers, have also contributed towards enhancing compliance under SA.

Thus, the pillars for the successful implementation of SA lie very much with the tax authority. The development of good public relations with taxpayers, the promotion of tax education, assistance to taxpayers by way of counselling, guidance and services, along with appropriate enforcement activities are needed. In addition, taxpayers' confidence in the tax system must be developed through fair and transparent practices by the authority. Rulings and guidelines to provide for more consistency, certainty and fewer ambiguities, would help taxpayers in understanding complex tax codes. Shortcomings, such as irregular practices, confrontational approaches and the exercise of too much discretionary power on the part of the tax authority, should be avoided.

2.2.6 Lessons for Malaysia

In Malaysia, the tax law is exasperatingly complex, and public rulings[149] have been issued purportedly to help overcome this problem (Somasundram 2005a). However rulings issued have to be binding,[150] and timely,[151] should not be complicated[152] nor contradictory,[153] and should give explicit direct advice.[154] Likewise, information and tax returns[155] issued by the IRB should be simple and clear to enable easy understanding and compliance.

---

[149] In Malaysia, only public rulings are issued. Also see above n 77.

[150] In Malaysia, the "...public ruling and guidelines do not have the force of law. They merely reflect the IRB's approach and position...and are generally regarded as persuasive authority..." (Wong & Tan 2003:15).

[151] In terms of timeliness, for example, Public Ruling No. 2/2005-Computation of Income Tax Payable By A Resident Individual. This 77-page ruling was issued on 6 June 2005, whereas in that year the deadline for filing tax returns by salaried individuals was 30 April 2005.

[152] Due the complexity of the tax law, rulings should be intended "...to provide guidance...setting out the interpretation...in respect of...particular tax laws...that are to be applied...there is no need to explain complicated tax laws with complicated rulings" (Somasundram 2005b:15). It is significant to note that a tax consultant and advisor who was previously an IRB officer made this observation. Also see above n 87.

[153] See Choong above n 87.

[154] See Josef above n 87.

[155] For example, SA tax returns "...could hardly be regarded as simple (but rather) complicated, with information requirements...that would easily puzzle the non-accounting businessman", and "...filling the forms represents a daunting task for the first-timer, and is extremely time consuming - even for seasoned tax practitioners" (Yong K 2005:22-23).

Some form of "...Community Outreach Tax Assistance Programme..." (Shanmugam 1996:8) should be put in place to reach out to the general taxpaying public[156] to enhance public confidence in the tax system and to build good public relations with taxpayers. Tax administrators should steer away from the adversary approaches when dealing with tax paying public.[157]

In the event of any dispute, an equitable recourse should be available equally to both taxpayers and tax enforcers. However, the tax law in Malaysia "...confers broad powers in favour of the DGIR and its officers and is weighted heavily in favour of the DGIR" (Wong & Tan 2003:19). Appeal through the lengthy and costly legal process[158] is the only recourse available to an aggrieved taxpayer.[159] Thus, for dispute resolution, there is a need to put in place a faster, easier, cheaper and less tedious mechanism as an alternative to the appeal process. In the absence of such an alternative dispute resolution mechanism, the tax authority should emphasise negotiated settlement,[160] rather that resorting to lengthy and expensive legal process.[161]

To achieve voluntary compliance, the IRB's emphasis is on penalties and enforcement.[162] However "...the penalty system has created much concern among taxpayers ..." (Yong K 2005: 23).[163]

SA may have its merits, but being newly introduced in Malaysia, there is concern that taxpayers are not aware of the new system and the rules, procedures and

[156] Provision of IRB's services are not easily accessible to the general taxpaying public, as "...IRB branches are concentrated in major cities, leaving smaller towns without coverage. The IRB website has been swamped by visitors, rendering downloads to a snail pace" (Yong K 2005:23). Another lesson from this experience is the need to upgrade IRB's infrastructure to assist taxpayers to meet their compliance obligations.

[157] Another lesson is that the tax authority needs to adopt a friendly approach when dealing with taxpayers, rather than, for example, "...when it comes to allowing a claim for deduction, the attitude had been one of hostility (by the tax official who refuses to entertain the claim) and bitterness (by the taxpayer who suffers a disallowance)..." (Somasundram 2005a:20). Also see above n 152.

[158] Litigation of tax dispute is cost and time consuming. Further the "...taxpayer also bears the burden of adducing evidence to specially prove..." his/her claim (Wong & Tan 2003:19).

[159] In the absence of a dispute resolution mechanism other than appeal through the legal process and given "...the extensive power conferred on the tax enforcers under the ITA (1967), most taxpayers would rather settle the outstanding tax and penalty...rather than risking a skirmish with the Inland Revenue" (Chang 2002:14).

[160] See above n 65.

[161] The IRB's appears to favour litigation rather than negotiated settlement. Also see above n 64.

[162] For more discussion, see 2.1.7.

[163] Taxpayers are concerned because while "...such penalties are aimed at catching tax dodgers, genuine taxpayers who erred may also fall victim..." and innocent taxpayers would ask why "...they should be placed in the same category as fraudsters and tax evaders?" (Yong K 2005:23).

administrative mechanism that have been put in place. The IRB may have conducted awareness campaign among taxpayers, but are taxpayers prepared for SA? (Yong K 2005).

Given the lessons gained on the implementation and operation of SA in eight other regimes, and the discussion on the adoption and operation of SA in Malaysia, it is noted that as a result of the introduction, or of the change from traditional assessment system to SA, the responsibilities of assessing taxpayers' tax liabilities were transferred from the tax authorities to the taxpayers. As such, the first research question that follows is 'Has changing from OAS to SA system affected compliance behaviour of Malaysian individual taxpayers?' Undoubtedly, the SA regime places the onus and responsibility on taxpayers to discharge their tax compliance obligations, such as filing accurate and timely tax returns. In the context of Malaysian taxpayers, it is expected that SA would affect individual taxpayers more than other category of taxpayers, such as companies and other incorporated entities.[164] Hence, the compliance behaviour of individual taxpayers is the area of specific interest.

It is therefore appropriate to examine other tax compliance research and compliance models so as to provide a better understanding of taxpayers' compliance behaviour and to further develop research questions associated with the introduction of SA and its impact on the compliance behaviour of individual taxpayers in Malaysia.

2.3 Tax compliance research and compliance models

Over the last three decades, studies on tax compliance behaviour have ventured into the domains of economics, psychology, accounting, political science, public administration, law, criminology and sociology. In terms of geographical domains, the issue of tax compliance behaviour had been investigated in almost every country where taxes have constituted one of the major sources of revenue.

The central focus of much of the research has been on intentional non-compliance i.e. tax evasion (See Spicer & Becker 1980; Richupan 1984; Kinsey & Smith 1986; Kinsey 1992; Slemrod 1992; Cooper 1993; Lee 1998; Hackbart & Ramsey 2001;

[164] In Malaysia, these categories of taxpayers would have engaged the services of professional tax practitioners and thus would unlikely to encounter difficulties in filing tax returns (Loo & Ho 2004).

Beare 2002; Bloomquist 2003). Few studies however have gone beyond tax evasion by investigating the other dimensions of non-compliance i.e. unintentional non-compliance (McKerchar 2002, 2003; Ritsema, Thomas & Ferrier 2003).

Broadly, research into compliance behaviour can be aligned as being underpinned by one of two major types of models: either the economic models or the psychological-sociological models, each (and the various permutations) of which reflects the relevant underlying discipline. Economists assume that human beings generally would act rationally in evaluating the cost and benefit of any activity. On the other hand, psychologists and sociologists tend to model human behaviour as being more complex. From the psychologists' and sociologists' perspective, individuals' tax compliance behaviour is also influenced by attitudes, demographic characteristics, cultural background as well as the individuals' perceptions in relation to the government and the tax system (Wallschutzky 1992, 1993; Glen 1998; Chan, Troutman & O'Bryan 2000; Niemirowski, Baldwin & Wearing 2001).

2.3.1 Economic models

The economic models basically rely on economic theories of compliance that can be traced back to the work of Adam Smith in 1795 on law and punishment (quoted in Singh V 2003b:26). Very much later, this economic approach to compliance behaviour was tested by Becker (1968) using a 'crime and punishment' framework. Becker used a utility–maximising framework to explain the behaviour of criminals. His argument was that criminals would behave like all other individuals. They would commit a crime if the expected utility ('reward') was much greater than what would be gained through legitimate activity. In other words, taxpayers would evade tax so long as the expected cost of being caught and punished might be less than the pay-off of evading.

Becker's model was a straightforward application of an individual's choice under uncertainty. The model's main contribution was its ability to demonstrate that optimal policies to combat illegal behaviour using an 'economic' framework were part of an optimal allocation of resources. Becker's model, based on the modern risk theory, had become an influential piece of work on law and enforcement in taxation. While Becker stated that his general model was applicable to tax evasion, Allingham

and Sandmo (1972) were the first to formally analyse this model in the context of tax evasion.

2.3.1.1 Economic deterrence theories and models

Allingham and Sandmo (1972) developed a basic theoretical model on compliance based on economic deterrence, relying completely on the theoretical antecedents of tax evasion, such as tax rates and the probability of detection. The model assumed that taxpayers were perfectly moral, rational, risk neutral (or risk averse) decision makers who maximised utility. Allingham and Sandmo also assumed that the probability of detection was exogenous and independent of the amount that an individual reported. What might deter an individual from tax evasion was a fixed probability of being detected and a penalty imposed on actual tax liability if detected. Formally, the Allingham and Sandmo model was presented as:

$$E[U] = [1 - p]U(W - \theta X) + pU[W - \theta X - (W - X)]$$

Where $E[U]$ = expected utility
p = probability of detection
X = declared income
W = actual income
θ = penalty if detected

The results of this model depended crucially on the probability of detection, p and the amount of penalty, θ. Assuming that the tax rate was r, the model predicted that, provided the expected payment on detection $p(W - \theta rX)$ was lower than the tax due when income was reported (rX), a taxpayer would not comply fully by reporting the actual income. This approach implied that the tax authorities should either increase penalties or introduce policies that would raise the probability of detection in order to reduce tax evasion among taxpayers. In other words, an individual's ability to get away with a given level of non-compliance was determined by the prevailing environment, particularly the effectiveness of the tax administration. Among the criticisms made of this model was that it "...is grounded in the belief that compliance decisions depend on moral views" of the taxpayer (Franzoni 1998:7). Nevertheless, the Allingham and Sandmo model remained as an important theoretical contribution and was largely expanded and refined in later research (Reinganum & Wilde 1985,

1986, 1988; Graetz, Reinganum & Wilde 1986; Alm, Cronshaw & McKee 1993; Erard & Feinstein 1994; Yaniv 1999; Lee 1998; Ali, Cecil & Knoblett 2001).

Subsequent studies on deterrence (Clotfelter 1983; Witte & Woodbury 1985; Dubin & Wilde 1988) found that the measure of detection risk was determined by audit rates, perceived detection risks and information reporting that might influence taxpayers' compliance in an expected direction. However, the evidence varied in terms of the influence of penalties and tax rates.

Through survey and modelling of line-item on the data compiled by the IRS's TCMP,[165] Klepper and Nagin (1989a, 1989b) analysed how certain enforcement features of the tax laws shaped the perceptions of risks of detection and penalties on non-compliance. Their studies further examined the effect of these perceptions. Their main finding consistently revealed that the "...underlying premise of criminal opportunity theory, which holds that perceptions of risk of apprehension and punishment for a specific law breaking have some grounding in the realities of the enforcement process" (Klepper & Nagin 1989b:210). On one hand, they argued that the most powerful deterrence tool to non-compliance was the perceived risk of criminal prosecution. On the other hand, the survey showed strong support for the hypotheses[166] developed concerning how perceptions might be affected by the enforcement process. Their results contradicted the findings of Graetz, Reinganum and Wilde (1986) and of Dubin and Wilde (1988), which showed that risk of detection was not exogenous but rather a function of the level of compliance.

The variables tested in the early analytical models yielded unambiguous conclusions. However, the assumption that, given the motivational concepts, behaviour was responsive to the consequence of costs and benefits, was criticised as being an inadequate explanation of the expected utility in this model (Weigel, Hessing & Elffers 1987; Alm 1991). A study by Schmit and Witte also identified the two most problematic assumptions i.e. "... (a) both gains and penalties can be monetarised and

[165] Similar research based on TCMP data was conducted by Tauchen, Witte & Beron (1989). They examined the individual level of data from the 1979-TCMP, and found that there were very limited evidence of any deterrence effect of audits on higher income taxpayers. Further, they were unable to detect any effect on other income classes. This may be due to the different data set used as their measure of audit rate was based on the data collected at the IRS's District level.

[166] There were eight hypotheses developed, mainly on the perceived probability of detection of non-compliance and the perceived probability of criminal prosecution for non-compliance on line items.

(b) that probabilities related to certainty of punishment can be stated as absolute" (Schmit & Witte 1984, quoted in Jackson & Milliron 1986:149). It was noted that if these were the only factors influencing taxpayer compliance, the overall compliance would be lower than what was observed (Alm 1991).

Despite numerous criticisms of the deterrence model by earlier researchers, the economic deterrence theory still 'captures' the interest of many researchers. In 1995, Carnes and Englebrecht (1995) used penalty levels proxies as the sanctions levels stipulated in the Inland Revenue Code for omission of income to determine whether penalties were effective deterrence and to investigate whether the change in magnitude was salient. They also measured the perceived detection risk and the influence of income visibility on compliance. Their findings indicated that low levels of penalty sanctions,[167] perceived detection risk and income visibility influenced compliance behaviour, with the latter two variables being significantly related to compliance. These findings seemed to contradict that of the earlier research done by Jackson and Jones (1985) who found that the magnitude of penalty was more salient than the probability of detection when the probability of detection was very low.[168] The contradictory findings could be due to the low probability rate used. Other evidence showed that more severe penalties were appropriate for larger evasion, particularly in the case of repeat offenders, but not in the case of the first-timer (Hite & Spicer 1990).[169]

In a departure from the utility function, Ali, Cecil and Knoblett (2001) adopted an econometric analysis approach to investigate the relationship between taxpayers' compliance and audit rates, penalties if detected, tax rate schedule, income level, and source of self-employment income. While other earlier studies focused mainly on taxpayers in general, this study focused specifically on self-employed taxpayers by utilising the Annual Report and the Data Book published by the IRS between the years 1980 and 1995. Utilising the time series data enabled the researchers to investigate the trend in compliance behaviour and their findings indicated that both the audit rate and the penalty rate were effective deterrence to non-compliance. With

[167] Increases in sanction levels appeared salient even with relatively small increases.
[168] The rate of probability was 4 per cent or less.
[169] The study employed a quasi-experimental design to investigate the effect of multi-years versus single-year audit rates by comparing the short-term probability of being audited in any one year with the probability of being audited in the long term (over 20 years). The study also examined different levels of appropriate penalties for first timers and repeat offenders.

the view that compliance varied across income group, they suggested that, "...the relationship to reported income is likely to be non-linear in income and that there may be some interactions of the variables, such as tax rate, penalty rate, and audit rate with income as well as with taxpayer classes" (Ali, Cecil & Knoblett 2001:191). The two structural equations[170] for reported income and the reduced–form equation for the audit rate were developed as:

Reported Income =

$$\beta_0 + \beta_1 S + \beta_2 AI + \beta_3 (AI)^2 + \beta_4 AR + \beta_5 (AR)(AI) + \beta_6 (AR)(S) + \beta_7 TR + \beta_8 (TR)(AI) + \beta_9 (TR)(S) + \beta_{10} (PR) + \beta_{11} (PR)(AI) + \beta_{12} (PR)(C) + \varepsilon_r \quad (1)$$

and

Audit Rate =

$$\delta_0 + \delta_1 S + \delta_2 AI + \delta_3 (AI)^2 + \delta_4 TR + \delta_5 (TR)(AI) + \delta_6 (TR)(S) + \delta_7 PR + \delta_8 (PR)(AI) + \delta_9 (PR)(S) + \delta_{10} OC + \delta_{11} YEAR + \varepsilon_a \quad (2)$$

Where S = Schedule C
AI = Actual Income
AR = Audit Rate
TR = Tax Rate
PR = Penalty Rate
OC = Operating Cost per return

Their findings revealed that reported income was the major determinant, of which at lower levels of income, the amount reported continuously rise, but at a decreasing rate, while at higher levels of income, the amount reported declined. Meanwhile, audit rate was found to be a significant deterrence to non-compliance. However, the effectiveness of these two policy instruments depended on the taxpayer's level of income.

In general, their study was able to provide empirical evidence that taxpayers' compliance behaviour was sensitive to audit rate, marginal tax rate and penalty rate; and that such behaviour varied across different levels of income as well as across taxpayer class. This appeared to be consistent with the earlier studies by Clotfelter (1983), Witte and Woodbury (1985) who found that compliance or non-compliance behaviour varied with the level of income and taxpayer's class.

[170] For detailed definition of the variables in both the equations as well as illustration on the data construction, see appendix of the article.

Compared with the earlier research that utilised other methods of data collection, the econometric model of Ali, Cecil and Knoblett appeared to be useful to describe tax compliance behaviour. However, measurement error in estimating the actual income of the representative data might occur especially if the sample was not a random selection (such as the IRS data that was mainly derived from non-compliance audit cases). Hence, overestimation of estimated actual income was likely to occur.

The deterrence models have provided the framework for analysing changes in tax compliance behaviour as responses to different deterrence policies. Various experiments conducted in previous studies showed that taxpayers tended to report a higher level of income than as predicted by the expected utility model (Alm, McClelland & Schulze 1992). The experiment by Alm, McClelland and Schulze (1992) found a substantial compliance rate with variation ranging between 5.3 per cent and 35.8 per cent. The average compliance rate was 20 per cent and this indicated that over weighting the audit probability or extreme risk aversion did not necessarily affect the compliance rate. This in fact would provide some insights and directions for future researchers in considering the need to expand their investigations and research beyond the traditional expected utility model and search for other relevant theories or perhaps other variables that might provide better insights into tax compliance behaviour.

While much of the previous research produced ambiguous results, one important universal prediction in the earlier economic deterrence models was that, an exogenous increase in the probability of detection and conviction, or an increase in the penalty rate, would increase compliance (Dubin, Graetz & Wilde 1987). In respect of criminal behaviour, certainty of punishment appeared to be more effective as a deterrence than the severity of formal sanctions (Klepper & Nagin 1989b).

2.3.1.2 Prospect theory

Advancing from utility theory, prospect theory proposed a slightly different view of behaviour under uncertainty that could be used to predict taxpayers' attitudes towards risk. Prospect theory is based on the view that income might not be the sole factor in respect of taxpayers' utility functions. A taxpayer's utility function might differ for gains as compared for losses. Where tax payment was perceived as a

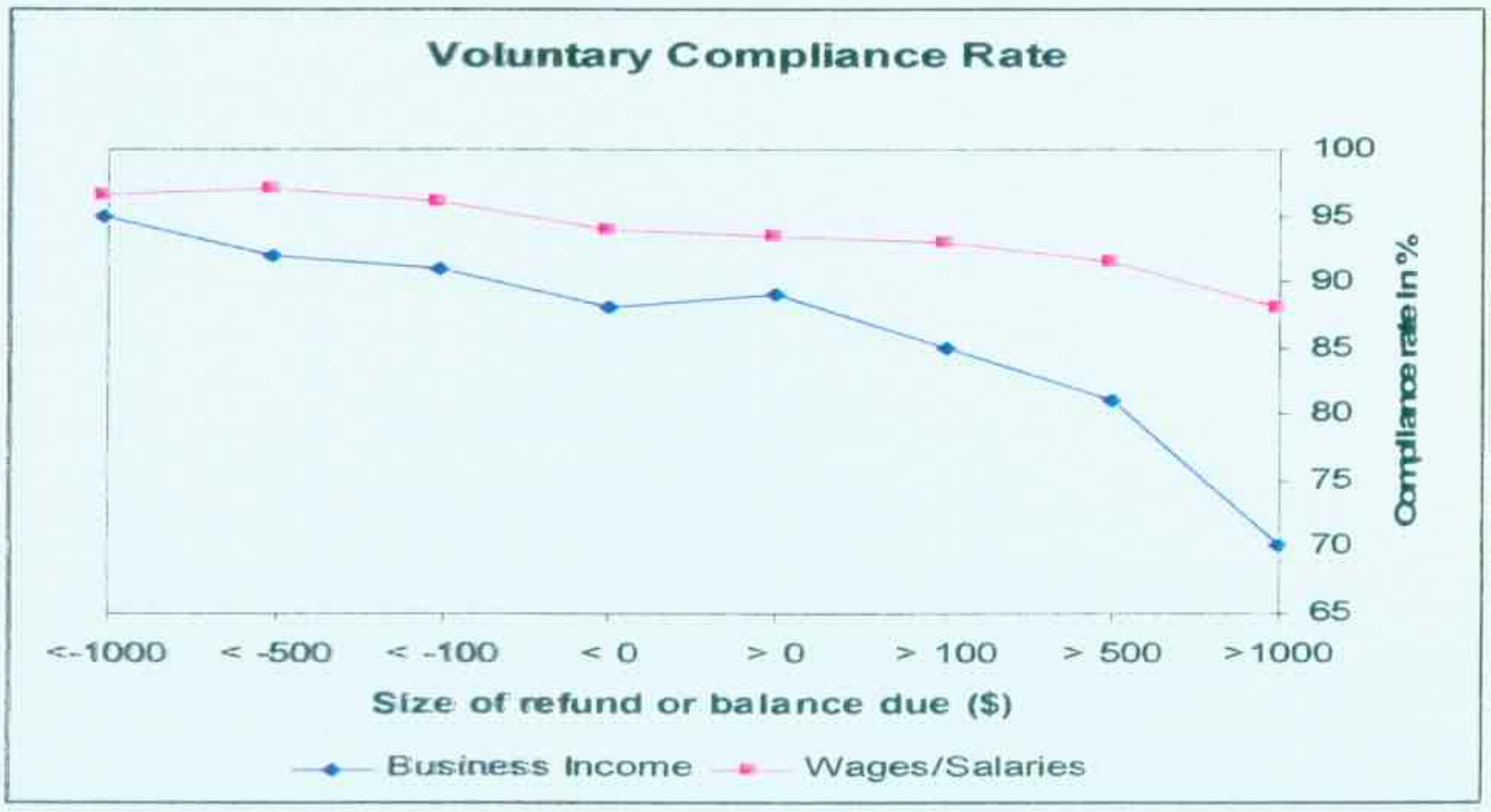
reduced gain, the utility function would likely have a concave shape. In contrast, where tax payment was perceived as a loss, a convex shape was expected (Chang, Nichols & Schultz 1987). In other words, prospect theory proposed that taxpayers' decisions could be influenced by the way in which the decisions were 'framed' (Jackson & Milliron 1986; Hasseldine & Hite 2003a, 2003b).

Based on a theoretical model, Weigel, Hessing and Elffers (1987) proposed that conceptualised tax evasion behaviour was an outcome of interacting instigations and constraints operating within an individual and the confronting situations. It was argued that decision frame and opportunity were the two important variables which indicated that an individual would make different decisions depending on how the choices were being framed. In the context of prospect theory, when a gain was certain, an individual would avoid risks. On the other hand, an individual would be a risk taker in order to avoid losses.

Several researchers have argued that prospect theory was relevant for the understanding of taxpayers' behaviour when evading taxes (Weigel, Hessing & Elffers 1987; Smith & Kinsey 1987; Caroll 1987). These arguments seemed to be consistent with the findings of the study conducted by the IRS (quoted in Robben *et al* 1990:345). In this study, under the withholding tax regime, the voluntary compliance rate reported was higher when the taxpayers anticipated refunds from the tax authority and lower when taxpayers anticipated tax liabilities. However, the voluntary compliance rate diminished as the refunds became smaller and diminished further when the balances of tax liabilities increased. The findings of these analyses are as presented in Figure 2.1.

Figure 2.1: Voluntary compliance rate of income tax as a function of size of refund or balance due

(Adapted from Robben *et al* 1990:345)



Similarly, through a quasi-field experimental design, Chang, Nichols and Schultz (1987) supported the premise that decision frames were important for determining tax evasion behaviour. In their study utilising 56 middle-income executive MBA students with a series of hypothetical tax declaration situations,[171] they found that taxpayers' attitudes towards risk could be affected by how they perceived tax payments as reduced income or as losses, the magnitude of tax savings and the penalty structure. The results of the study revealed that 65 per cent of the group with 'negative-payoff' opted to cheat as compared to 23 per cent of the subjects who framed their choices in terms of reduced gains.

Other researchers (White, Harrison & Harrell 1993; Yaniv 1999) also found consistency of reporting behaviour using the prediction of prospect theory, which posits that taxpayers were more aggressive in reporting behaviour in a loss position (balance due on tax liability) than taxpayers in a gain position (refund).

2.3.1.3 Other economic models

The work of Allingham and Sandmo (1972) has continued to occupy a central position in the modelling of tax compliance research. With modifications and extensions to the basic assumptions of the earlier models, the later models used were

[171] The tax declaration situations varied in terms of the magnitude of potential savings from opting not to report the income, the probabilities of being audited and the penalties involving severe financial burden if audited.

more complex and the approaches were different. Researchers adopting these models incorporated principal-agent theory (Reinganum & Wilde 1985) and game theory (Reinganum & Wilde 1986; Graetz, Reinganum & Wilde 1986; Rhoades 1999; Feltham & Paquette 2002; Alm & McKee 2004) into their research. Another study incorporated labour supply in the standard model of how taxes affected the labour-choice (Slemrod 2001).[172]

Agency theory was relied upon to explain the situation where an individual, the agent, is engaged by another individual, the principal, to carry out duties for the benefit of the principal. The principal-agent theory basically evolved from the management stewardship functions in relation to the owner-employee relationship. In the case of tax compliance, agency theory was applied in an attempt to describe the relationship between taxpayers, tax preparers and the tax authority.

With this theory as the underlying framework, Reinganum and Wilde (1985) examined optimal audit strategies by comparing alternative audit policy with the standard random audit policy. They focused on how the agent triggered an audit if the reported income was too low, or alternatively no audit would be required for those with 'sufficiently high' reported income. This model is rather theoretical. In their later study, Reinganum and Wilde (1986) incorporated the strategic behaviour agency into the formal analysis, providing a link between the tax authority's audit policies and taxpayers' reporting decisions.

Generally, under the game theory model (Graetz, Reinganum & Wilde 1986; Sansing 1993), the researchers used the tax authority's audit strategy as the best response to taxpayer's report of a single item, the net taxable income. Rhoades (1999) utilised multidimensional reporting to search for more related variables.

Graetz, Reinganum and Wilde (1986) developed a simple-binary model of taxpayers' compliance by comparing the results under the assumption of risk-aversion versus risk-neutrality. The model indicated that risk aversion modified the optimal audit

[172] This study tried to generalise how taxes affect the labour-leisure choice by allowing individuals to change both their labour supply and avoidance effort in response to tax changes. The model modified the effective marginal tax rate by adding an avoidance-facilitating effect that measured how the cost of avoidance changes with higher income. This model provides a conceptual structure for evaluating the extent and situations in which the opportunities for tax avoidance mitigate the real response to taxation.

policy according to the form of the taxpayer's utility function. Taxpayers chose to report their income either high or low, based on a private observation of the true taxable income. The tax authority decided the audit strategy based on what the taxpayers reported. Even though auditing seemed to be costly, it helped to reveal the taxpayers' true taxable income and showed that there were strategic interactions between the taxpayers and the tax authority. The result of their study remained qualitatively unaffected by taxpayers' risk preference on the impact of changes in the model's parameters on the taxpayers and the tax authority's strategies, with the exception of risk aversion showing some ambiguous predictions.

Most importantly, the study of Graetz, Reinganum and Wilde (1986) relied solely on information reported by taxpayers that could lead to questionable findings. In contrast, Sansing's (1993) model included an additional variable, the imperfect information that the tax authority has with regard to taxpayer's taxable income.[173] However, Sansing's model still focused on the audit strategy as a single component whereby taxpayers had private information and that all other components remained fixed.

Rhoades (1999) presented a similar model of taxpayer compliance behaviour and tax authority's audit strategies but within the context of a multidimensional reporting of taxable income. Specific attention was paid to analysing the impact of component reporting requirements on taxpayers' incentives to misstate their tax liability. This model allowed the tax authority to tailor their audit policy to examine return components sequentially, where the auditing processes of the second component were subjected to the first component's audit.

The results of the study indicated that in comparison to the earlier research using the single model, partitioning taxable income into multi-component reporting requirements reduced overall tax evasion and increased the tax authority's net revenue collections. In spite of this, the impact on predicted evasion was not uniform among taxpayers. Nonetheless, the binary approach adopted by this model was applicable to various components within the tax return that appeared to be important to taxpayers. These components included the amount of income reportable

[173] The authority has perfect knowledge about the reported income, but doesn't know if the reported income figure is correct.

(or allowable deduction) and the amount of taxable income (or a deductible expenditure).[174]

Extending from prior literature, Feltham and Paquette (2002) incorporated the estimated tax payment decision into a tax compliance game. They argued that researchers using prospect theory considered the prepayment position as exogenous as taxpayers would normally have made the payment decision prior to the filing date.

Using a two-period game-theoretical model, Feltham and Paquette examined the effect of the estimated tax payments rules on taxpayers' incentives to evade and on the tax agency's audit strategy. The results of their study indicated that, in equilibrium, taxpayers' estimated decisions regarding tax payment depended on the uncertainty of their actual tax liabilities, the taxpayers' cost of capital and the interest on penalty. In addition, taxpayers with higher instalment payments were less likely to evade tax as compared to those with lower instalment payments.

For the tax agency, the audit probability tended to be higher for those with lower reported income and lower estimated instalment payments simply because the gain from auditing this group of taxpayers would give rise to higher returns in terms of penalty charged for evasion and also interest charged on deficient instalments of estimated tax. In other words, it was optimal for the tax agency to condition its audit strategies on both taxpayers' estimated tax payments and their reported tax liabilities. The study offered an alternative explanation by arguing that taxpayers' estimated tax payments position was endogenously determined and the estimated tax prepayment itself provided information on the taxpayer's actual tax liabilities to the tax agency, which enabled the tax agency to decide on its audit strategies.

This study claimed to examine taxpayers' compliance behaviour and tax agency's audit decisions in a broader and more realistic setting. However, the study conducted remained within the context of expected utility theory and included an additional assumption i.e. the tax agency's maximum expected benefits from auditing taxpayers exceeded its audit cost. In addition, the study has been criticised for the inaccuracy in attributing that there was greater audit intensity by the tax agency when there was

[174] This refers to questions such as whether a taxpayer qualifies for a home office deduction, and whether a loss on an asset disposition could be deducted during the year of disposal or must be deferred to a later year.

greater expected gain from auditing taxpayers who underpay their estimated tax as well as those who evaded. Apparently, the tax agency's audit cost was affecting the reporting strategies of high-income taxpayers, but had no effect on the tax agency's audit strategies (Sansing 2002). Smith and Stalans (1991) argued that compliance could be increased not only by deterrence or punishment, but also rather by improving the image of the tax agency and the treatment given to the taxpayers.

These studies had taken a step further by adding the tax agency's perspective into the taxpayers' behaviour as compared with the previous models. In all these models, taxpayers apparently showed similar willingness to cheat and what might make them different was their attitude towards risk and their opportunities to evade.

Erard and Feinstein (1994) modified the game-theoretical model of tax compliance developed by Reinganum and Wilde (1986) by firstly incorporating budget constraints for the tax agency and later extended the model to include both honest[175] and dishonest taxpayers. Their argument for incorporating the honesty variable was that although some taxpayers undoubtedly approached their reporting decisions based on financial motivation, others were genuinely honest in reporting. Incorporating honesty into a taxpaying population appeared to be endogenous, "...depending on a variety of social norms and government policies" (Erard & Feinstein 1994:4). This view of the nature of human beings, as appearing to be inherently honest and willing to pay their tax liabilities regardless of whether there was any financial incentive available, was rather restrictive.

Nevertheless, Erard and Feinstein's findings, supported by econometric evidence, showed that honest taxpayers substantially altered the equilibrium solution of the game and revealed a much-improved empirical prediction. They also found that the equilibrium solution of the extended model was different in several qualitative aspects compared with the initial model's equilibrium solution and that this might resolve a number of troubling features of the initial solution and generate a different and novel policy implication. However, their solution was defined by a non-linear second-order differential equation that could not be solved analytically. Instead, it relied on numerical techniques to derive the results of the analysis. Similar to past

[175] This refers to "...the 'endogeneity of honesty' or, in other words, the social, psychological, and moral forces that induce individuals to pay their taxes in full" (Erard & Feinstein 1994:17).

studies involving game theory, Erard and Feinstein's model relied on the assumption that a continuum of taxpayers would correspond to a continuous true income distribution, but conducted in a different setting.

It is worth mentioning that the earlier economic and sociological studies on tax compliance had recognised the inherent honesty of taxpayers (Graetz, Reinganum & Wilde 1986;[176] Smith & Stalans 1991). However, the earlier research did not appreciate the impact of honesty as a variable to tax compliance. This can be seen in the original analysis of Allingham and Sandmo, where they stated that taxpayers' honesty had no effect on their reporting decisions even if being motivated by financial incentives.

In the context of taxpayer compliance behaviour, despite extensive innovations, the gap between theory and reality remained large. Economic theory predicted that an increase in perceived detection probability increased taxpayers' compliance, and researchers had generally assumed that there was a relationship between these variables. However, past studies appeared to produce conflicting results with respect to these two variables.

Although different economic models had provided valuable insights into tax compliance behaviour, they failed to incorporate other institutional realities (Fischer, Wartick & Mark 1992). Coupled with the lack of variables in relation to social norms and non-monetary factors, these economic models were regarded as being insufficient to guide policy (Roth, Scholz & Witte 1989). That is, the economic models do not entirely describe the factors influencing compliance behaviour of taxpayers.

It followed that there was a need to go beyond the deterrence factors and to consider interdisciplinary perspectives which emphasised that social factors affected the basis of taxpayers' decisions (Jackson & Milliron 1986; Roth, Scholz & Witte 1989; Casey & Scholz 1991). Furthermore, researchers had recognised social influences as another extrinsic motivational factor that influenced behaviour. The social influences that appeared to drive compliance behaviour included enforcement

[176] Graetz, Reinganum & Wilde (1986) conducted a two-stage (high and low income) version of tax compliance game in which honest taxpayers were explicitly included. They found that change in proportion of honest taxpayers reduced the probability that dishonest taxpayers cheat in equilibrium.

authorities, peer group, peer opinion, personal morality and legitimacy (Coleman 1999).

There is no doubt that the role of financial incentives has been the primary focus of economics literature on taxpayers' reporting decisions. However, other literature such as from the disciplines of sociology, psychology and law, have consistently argued for a broader view of compliance behaviour, the review of which follows.

2.3.2 Psychological and sociological models

Psychological and sociological factors do affect compliance behaviour. Evidence pointed to such factors affecting compliance behaviour not only in relation to health compliance[177] (Barth, Vertinsky & Yang 1979; Kyngäs 1999; Chan & Molassiotis 1999), but also in other behavioural compliance (Lee, Yang & Ran 2004)[178] including tax compliance behaviour. The psychological and sociological models recognise that human behaviour is more complex than that as described in the economic models. In addition, the economic paradigm of research paid too little attention to the individual's morality. Andreoni, Erard and Feinstein (1998) argued that in order to enhance the economic models of compliance, researchers might need to explore psychology, moral and social influences on compliance behaviour and integrate these factors into their models.

In fact, the early studies of general deterrence theory appeared within the sociology literature using a variety of statistical methods that focused "...on the effect of certainty and severity of punishment on criminal behaviour" (Gibbs 1968; Title 1969; quoted in Klepper & Nagin 1989c:134). The next wave of sociology literature concentrated on self-reporting data and penal data on crime.

The self-reported techniques were relatively easier, inexpensive and more practical in terms of data collection, which also "...eliminate a number of the ethical concerns

[177] Utilising a health service campaign to promote behavioural change in Vancouver, Canada, Barth, Vertinsky & Yang (1979) attempted to identify several pertinent informational, psychological and demographic aspects relating to compliant behaviour induced by a genetic screening programme. The other two studies cited were related to studies into the compliance behaviour of diabetics. Kyngäs (1999) presented a theoretical model of compliance in young diabetics while Chan & Molassiotis (1999) examined the relationship between diabetes knowledge and compliance among Chinese with non-insulin dependent diabetes mellitus in Hong Kong.

[178] This study identified the major factors that affect drivers' compliance to information and evaluated their effects.

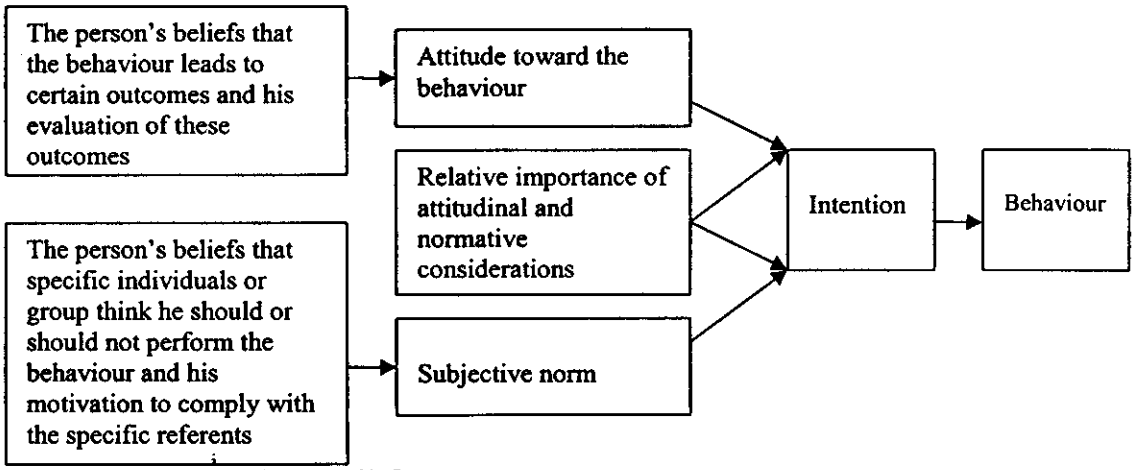
associated with covert observation..." (Weigel, Hessing & Elffers 1987:217). However, the issue of reliability needed to be considered when using such techniques to solicit sensitive and potentially incriminating information so that misrepresentations did not occur.

Other studies (Clotfelter 1983; Witte & Woodbury 1985) analysed data from sample audits conducted by the IRS in the US. Clotfelter's study measured tax evasion by looking at the difference between the taxable income after audit and the income reported by taxpayers. Witte and Woodbury extended their earlier study by incorporating the US progressive tax structure, multiple penalties and taxpayers' attitude on non-compliance. This technique of using available data appeared to be more reliable than self-reported data, but might not have been able to detect or distinguish between those taxpayers who actually had unintentionally underestimated their income and those who were merely committing errors when submitting their tax returns.

Psychologists and sociologists later found that experimental designs might be a better solution to the study of tax compliance behaviour. The sole reason that psychologists and sociologists mainly concentrated on experimental designs was their interest in measuring taxpayers' compliance in response to issues relating to societal rules and group norms. They did so by carrying out experiments on different groups of subjects in different environment settings (Hite 1989).

When referring to the psychology and sociology paradigm, the works of Ajzen and Fishbein (1975, 1977, 1980; 1988) have been influential. Ajzen and Fishbein's (1977) Theory of Reasoned Action (TRA) stated that social psychology had witnessed a revival of interest in the relationship between attitude and action. The TRA predicted that attitudes were unbiased indicators of actual behaviour. The link of attitude-behaviour appeared critical in assessing the validity of much of the tax compliance research and to some extent, added justification to the self-reported behaviour. Ajzen and Fishbein's TRA is presented in Figure 2.2.

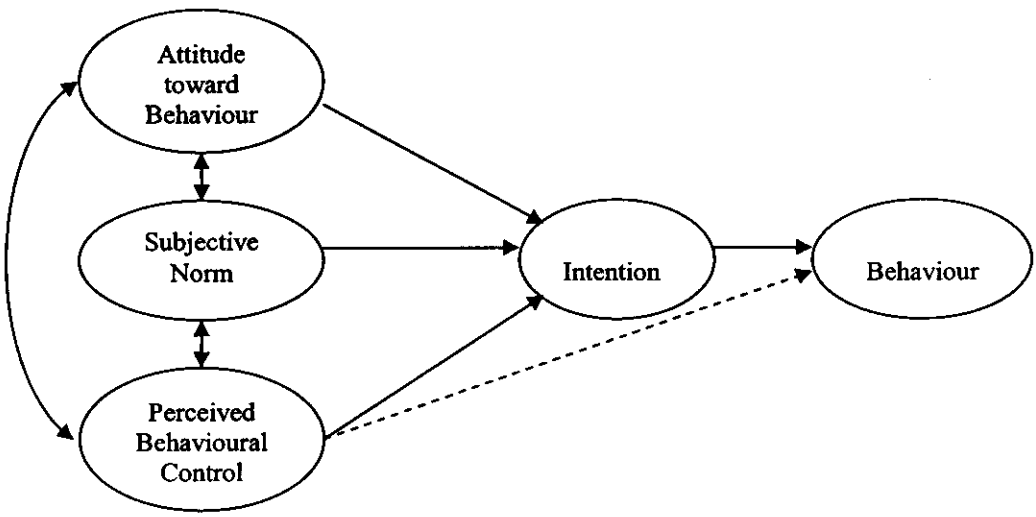
Figure 2.2: Factors determining a person's behaviour
(Adapted from Ajzen and Fishbein 1980:1)



Note: Arrows indicate the direction of influence

The Theory of Planned Behaviour (TPB), an extension of the TRA, suggested that perceived control over behavioural achievement was a determinant of intention and behaviour (Ajzen & Madden 1986). Ajzen and Madden tested the TPB in two experiments.[179] Using hierarchical regression analysis, the results showed that TPB permitted a more accurate prediction of intentions and goal attainment than TRA. Diagrammatically, TPB is shown in the Figure 2.3.

Figure 2.3: Theory of planned behaviour
(Adapted from Ajzen and Madden 1986:458)



[179] Experiment 1 involved recording of college students' attendance of class lectures over a 6-week period. Experiment 2 involved the assessment of attitudes, subjective norms, perceived behavioural control and intentions in respect of the behavioural goal to get an 'A' in a course. In both experiments, perceived behavioural control added significantly to the prediction of intentions.

2.3.2.1 Fiscal psychology model

Lewis (1982b) adopted Ajzen and Fishbein's model and emphasised the importance of studying intervening perceptual and attitudinal variables in order to understand the fiscal preference of taxpayers. The major approach in this study relied on the fiscal psychology model of Schmölders (1959), which is from a branch of public finance. Milliron and Toy (1988) further supported this approach by emphasising that the fiscal psychology paradigm provided an alternative approach for studying tax compliance. The fiscal psychology model was based on the premise that the key to improving tax compliance was changing the tax structure.

Lewis proposed that in order to provide policy makers with more empirical findings that might substantiate taxpayers' actual preferences and aversions, it was worthwhile adopting the social psychological approach. Lewis argued that psychology was more of an inductive science while economics leant more towards a deductive approach. To achieve a better understanding of taxpayers' behaviour, these two should work with each other. The inductive methods (derived from the psychology paradigm) would be able to develop some hypotheses while the deductive methods (evolved from economic models) were to be used to test the theories. However, Kinsey (1986, quoted in Collins & Milliron 1988:3) noted that Lewis' model was not amenable to empirical investigation due to numerous simultaneous effects, feedback loops and unspecified transitions between aggregate and individual levels of analysis.

While fiscal psychology emphasised broad behavioural components in non-compliance behaviour, the precise behavioural variables were identified by Jackson and Milliron (1986). They used a meta-analysis to analyse various compliance literatures from which they identified fourteen factors[180] [age, sex (gender), education, income level, income source, occupation, peer influence, ethics, fairness, complexity, IRS contact, probability of detection, sanction and tax rate] that to some extent did influence the compliance behaviour of taxpayers.

Likewise, a study by Smith and Kinsey (1987) identified socio-legal attitudes and opinions, background and situational circumstances (including reference and

[180] The relationship of these factors to compliance is further discussed in 2.4.

membership groups) and communication as factors that might play contributing roles in taxpayers' compliance behaviour. This indirectly refuted the findings of earlier research that non-compliance was the result of an action of a conscious and deliberate taxpayer. However, Erard and Feinstein (1994) argued that by excluding the taxpayers' motivations, most of the standard compliance models failed to explain compliance behaviour.

Weigel, Hessing and Elffers (1987) developed an untested model to explain the behaviour of Dutch tax evaders. They posited financial strain and personality as the primary instigators of tax evasion and proposed that every behaviour was simultaneously personal and situational. Hence, there was a need to analytically examine the situational influences and personal attributes that contributed to its occurrence. Moreover, the social psychological model of tax evasion significantly emphasised the effects of these two variables.

2.3.2.2 Social psychological model

Under the social psychological paradigm, an earlier study conducted by Song and Yarbrough (1978) found that taxpayers' compliance was determined by three major factors. The three factors were the overall legal environment (the legitimacy of the tax law), the citizen's tax ethics (understanding and acceptance of legal obligation) and other factors (such as level of income, unemployment rate, tax rate) operating at a particular time and place. All these major factors were interrelated to a certain degree. However, the Song and Yarbrough study did not provide any thorough discussion on how to operationalise the variables and also lacked discussion on statistical tests of the relationship between perceived detection probability and compliance.

Hanno and Violette (1996) tested the TRA on TPB. Taking TRA as the predecessor, the study hypothesised that behaviour could be predicted by intention to perform behaviour and this intention was influenced by personal evaluations and social pressure. They found that there was a strong link between intentions to comply, both in relation to self-reported and hypothetical tax compliance behaviour. The differences in compliance were apparently due to the differences in the underlying belief structures present between subjects exhibiting compliance and non-compliance

tendencies. One limitation in this study was the use of non-randomised sampling in a concentrated geographical area that might not be representative. Nevertheless, the results "...represented one step in the process of developing an integrated model of tax compliance behaviour" (Hanno & Violette 1996:72).

Based on the argument that tax evasion was influenced by different individual's motivations, Feld and Tyran (2002) utilised a one-shot experimental design to investigate which kind of moral reasoning led to specific outcomes. Their reason for using an experimental design was that a laboratory tax regime could significantly affect laboratory social norms and eventually affect the level of compliance.

They found that tax compliance was higher on average in an endogenous fine (penalty) treatment in which subjects were allowed to approve or reject the proposal of a fine as compared with an exogenous fine treatment. Their argument was that people showed higher tax morale if it was legitimate for them to vote on a fine. In addition, compliance rates were higher if the fine was accepted rather than rejected.

Overall, their results concluded that "...policies which enhance the legitimacy of a decision-making process that leads to changes of the parameters in the tax compliance game mitigate tax evasion. Thus, the constitutional framework shapes tax morale in a considerable way" (Feld & Tyran 2002:219).

In a similar study but using a different approach, Feld and Frey (2003) argued that tax morale did not depend only on the legal framework and constitutional environment, but also on the interaction of taxpayers with tax authorities. Based on survey data from 1970-1995,[181] they found that the Swiss cantonal[182] tax authorities treated taxpayers more respectfully than the federal tax authority and this eventually showed that the tax authorities of cantons with well-developed direct participation rights were less suspicious if the taxpayers reported remarkably low incomes. On the other hand, taxpayers in direct democratic cantons who did not submit their declaration and did not comply with the basic rules of the game were being fined

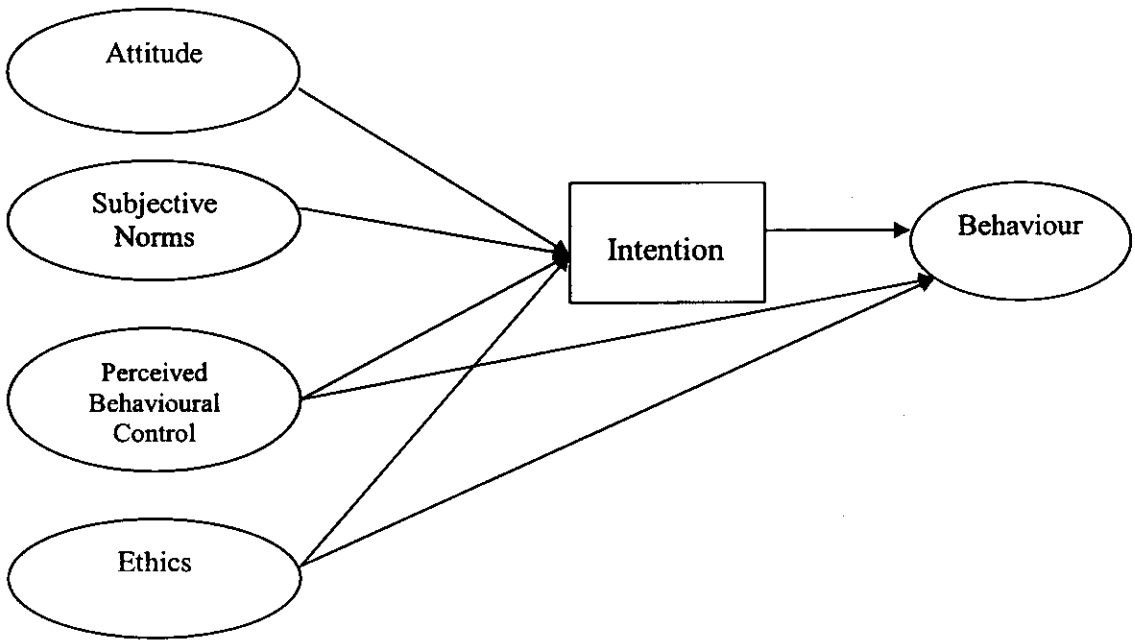
[181] The data used in the study was actually based on five different years i.e. 1970, 1978, 1985, 1990 and 1995.

[182] It should be noted that the Swiss cantons have the basic power to tax personal and corporate income, while the local jurisdictions levy a surcharge on cantonal income taxes. Cantons can set tax rates and define tax base autonomously. The federal level mainly raises not only indirect taxes, but also a highly progressive Federal Income Tax (Feld & Frey 2003:4).

heavily. Hence, in direct democracy, minor violations of the tax code were punished less than major violations. In summary, taxpayers were treated respectfully and with trust in the case of minor human weaknesses, but with strong deterrence if the psychological tax contract was at stake.

The insufficient link to individuals' attitudes, personality-related variables or intentions in compliance behaviour led to the most recent work of Trivedi, Shehata and Mestelman (2005). Trivedi, Shehata and Mestelman (2005) extended Ajzen and Fishbein's TPB and further developed a TPB with moral reasoning. Trivedi, Shehata and Mestelman used a laboratory experiment to examine whether the combined experimental economic and economic psychology techniques affected an individual's compliance decisions. They found that an individual's attitudes, personality and intentions were variables that influenced an individual's compliance decisions and that there were significant differences between hypothetical and actual compliance decisions and that the former were more influenced by moral reasoning. Their model is presented at Figure 2.4.

Figure 2.4: Theory of planned behaviour with moral reasoning
(Adapted from Trivedi, Shehata & Mestelman 2005:49)



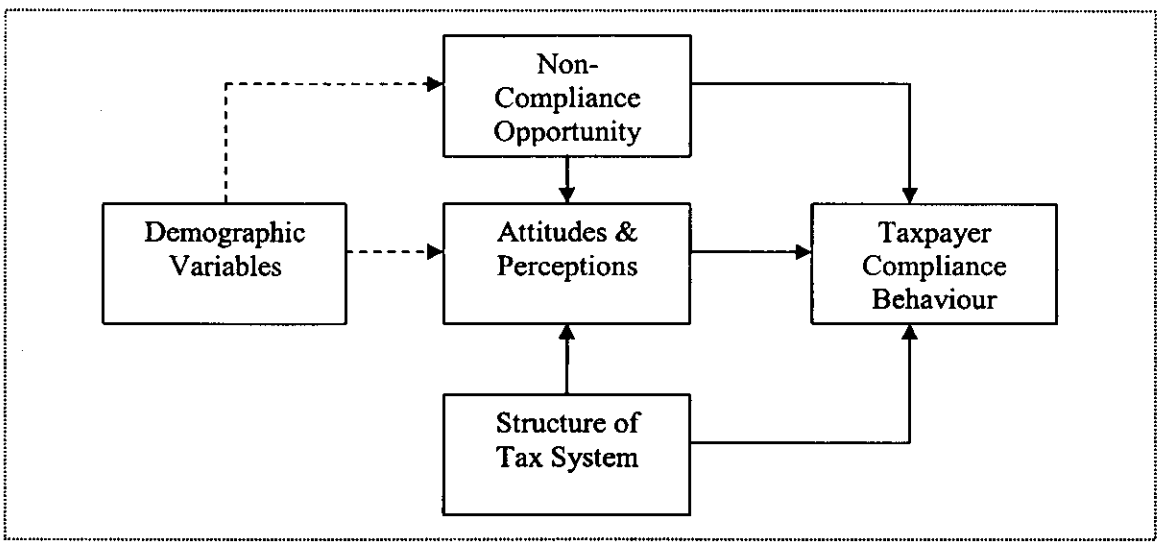
The development of the psychological model of taxpayers' compliance was indeed a very important precursor in identifying and explaining the factors that are associated with compliance behaviour. However, it would never be adequate to understand the

behaviour of human beings. As life gets more complex, the behaviour of human beings has become even more complex to understand. Hence, there remained a need to seek, consider and to incorporate further factors in the economic and psychological-sociological models to develop more refined tax compliance models.

2.3.3 Expanded model

The growing interest in tax compliance has led to further refinement of the economic and psychological-sociological models. While earlier studies suggested that an expanded model should incorporate economic, psychological and sociological variables as shown in Figure 2.5 (Fischer 1991, quoted in Fischer, Wartick & Mark 1992), a later study suggested that cultural factors should also be incorporated (Chan, Troutman & O'Bryan 2000).

Figure 2.5: Fischer (1991) expanded model of tax compliance
(adapted from Fischer, Wartick & Mark 1992:4)



This was so because the merger of the economic and psychological-sociological models in the previous studies might be insufficient to describe taxpayers' behaviour. Furthermore, it was likely that compliance behaviour was influenced by the opportunities to evade, uncertainty of tax policy changes, demographic characteristics of average taxpayers, complexity of tax filing and numerous other factors (Ali, Cecil & Knoblett 2001:195).

Hence, an expanded model was developed, which incorporated not only demographic variables, non-compliance opportunity, attitudes and perceptions, tax system or tax structure and financial self-interest, but also moral belief and cultural differences.

In a very comprehensive review of the compliance literature, Fischer, Wartick and Mark (1992) developed a comprehensive model (see Figure 2.5), which predicted that demographic variables would play significant roles in influencing taxpayers' compliance behaviour. The two demographic variables, age and gender were expected to have an indirect, positive effect on taxpayers' compliance (Jackson & Milliron 1986; Roth, Scholz & Witte 1989). In their studies, they (Jackson & Milliron; Roth, Scholz & Witte) tried to investigate the effects of these two variables on non-compliance opportunities[183] (educational and income level) as well as attitudes and perceptions (moral development attitude).[184] Their final major construct (tax system or structure) suggested that the probability of detection and progressive versus proportional tax rates were significantly associated with tax compliance. They viewed taxpayers as rational individuals who would choose to maximise expected saving from tax evaded in the light of the probability of being detected.

Using the Fischer, Wartick and Mark (1992) expanded model as the underlying theoretical framework, Chan, Troutman and O'Bryan (2000) empirically tested the model using a structural equations approach with a convenience sample of taxpayers in Hong Kong and the US. The results of their test indicated that there was a direct, negative effect on compliance for both groups. The effect was somehow moderated by an indirect, positive link between education, moral development, and compliance. Figure 2.6 reflects Chan, Troutman and O'Bryan (2000) illustration of significant structural relationship.

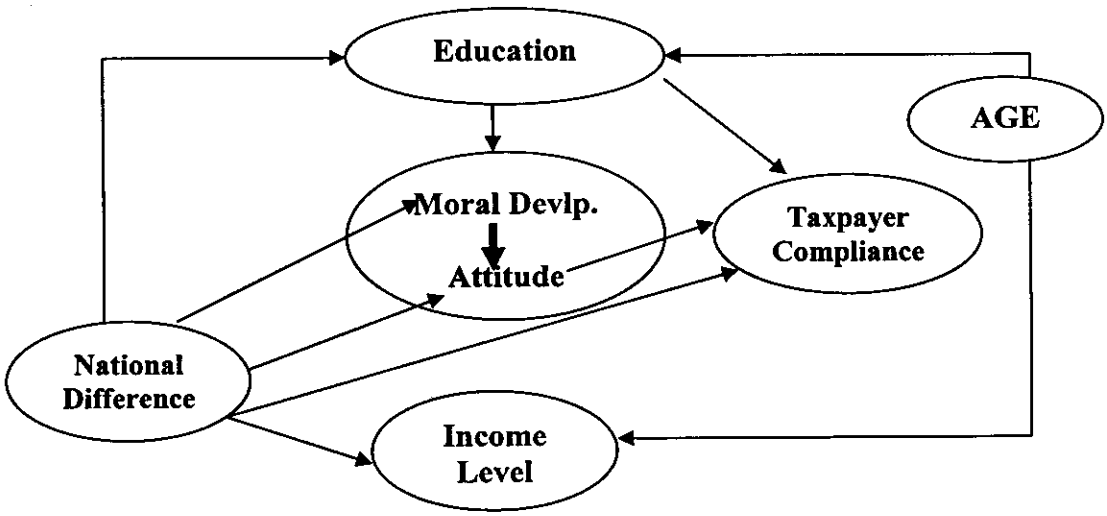
---

[183] Jackson & Milliron 1986; and Roth, Scholz & Witte (1989) suggested a direct, negative relationship between educational level and taxpayer compliance; however, there was no clear relationship between income and compliance.

[184] Moral development includes the process of reasoning and attitude towards the fairness of the tax system. An individual's moral development involved six stages: Obedience; Instrumental Egoism and Simple Exchange; Interpersonal Concordance; Law and Duty to the Social Order; Societal Consensus; and Non-arbitrary Social Cooperation (Rest 1979, quoted in Singh V 2003b:142). In the Kohlberg & Candee (1984) study, they predicted a direct, positive relationship between moral development and taxpayer's compliance. The TRA suggested that compliance is determined by attitude and a set of personal salient beliefs (Caroll 1992a, 1992b; Hanno & Violette 1996).

The findings of the study by Chan, Troutman and O'Bryan also indicated that there were significant differences between taxpayers in the US and in Hong Kong. The former group used a higher stage of moral reasoning, had a more favourable attitude towards the tax system and were more compliant, while the behaviour of the latter group in respect of similar attributes was somewhat contrasting. The differences perhaps were due to cultural differences between the two groups. Chan, Troutman and O'Bryan claimed that their findings underscored a key concept of the Fischer model i.e. tax compliance decision making was a complex process. They argued that taxpayers' compliance decisions were also being affected by many other variables such as economic, demographic, behavioural and even cultural factors. However, the sample used in their study, which was based on convenience sampling, might not be adequately representative of the overall population as compared to samples based on random sampling. Hence, the results of the study by Chan, Troutman and O'Bryan might be restrictive and thus perhaps further investigations would be required in order to obtain more conclusive results.

Figure 2.6: Chan, Troutman and O'Bryan (2000) international model



The earlier economic models appeared to be rather narrow as well as theoretical and the outcomes arising from their applications might not reflect what was actually happening in reality. The later models, utilising creative and innovative economic theories appear to provide better insight into the understanding of taxpayers' compliance behaviour. However, both the economic models and psychological-sociological models support deterrence theory, and the two factors, namely the

probability of audit and the extent of penalty appear to be pre-requisites for future study.

In order to provide a better explanation of tax compliance behaviour, a more sophisticated model is needed. Such a model perhaps needs to incorporate economic theory, sociological, psychological and other relevant variables. The other relevant variables may range from age, level of education, socio-economic grouping such as the employed and self-employed, level of income, class of occupation, and peer group (such as workmate or colleague).

There is no doubt that numerous studies on tax non-compliance had been conducted during the last few decades. However, the hypotheses and policy questions still require further investigations as most of the recent empirical work remains loosely connected with theory (Andreoni, Erard & Feinstein 1998). In addition, research in tax compliance appears to reveal contradictory findings although a few of these empirical findings had led to productive new theorising. These contradictory findings may to some extent be due to some methodological flaws in gathering the data or might be caused by inappropriate measurement of data and the difficulty in obtaining data. As stated, the "...data from official investigations are hardly ever available and data from other sources..." may be unreliable (Torgler 2002:658).

Compliance is a behavioural phenomenon and tax compliance behaviour has been loosely regarded as a function of attitudes, willingness and opportunity (Wallschutzky 1990). The questions about tax compliance are "...as old as taxes themselves and will remain an area of discovery as long as taxes exist" (Torgler 2002:657). Hence, there could be other factors that have not been well integrated into the models discussed above, but nevertheless were causes that might have affected taxpayers' compliance behaviour. These factors that were derived from a number of integrated studies, along with the factors mentioned in the compliance models above are further re-classified and are discussed in the next section.

2.4 Integration of factors affecting compliance behaviour

Previous studies (Smith & Kinsey 1985; Jackson & Milliron 1986[185]) had identified a number of factors that are associated with compliance behaviour. Among these

[185] See 2.3.2.1 for more discussion.

factors are lack of opportunity[186] for non-compliance, minimal cost of compliance,[187] knowledge and ability to comply,[188] normative commitment to obey the laws and desire to avoid formal sanction[189] for non-compliance. Alm (1991) on the other hand reviewed the findings of various experimental designs and suggested twelve[190] variables that were related to compliance. Wallschutzky (1992) concluded that a number of factors were associated with compliance, such as audit, deterrence, taxpayers' education and service, change in tax law and positive incentives such as material rewards as well as factors that reinforced or increased satisfaction of taxpayers such as pride, attitude, identification with recognition by valuing others and feeling of fairness.

In his later analysis, Wallschutzky[191] (1993) expounded a few other factors that could contribute to the causes of non-compliance, namely the ignorance of the law, poor advice given by tax agents/revenue authorities, uncertainty or ambiguity of the tax law and forgetfulness of taxpayers to include items of income. Wallschutzky also identified three major factors that could motivate evasion or avoidance. These factors are, firstly, the exchange relationship factors including increase in tax rates, unfairness of tax system and unwise government spending. Secondly, the social orientation factors including the basic predisposition to the state and the law, and group influence; and finally, the administrative control factors such as where the tax administration is too coercive (e.g., tax enforcement is too oppressive or tax administration is not effective).

---

[186] Those whose income is subjected to withholding taxes have less opportunity to underreport income.

[187] The costs here referred to money, time, effort and emotions. The authors argued that lower psychological costs would help taxpayers to reinforce normative commitment to comply and reduced justifications for non-compliance.

[188] This includes understanding of the tax law and arithmetic skill to compute taxes.

[189] This includes the likelihood of detection, the severity of punishment if detected and the swiftness of detection and punishment.

[190] Briefly, the twelve variables were tax rates, penalty rate, audit frequency, probability of audit, individuals felt that they were being treated unfairly, labour supply decision, willingness to pay taxes in exchange for something, rewards, public programmes available, uncertain tax policies, tax amnesty and moral reasoning.

[191] Wallshutzky further suggested other factors that provided opportunities for tax evasion. The factors included the adequacy of tax collection procedures that include the effectiveness of withholding tax; adequacy of record keeping requirements; adequacy of resources used to detect evasion and adequacy of penalties for evasion. Other factors that provided opportunities for tax avoidance were defects in wording of provisions of tax law, fundamental weakness in the tax system, different tax structure (for example different tax structure for sole trader and companies), significant difference of opinion on attitude and the attitude being inferred.

More recently, researchers also proposed other factors that could be associated with tax compliance, such as tax morale, taxpayer communication, dissemination of information among taxpayers and cultural factors (Chan, Troutman & O'Bryan 2000; Torgler 2002, 2003; Alm, Jackson & McKee 2004).

Having reviewed the numerous factors as presented above, as well as some other factors derived from other relevant literature, the following section classifies the factors related to tax compliance into six categories. These categories are economic and deterrence factors; social factors; institutional variables; equity factors; ethic and moral; and other variables.

2.4.1 Economic and deterrence factors

Economic of crime and expected utility literatures assumed that taxpayers are amoral rational economic evaders who would assess the likely benefits and costs with evasion behaviour (Hasseldine 1993). They would make calculated decisions by weighing the benefits and costs of compliance (Klepper & Nagin 1989c). The benefits and costs referred to are associated with the tax rate, tax audit, probability of detection, tax audit rate, enforcement, penalties or fine as well as positive inducement and rewards.

2.4.1.1 Tax rate

While it has been argued that an increase in tax rates encouraged individuals to declare more income (Yitzhaki 1974, quoted in Torgler 2002:658); it had also been found that an increase in tax rate from 25 per cent to 50 per cent led to an increase of the probability of underreporting income and to the extent of underreporting income (Friedland, Maital & Rutenberg 1978).

Some years later, the results of a study by Clotfelter (1983) also suggested that the level of after tax income and marginal tax rates had a significant negative effect on compliance. Other earlier studies also consistently noted similar findings (Witte & Woodbury 1985; Dubin & Wilde 1988; Das-Gupta, Lahiri & Mookherjee 1995). In contrast to Clotfelter's findings, Feinstein (1991, quoted in Sawkins & Dickie 2003:5) noted a significant negative relationship between the marginal tax rate and

non-compliance, but that no significant relationship existed between non-compliance and income.

With the conflicting findings, tax rate remained a focus of later research that consistently reported an association between tax rate and tax compliance. Besley, Preston and Ridge (1997) used socioeconomic and other geographical data on the UK poll tax to investigate the determinants of compliance as a function of the characteristics of tax authority. They confirmed[192] that higher taxes lead to larger non-payment problems. Ali, Cecil and Knoblett (2001) found that an individual tended to comply less when the marginal tax rate rose. This appeared to be more applicable to those high-income rather than lower-income taxpayers.

2.4.1.2 Tax audit, probability of detection, audit rate and prior audit

The general deterrence effects provided by audit have been widely acknowledged. (Dubin 2004:3). Tax audit, as part and parcel of a SA system also drives the compliance behaviour of taxpayers (Jackson & Jaouen 1989; Lopez 1999; Shanmugam 2003). In the context of the Federal Income Taxes for individuals in the US, tax audit is the central feature of voluntary compliance (Alm, Jackson & McKee 2004). Similarly, in other tax regimes, particularly those practising SA, the presence of tax audit appeared to have induced taxpayers to be more careful in the preparation of their returns (Baldry 1999a, 1999b). In fact, audit programmes are meant to encourage appropriate compliance (Butler 1993) and perhaps to change the taxpayers' compliance behaviour.

Witte and Woodbury (1985) and Beron, Tauchen and Witte (1988) found that tax audit could be an important stimulant to compliance. However, it must be carefully designed for a specific taxpaying group. Witte and Woodbury noted that tax audit effects were more significant among small proprietors than others. Beron, Tauchen and Witte[193] found that taxpayers significantly underreported adjusted gross income

[192] The study also looked at the possibility of neighbourhood influences across authority boundaries. "...This is consonant with models of learning and social influences such as guilt, shame and stigma" (Besley, Preston & Ridge 1997:149). The authors found that this variable and the political variables were associated with non-payment of taxes.

[193] This study analysed a 1969 data set that combined information from the IRS statistics of income programme, the Census, internal IRS documents and a special data set compiled by the IRS in the mid 1970s. The authors used an equation model to estimate compliance. The difference between this study and the earlier studies was that the dependent variables used were taxpayers' reports rather than

and that the increase in the probability of audit increased reported income and tax liability. They concluded that tax audits were more effective at inducing accurate reporting of deductions rather than of income. This suggested that the tax authority's activities other than tax audits did have significant effects on tax compliance. Although there was sufficient empirical evidence to confirm that a significant relationship existed between audit rate and compliance, the results were inconsistent where there was no clear pattern for different audit classes or different taxpayers (Dubin & Wilde 1988; Wallschutzky 1992, 1993; Snow & Warren 2005).

Dubin, Graetz and Wilde (1987) and Dubin and Wilde (1988) investigated the impact of audit rates and tax rates on tax compliance. Unfortunately, they used proxies rather than random audit returns. The use of tax collections and returns per capita as inverse measures of non-compliance might have a number of possible endogenity problems as those in cross-sectional analysis. Nevertheless, their results concluded that tax audit might become more 'efficient' over time, and thus might have an increasing deterrence effect.

In their later study, Dubin, Graetz and Wilde (1990), using data over a period from 1977 to 1986, explored the relationships between audit rates and three aspects relating to compliance, namely, reported tax per return, assessed liabilities per return and number of returns filed per capita.[194] They concluded that audit rates had a significant positive effect on reported tax per return and the effect was even stronger in the case of assessed liabilities per return, implying that the positive effect was due to increased compliance because of the deterrent effect of audits on taxpayers' non-compliance. However, they also concluded that "...audits bear a negative relationship to returns per capital..." and that "...routine IRS audits are not an effective mechanism for locating non-filers..." (p404). They also noted that for every dollar of revenue gained from tax audits, an additional six dollars of revenue were generated from the indirect or 'ripple' effects. In contrast to the contentions of Dubin, Graetz and Wilde (1990), Long and Burnham (1990) argued that it was hard to determine the effects of varying probabilities of detection even with the presence

a variable related to auditors' estimates of non-compliance. The reasons argued by the authors for this selection was that the economists' understanding of the effects of audit on compliance was not very firm.

[194] Dubin, Graetz & Wilde defined 'returns per capita' as "...total individual income tax returns filed divided by total population" (p397).

of tax audit. These differences in contentions could probably be due to changes in other enforcement strategies.

Tauchen, Witte and Beron (1989) concluded that raising the audit rate had more impact on high-income wage and salary workers than on overall taxpayers. They estimated that the indirect effect of audits was almost three times the direct revenue effect on the high-income groups. Others argued that a reduction in audit rates did not seem to have much impact on compliance (Alm Jackson & McKee 1992c). The results of some other studies tend to suggest that higher audit rates had led to more compliance and that tax compliance was an increasing function of income and a decreasing function of the tax rate (Torgler 2002). Likewise, Dubin (2004) concluded in his simulation experiment that the doubling of audit rate had a direct effect on tax collections of reported amount, additional taxes and penalties.

Ali, Cecil and Knoblett (2001) utilising the 1980-1995 data from the Annual Reports of the IRS developed two equations[195] and concluded that audit rates[196] and penalty rates were both effective deterrent of non-compliance. The effectiveness of these two instruments was subjected to taxpayers' income level and that these two instruments were more effective for those high-income level taxpayers. The instrument used for audit rates was criticised as being insignificant and that it led to imprecise estimates of audit rates (Dubin 2004), given that the actual audit rate in the US then was less than 1 per cent.

Regardless of whether audit rates affect compliance or not, it appeared that the decline in audit rates[197] since 1960s had affected voluntary compliance in the US (Johnson 2003). It was "...estimated that the US Government's coffers have been shortchanged by US7.2 billion dollars of 'real money' as a direct result of lower audit frequency..." (Alm, Jackson & McKee 2004:4). However, there was no evidence on the magnitude of the effects of audit risks on tax compliance and the effects of the manner (or way) taxpayers learn about or communicate audit risk among themselves. In response, Alm, Jackson and McKee incorporated a communication variable in their study utilising a laboratory experimental design with

[195] The two equations are discussed at 2.3.1.1.
[196] The audit rate is the percentage of returns audited.
[197] In the US, the audit rate in 1960s was 4.5 per cent to 5 per cent and gradually dropped to less than 1 per cent (Johnson 2003).

controlled audit settings and communication opportunities. They examined how the three types of communication about audit frequency and audit results affected compliance. Their results indicated that 'unofficial' communication have a strong indirect effect that increased compliance, but the 'official' communication might not encourage voluntary compliance.

The perceived probability of criminal prosecution also appeared to act as a deterrent to non-compliance (Klepper & Nagin 1989a). The findings of an experiment based on the expected utility theory (Alm, McClelland & Schulze 1992) suggested that the subjects appeared to overweigh the probability of an audit, so that there was higher compliance than predicted by expected utility theory.

In Minnesota, US, a controlled field experiment was conducted by Slemrod, Blumenthal and Christian (1998, 2001) to analyse taxpayers' response to an increased of probability of audit. They used taxpayers' income returns over two years to compare the differences in reported income, deductions claimed and tax liabilities of those randomly selected taxpayers. The results of their experiment indicated that treatment[198] effects varied depending on the level of income. The low and middle-income taxpayers appeared to have increased their reported income and their tax liabilities as compared to the control group. As for the control group, it was found that an indicator of non-compliance was present with the effect being stronger when there was an opportunity to evade. In contrast, the reported income for higher-income treatment group fell sharply as compared to the control group. Due to the comparably small sample size of high-income taxpayers, reliable inferences could not be drawn. Nevertheless, they suggested "...a model based on tax audit as a negotiation that can explain this apparently perverse result" (Slemrod, Blumenthal & Christian 2001:1). In addition, there was a difference in the outcomes depending on whether the taxpayers used tax advisers.[199]

While the probability of being audited appeared to be one of the factors that drove compliance behaviour, Andreoni, Erard and Feinstein (1998) noted that prior audit also influenced subsequent tax compliance behaviour. However, in an earlier study,

[198] Treatment being a letter sent to taxpayers to inform them that their returns would be 'closely examined'.

[199] It is important to note that field experiments carried out with the cooperation of the tax authorities are less artificial and would be of a great enrichment in compliance literature.

Young (1994) detected that prior contact with the tax authority was negatively correlated with the level of compliance. A later study by Blumenthal, Christian and Slemrod (2001) resulted in findings similar to those of Young.

2.4.1.3 Enforcement, penalties and fines

Non-compliance decisions were found to be indirectly related to the threat of penalties (Schwartz & Orleans 1967) and Friedland, Maital and Rutenberg (1978) found that large fines were more effective deterrents than frequent audits. Utilising TCMP data, Klepper and Nagin (1989a) investigated the variations in compliance levels based on line items as appeared in tax returns. They found that the influence of the endogeneity of detection risk and penalties were pervasive and that taxpayers appeared to avoid extreme non-compliance on specific line items and instead allocated their non-compliance across line items to minimise expected penalties.

Graetz and Wilde (1985) argued that compliance could not be explained entirely by the level of enforcement. Scotchmer and Slemrod (1989) showed that optimal enforcement policy required some randomness in the assessment of taxable income, particularly in the case of tax evasion where increased randomness in assessment by tax auditors generally led to higher reported income and more revenue.

In the US, Mete (2002) combined the TCMP survey data for several tax years to study the interactions among taxpayers, the IRS and political ideologies. The study discussed how political ideologies were expected to correlate with audit rate. Mete argued that the Republicans preferred a lower level of enforcement for all forms of regulations than did the Democrats. Further, the Republicans provided less support for increasing government spending and enforcement activities than the Democrats. The influence of political factors on tax compliance behaviour are discussed in the later part of this section.

Tax compliance is not restricted to income taxation, but it is also similarly applicable to other forms of taxation such as Council Tax. Sawkins and Dickie (2003) used a preliminary econometric model to investigate the factors responsible for the relatively high Scottish Council Tax non-payment rates. The authors concluded that there was mixed evidence of a negative effect of enforcement on non-payment rates.

The evidence appeared to be unclear due to differences in legal and administrative situations on both sides of the Scottish border.

Criminal Investigation[200] (CI) appeared to be one of the key roles in the US tax system. The CI activities appeared to have measurable effects on voluntary compliance. With the extension to the DGW[201] method, Dubin (2004) empirically tested the effects of criminal investigation's measurable (enforcement) activities on taxpayers' compliance. The study covered a period from 1988 to 2001. Statistical results showed that CI sentenced cases, namely tax and money laundering on general tax deterrence were not significant determinants of tax compliance. Instead, "...incarceration and probation (rather than fines) have the most influence on taxpayers" (Dubin 2004:23). The author claimed that this later study was far more complex than the previous study conducted with the other co-authors. The assumption made in the study that "...individuals consider the likelihood that they will be detected and punished" (Dubin 2004:23) appeared to be lacking information as to what extent was the predicted likelihood of detections i.e. the probability of detection and how severe was the punishment if one was caught.

Nevertheless, it is interesting to note that even with the tax administration's threat of future enforcement actions, taxpayers in countries with high non-compliance simply did not change their behaviour (Silvani & Baer 1997). Perhaps tax compliance is not purely a matter of administration, but rather a matter of important connections between substance and procedure (Johnson 2003).[202]

2.4.1.4 Positive inducements

Based on the economic theory that taxpayers seek to maximise their utility, positive inducement and rewards could play some roles in determining compliance behaviour. Alm, Jackson and McKee (1992c) used experiments to analyse the effects of four alternatives forms of positive inducement on tax compliance. The four were namely,

[200] One of CI's functions is to investigate alleged tax violations and money laundering.
[201] DGW denotes Dubin, Graetz & Wilde (1990), which was based on two models. One model specified reported taxes per return filed as a function of audit rates and a variety of socioeconomic factors and the other specified returns filed per capita as a function of the same variables.
[202] The author described 'substance' as those rules that prescribed how much tax each taxpayer owes. 'Procedure' includes (i) the rule by which controversies as to the amount of substantive liability are resolved, (ii) the rules which govern collection of the liability once the amount has been determined, and (iii) civil and criminal penalty regimes to encourage prompt and accurate payment of tax (Johnson 2003:1013).

a lottery treatment,[203] a fixed reward[204] session, an audit rate reduction and the provision of public goods. The results showed that there was a significant and positive relationship between positive inducement and tax compliance with the lottery treatment having the largest effect on compliance, followed by fixed reward session, public goods and lastly audit rate reduction.

Similarly, in another study utilising a combination of experimental economics and economic psychology techniques, Trivedi, Shehata and Mestelman (2005) found that considering individuals' attitude, personality and intentional measures provided a richer understanding of individuals' actual compliance decisions in the face of monetary incentives. When it comes to actual compliance decisions in the laboratory, individuals' intention indirectly influenced their attitudes on their compliance decisions (Trivedi, Shehata & Mestelman 2005). Hence, salient and dominant monetary rewards might have had a positive impact on compliance.

The economic or deterrence factor might be a major factor in determining compliance behaviour. However, it is still insufficient to explain compliance behaviour. Human behaviour somehow is also influenced by other factors, such as social factors.

2.4.2 Social factors

Discussion on social factors on compliance is not new. Social factors have been the subject of investigations and studies in various fields that involve compliance research. Regardless of the fields of investigation, generally if any research merely treats individuals as being homogenous, the findings might provide misleading results. Among other attributes, individuals vary in terms of attitudes, level of education, knowledge, awareness as well as income earning capacity.

2.4.2.1 Attitudes

Attitudes in some way do influence behaviour, but tax changes perhaps might not bring about symmetrical change in taxpayers' behaviour. According to Lewis (1982a; 1982b), attitudes are products of myth and misperception that are substituted

[203] In this lottery treatment, participants who were found to be fully compliant for five rounds were able to enter a lottery in which the chances of winning were 1 in 25.
[204] For those fully compliant participants, two tokens were given as rewards.

by knowledge. Attitudes would change even if there was no change in terms of ideology and tax laws (Eriksen & Fallan 1996). Any behaviour may represent a multiplicity of attitudes and that tax mentality appears to be an important construct with more than one dimension (Lewis 1982a, 1982b).

In 1974, Song and Yarbrough (1978) conducted a study that comprised an analysis of attitude data that allowed for the investigation of dispositions towards tax evasion. In their experiment, they tried to resolve problems between specific tax knowledge and attitudes towards taxation. They questioned a sample of respondents on their knowledge regarding the objectives of tax reform in the US. Their findings indicated that those with higher fiscal knowledge tended to score positively in tax ethics than those with lower fiscal knowledge. Similarly, others found that low fiscal knowledge correlated with negative attitudes towards taxation and that attitudes towards tax improved through better tax knowledge (Lewis 1982b; Eriksen & Fallan 1996; Kasipillai *et al* 1999).

In a study conducted by Roberts, Hite and Bradley (1994), a majority of the subjects indicated a preference for progressive tax rates over choices of fair tax rate and regressive tax structure with regards to abstract questions. In contrast, there was a significant lower preference for progressive tax in response to concrete[205] questions. This indicated that when subjects had the full knowledge of the meaning of progressive tax rates, their attitudes towards tax rate changed eventually.

In a quasi-experiment,[206] Eriksen and Fallan (1996) examined the influence of specific tax knowledge on attitudes towards taxation. They reported significant changes in attitude to one's own tax evasion and perceptions towards fairness of the tax system when tax knowledge increased and these changes in attitudes eventually improved tax ethics. The authors suggested that "...when attitudes towards taxation are improved, this will in turn increase tax compliance..." (Eriksen & Fallan 1996:398). This appeared to be a generalised statement without further reference to other moderating factors such as the effect of tax audit, peer reporting behaviour and moral judgement. However, the results were consistent with that of previous

[205] Concrete questions gave respondents a clear picture of the meaning of progressive taxes.

[206] This experiment was conducted in Norway on two groups of students. The control groups comprised of students who were taking marketing as an elective subject in the second year of their BA education, while the experimental group were students who had opted for tax law as an elective. Both groups had never taken any study on tax law before.

research i.e. tax attitudes have influence on reinforced inclinations towards tax evasion and tax compliance.

Confirmation on the improvement in attitudes in relation to compliance are also available from other studies which have revealed that when taxpayers were at higher stages of reasoning, their attitudes would change accordingly. For instance, it was found that taxpayers in the US who used higher stages of moral reasoning had more favourable attitudes towards the tax system and were more compliant compared with taxpayers in Hong Kong who used lower stages of moral reasoning (Chan, Troutman & O'Bryan 2000).

Likewise, a study utilising the 1997 Arkansas Tax Penalty Amnesty Programme found that filing status,[207] income and the opportunity to evade were positively correlated with the tax owed (Ritsema, Thomas & Ferrier 2003). In their study, Ritsema, Thomas and Ferrier identified three groups of taxpayers: the intentional non-compliant, the unintentional non-compliant and a neutral group[208] and found that taxpayers were not alike in their motivation[209] for failure to report or pay taxes. For those intentionally non-compliant, lack of funds appeared to be a strong motivator related to the amount of taxes owed. Few other factors[210] were significantly related to those unintentionally non-compliant. These results appeared to confirm the findings of several previous studies.

2.4.2.2 Education

One of key social factors influencing behaviour appears to be education. In an extensive literature analysis by Jackson and Milliron (1986), education was found to have effects (either negative or positive) on compliance and that results had been mixed. These mixed results perhaps came about because the earlier studies did not specifically define the level of education or that there was no segregation between evasion and avoidance (Hite 1996).

---

[207] Filing status includes taxpayer's marital status, filing jointly, filing separately or filing separately on the same return. As stated by the authors, "...Arkansas tax law allows married taxpayers to file separately on the same return. This often results in tax savings over filing jointly, reducing the impact of a marriage penalty" (Ritsema, Thomas & Ferrier 2003:7).

[208] Intentionally non-compliant taxpayers were those who admitted they were not ignorant of tax liability whereas unintentionally non-compliant were those who stated that ignorance was a reason for non-payment of taxes. Neutral group were those who were not affected by the motivating factors.

[209] The motivating factors were the lack of available fund, ignorance and sense of morality.

[210] The factors were filing status, income and lack of funds.

Beron, Tauchen and Witte (1988) found compliance to be higher for those taxpayers who were less educated and older, native-born, or where the household was headed by a female. Later studies (Beron, Tauchen & Witte 1992) showed a positive relationship between education and non-compliance, which was consistent with the findings of Witte and Woodbury (1985) and Kinsey, Grasmick and Smith (1991) but contradicting that of Dubin and Wilde (1988), as the latter found negative relationship between these two variables. Meanwhile, Dubin, Graetz and Wilde (1990) noted that an increase in the percentage of the adult population with at least a high school education had increased significantly the number of returns filed per capita and that this was more significant in the case of non-filers.

Research also showed that the positive relationship between education and compliance was not restricted to taxpayers in the US, as Chan, Troutman and O'Bryan (2000) also found such a relationship to be significant among taxpayers in Hong Kong. In Malaysia, Madi (1999)[211] found that the level of taxpayers' academic qualification was linearly and significantly associated with the level of tax knowledge, which is consistent with the contention that a low level of tax knowledge among taxpayers would not contribute to a higher level of compliance (Saad, Mansor & Ibrahim 2003). Further, Kasipillai, Aripin and Amran (2003)[212] confirmed the existence of a relationship between education and tax compliance in the context of Malaysia.

2.4.2.3 Income level

Although income level appeared to have influenced compliance, research findings revealed mixed and inconsistent evidence (Clotfelter 1983; Witte & Woodbury 1985; Jackson & Milliron 1986; Dubin & Wilde 1988; Alm, Jackson & McKee 1992c; Young 1994). Both Clotfelter (1983), using the IRS data derived from the 1969 TCMP, and Young (1994) using the data derived from the 1987 Michigan Tax Amnesty Programme, found a positive relationship between income and non-compliance. In contrast, Alm, Jackson and McKee (1992a) found that income was negatively correlated with non-compliance. This is not surprising as the range of

[211] This study was carried out on sole proprietors and partners in Sarawak, a State in Malaysia.
[212] This study was conducted on among undergraduate students in Malaysia. The relationship mentioned was "...generally consistent, particularly...relating to general avoidance and personal avoidance" (p134).

income might limit the sample used in these studies. For instance in a study, Christian and Gupta (1993, quoted in Hite 1996:4) examined taxpayers with taxable incomes of less than US50,000 dollars and found that income was negatively correlated with tax evasion. Similarly, Witte and Woodbury (1985) found that taxpayers with middle range income of US30,000 dollars were more compliant than those earning higher income, and this is consistent with the findings of their earlier study in 1983 (Witte & Woodbury 1983). In short, higher level of education perhaps would lead to better income level and would improve one's tax knowledge that might eventually change one's attitude towards compliance.

2.4.3 Institutional variables

While individuals are affected by economic and social factors, institutional variables do play important indirect roles in influencing taxpayers' compliance. Two prominent institutional variables, namely institutional uncertainty and complexity of tax law are discussed below.

2.4.3.1 Institutional uncertainty

Numerous experiments have analysed the role of fiscal uncertainty in taxpayer decision-making by comparing behaviour in two situations; one where the key fiscal parameters were known with certainty and another where the fiscal parameters were uncertain (Torgler 2002). Apparently, these two situations to some extent affect compliance, particularly when information in relation to tax compliance was provided to an individual.

Spicer and Thomas (1982) investigated whether information about the probability of audit influenced compliance. Their experiment consisted of 54 participants where 18 were given precise information regarding the probabilities of being audited in each round;[213] the next 18 were given imprecise information and the remaining 18 were given no information about audit probabilities. The results of the experiment indicated that where the respondents received precise information regarding the audit probabilities, the percentage of taxes evaded was negatively and significantly

[213]There were three rounds of audit probabilities, first round 5 per cent, second round 25 per cent and the third round was 15 per cent.

correlated with audit probabilities. However, the respondents paid less attention to the amount of taxes evaded if there was no information given.

The roles of fiscal uncertainty was analysed by Alm, Jackson and McKee (1992b). They compared the compliance behaviour of individuals when the fiscal parameters were known with certainty against unknown fiscal parameters. The results of their analysis indicated that by introducing uncertainties into the fiscal parameter (e.g. tax rate, penalty rate and the probability of detection), tax compliance increased.

In a later study by Dubin (2004), it was concluded that while media attention played important roles in disseminating information to the public and as a significant magnitude to general deterrence for those CI cases,[214] the evidence of increasing compliance (particularly in the case of money laundering) was weak.

These findings indicated that the availability of information on institutional variables only affected certain categories of taxpayers such as those mentioned by Dubin (2004). Other categories of taxpayers might not take note of such information, perhaps because their intention is already to comply.

2.4.3.2 Tax knowledge and complexity of tax law

For some decades, taxpayers and policy makers have often expressed concern over the issues of tax law complexity and compliance (Ferguson 1978). These issues continued to be highlighted in tax compliance research (McKerchar 2002; Johnson 2003; Slemrod 2005). Increasing tax law complexity was often blamed for increasing tax non-compliance (Cuccia & Carnes 2001) as "...complexity is an evil with no redeeming features so far as taxpayers are concerned...complexity represent an opportunity for taxpayers...that can be exploited like any other, especially by those who enjoy a game with both risks and rewards" (Cooper 1993:458).

Despite numerous methods being used, research focusing on perceptions of complexity indicated that there was an association between these two variables (i.e. complexity and compliance) but the degree or strength of the association remained unclear. Some found positive association between complexity and non-compliance, whether intentional or unintentional (Clotfelter 1983; McKerchar 2002; Ritsema,

[214] See 2.4.1.3 for more discussion.

Thomas & Ferrier 2003); while others found that the impact of complexity on compliance varied with the characteristics of individual taxpayers, which included education level, perceptions of fairness and the opportunity to evade (Witte & Woodbury 1985; Slemrod 1989). As for non-business taxpayers, Clotfelter (1983) showed that when the level of complexity[215] increased, it significantly increased non-compliance among such taxpayers. This was possibly so because business taxpayers might seek advice from tax practitioners, hence the issue of complexity might not be of importance to them.

In an experimental investigation, complexity of the tax law showed significant influence on tax-reporting decisions (Milliron 1985) but the direction of this relationship differed across cases. Milliron concluded that when complexity was coupled with a perceived decrease in equity, the level of compliance increased. In contrast, the level of compliance decreased when complexity was coupled with the increased opportunity to evade. These conclusions were criticised as ambiguous and invalid due to flaws in the experimental design (Daly & Omer 1990). Upon reviewing the findings, complexity might not be the core issue here, but rather an excuse to link with other factors such as the perceptions of equity and the opportunity to evade. Most of the research on complexity (other than McKerchar 2002 and Ritsema, Thomas and Ferrier 2003) utilising survey and archival data has been unable to detect or to identify whether the taxpayers were unintentionally non-compliant because of complexity, which would result in both under and over statement of income. It is possible that other factors such as knowledge and perception of taxpayers also affect the relationship between complexity and compliance.

Knowledge about tax law was assumed to be important to preferences and attitudes towards taxation (Eriksen & Fallan 1996). Studies showed that tax knowledge and compliance were positively correlated but complexity and ambiguity in the tax law and uncertainty about the application of a particular provision also appeared to hinder compliance (Fischer, Wartick & Mark 1992; Kasipillai *et al* 1999). However, these findings contradicted that of Eriksen and Fallan (1996) and Mottiakavandar *et al* (2003) as their findings revealed no direct relationship between these variables.

[215] Complexity in this study referred to the number of additional tax schedules filed with a return.

Likewise, in a health science study on 'knowledge – action gap' (Chan & Molassiotis 1999), it was found that patients might have higher factual knowledge but in reality, they did not fully apply it, hence there was no relationship between knowledge and compliance.

On one hand, reducing the complexity of tax laws might encourage compliance among taxpayers as they might easily understand the law, the tax structure, perhaps be able to compute their own tax liabilities, and eventually able to comply (Baldry 1999a; Somasundram 2003). On the other hand, simplifying the tax system might not be an effective deterrent to tax evasion because taxpayers may not necessarily consider a complex tax system to be unfair (Forest & Sheffrin 2002).

Forest and Sheffrin used survey data to estimate an empirical model by exploring the relationship between taxpayers' perceptions of the complexity of tax law, perception of the unfairness of the tax system and taxpayers' compliance. They failed to detect any relationship between complexity of the tax law and perception of unfairness and concluded that while simplifying the tax code was an otherwise laudable goal, it would not automatically improve compliance.

Taking social psychology and justice literature as the underlying framework, Cuccia and Carnes (2001) developed hypotheses to test the conditions under which tax complexity might be expected to affect equity perceptions. Their results confirmed that the potential complexity of a tax provision[216] negatively affected equity assessments. The effects were found only when the subjects were prompted with an alternative provision with relatively favourable economic consequences and that, only when no explicit justification for its complexity and relative economic consequences was offered. While their study provided additional insights into the determinants of tax equity perceptions, the results suggested that "...taxpayers may be happy to tolerate complexity associated with perceived decreases in their tax burden..." (Cuccia & Carnes 2001:133) but the association remained salient.

[216] This refers to "...provision called for doubling the maximum personal and dependency exemption amount but with an accompanying phase-out of its availability as income rise" (Cuccia & Carnes 2001:121). The phase-out was affecting those single taxpayers with income level of approximately $125,000 while for married couple it is approximately $190,000.

2.4.4 Equity variables

Equity theory predicts that, given a level of tax payments, any increase in public services or goods would improve taxpayers' perception of exchange equity. Hence, a taxpayer is less likely to participate in tax evasion. Several empirical experimental results also showed consistency in relation to the equity effects (Alm, Jackson & McKee 1992a, 1992b; Alm, McClelland & Schulze 1992). In particular, these studies showed that an increase in public goods increased the subjects' compliance but it was not clear whether the increase was due to the economic effects or the equity effects of the public goods or a combination of both.

2.4.4.1 Fiscal policy

An early survey by Song and Yarbrough (1978) suggested that there was a relationship between fiscal inequity and tax evasion. Based on a theoretical framework of the equity theory, Spicer and Becker's (1980) experiment showed that there was an exchange relationship between the taxpayers and the government.

The result of a later survey by Falkinger (1995) indicated that if a person's absolute risk aversion increased with perceived equity, the amount of tax that a person evaded decreased. The author used the economic and psychology argument to explain the relationship between risk aversion and equity as well as evasion and inequity. Falkinger concluded that "...if it is a social norm that evading taxes is particularly mean in a fair society, the taxpayers inclination to bear the risk of tax evasion will decrease with equity" (Falkinger 1995:64).

Hence, government policies and statutes determine which tax enforcement procedures are legal or desirable. As a consequence, different tax structures might require different strategies and enforcement measures that are appropriate to different structures.

2.4.4.2 Perceptions of fairness

Several studies have taken alternative approaches in exploring the relationship between complexity, unfairness and non-compliance. The issue of equity and fairness has been a frequent theme associated with taxpayer compliance (Cowell 1992).

Satisfaction with the government appeared to play an important role in taxpayers' compliance behaviour. Positive actions by the relevant authorities were intended to increase taxpayers' positive attitudes and commitment towards the tax system and the tax payment (Smith & Stalans 1991; Smith K 1992; Feld & Tyran 2002). The construct of mentality (Schmölders 1970) described what was experienced as fair; and the purpose of taxation and tax ethics associated with the propensity to evade taxes. In addition, experience of unfairness encountered by taxpayers influenced the taxpayers' compliance towards a tax system (Alm 1991). A recent study confirmed that there were positive relationships between taxpayers' perception of fairness in the tax system and the amount (as well as the percentage) of their tax liabilities (Ritsema, Thomas & Ferrier 2003).

Taxpayers are likely to comply if they find that there is equitable exchange between the tax paid and the service performed by the government. The presence of public goods enables behaviour interdependency and implies that an individual tends to follow the behaviour of other group members (Alm, Jackson & McKee 1992b). The average compliance rate would be higher in the presence of public goods but when incorporating fiscal uncertainty about the public goods, it would lower the average compliance rate (Alm, McClelland & Schulze 1992, 1999).

Experimental results showed that taxpayers who were given no transfer of public goods or services generally perceived their exchange equity with the government to be less equitable than taxpayers who were given such a transfer (Chung 2002). The extent to which taxpayers' perception of equity was affected by the effect of the transfer of goods or services would in turn affects taxpayers' reported income.

As suggested by equity theory, two dimensions of taxpayers' perceptions of the status quo actually framed the taxpayers' assessments of the fairness of their tax burden (Kinsey, Grasmick & Smith 1991). The two dimensions were exchange equity and vertical equity.[217] However, Copeland and Cuccia (2002) argued that referents used by taxpayers on equity perceptions existed beyond the status quo of which other factors might have prompted the perceptions. Consistent with the findings of Christensen, Weihrich and Newman (1994), it was found that increased

[217] Exchange equity means the benefits received for taxes paid and vertical equity means the distribution of tax burdens across taxpayers.

education of taxpayers would enhance the understanding and the acceptance of tax law complexity and the tax burden distributions. The equity perception of an individual was linked not only to the individual's economic satisfaction but also closely related to his/her political affiliation, if any.

2.4.4.3 Political factors

Mete (2002) incorporated the political system[218] as an alternative approach to study the IRS enforcement activities and taxpayers' compliance level across the US. Based on a model of bureaucratic behaviour, the analysis demonstrated a strong reciprocal relationship between the IRS enforcement behaviour and tax compliance. Non-compliance was significantly lower during the Democrats presidential administration and the impact of the presidential administration on non-compliance was consistent across all income groups. This implied that the presidents or political leaders had the ability to influence how taxpayers responded to the laws. However, the effect diminished with income.

Similarly, Hasseldine and Hite (2003b) tested taxpayers' political preference and attitudes towards the tax system using political affiliation.[219] They noted similar findings, i.e. taxpayers' perceptions differed significantly by political party affiliation. They concluded that "...the more closely identified the tax provision is to a specific party, the more favourably it will be received by members of that party relative to taxpayers with other political party affiliations" (Hasseldine & Hite 2003b:6).

2.4.5 Ethics and morals

The Moral Development Theory (Kohlberg 1969, 1981) acknowledged that, given a certain situation, individuals could move forward or backward through different stages in the moral reasoning. Morals drove an individual's intention to perform actions as prescribed in the modified TPB (Trivedi, Shehata & Mestelman 2005), while the role of ethics was directly related to tax compliance behaviour (Henderson & Kaplan 2005).

[218] The political system studied covered four presidential administrations in the US that is Johnson (1965 -1968), Nixon/Ford (1969-1976), Carter (1977-1980) that was further divided into the Democrats and the Republicans administration.
[219] They are the Democrats, Republicans and the Independents.

2.4.5.1 Tax morale and moral appeals

In the 1960s, Schwartz and Orleans (1967) examined the issue of morals affecting compliance.[220] Similarly, McGraw and Scholz[221] (1991) examined the effect of moral suasion on taxpayers. These studies were criticised for taking the averages of groups of taxpayers as their dependent variables. The analysis based on group means was unable to identify the specific types of individuals who were or were not affected by the moral strategies (Hite 1996). Nevertheless, Mason (1990) concluded that a moral appeal was feasible and Jackson and Jaouen (1989) found that to some extent, moral appeal was more effective for females than males on attitude towards tax compliance. However, taxpayers might have differing past experiences that affected their predispositions, and a single type of message was not representative of all taxpayers. Hence, the effect might not be universal.

Generally, research supported the contention that there was some kind of association between a sense of morality and compliance, but evidence varied depending on the tax rate and the taxpayers' perception of fairness. A higher tax morale could be generated when trust between government and the citizens improved (Torgler 2003). Paying tax would become an accepted mode of behaviour when there was a positive influence of communication and voting rights (Alm, McClelland & Schulze 1999). A study also revealed that in an endogenous fine treatment where subjects were allowed to approve or reject a fine proposal, tax compliance was higher as compared to those in a fixed exogenous fine (Feld & Tyran 2002).

According to the Theory of Moral Reasoning (Kohlberg 1981), an individual at the higher stage of reasoning would no longer focus on him/herself but rather on the relationship with others and on personally held principles. The later two stages were closely linked to the society that one belongs to and to its social norms.

[220] Schwartz & Orleans used a series of questions to stimulate motivation such as guilt and patriotism. They found marginally significant ($p<.10$) results for a moral approach over legal sanctions.

[221] McGraw & Scholz used a three months delay between the exposure of a moral appeal and the filing of tax returns. The respondents consisted mainly of the higher educated, mid to upper income taxpayers. They found no significant effect for moral appeal.

2.4.5.2 Social norms

A social norm is defined as an equilibrium-signalling behaviour and that once the signals commence, they tend to repeat themselves particularly when the signals are relevant to compliance of the law (Posner 2000). Social norms also "...consist of a pattern of behaviour which must be shared by other people and sustained by their approval and disapproval..." (Elster 1989, quoted in Torgler 2002:663). Social norms vary from group to group in terms of prescribed and proscribed as well as strength of the normative obligation (Smith & Kinsey 1985; Alm, Sanchez & DeJuan 1995). Slemrod (1998) argued that the social capital derived from the willingness to pay taxes voluntarily lowered the cost of operating by the government and of equitably assigning its cost to citizens.

Alm, McClelland and Schulze (1999) suggested that social norms affecting individual reporting decisions were further influenced by group communication and voting on different aspects of the fiscal system. In their experiment, they found that under an identical fiscal regime, an individual's behaviour differed prior to and after the vote announcement. By communicating with others, a participant selected a greater level of enforcement. However, the combination of both communication and votes changed the social norms of tax compliance, so that paying taxes became the accepted mode of behaviour. It appeared that communication or discussion among participants gave them the opportunity to clarify costs and benefits of enforcement. This increased cooperation among groups and had led to a certain pattern of behaviour.

2.4.5.3 Opportunity to evade

Research has shown that when there were opportunities to evade, non-compliance increases (Wallschutzky 1992). Significant positive relationships between opportunity to evade taxes and occurrence of evasion and amount of evasion were found in a study by Robben *et al* (1990) but the frequency of evasion was not significant. Others argued that with a greater amount of tax withheld, taxpayers would have less opportunity to underreport tax liability (White, Harrison & Harrell 1993; Young 1994, Hasseldine, Kaplan & Fuller 1994; Turnier & Little 2004). However, psychological researchers (Kahneman & Tversky 1979, quoted in Witte

1989:5) suggested that overwitholding might stimulate compliance that subsequently changed the risk attitudes of taxpayers in accordance with the prediction of economic theory.

2.4.6 Other variables

The works of Ajzen and Fishbein (1980) and Jackson and Jaouen (1989) suggested that there were possible explanations for the relationships between external variables and behaviour. These external variables could be demographic variables (such as age, gender and marital status), cultural background, experience encountered by taxpayers, financial distress and other possible variables.

2.4.6.1 Demographic variables

Literature has consistently revealed supportive evidence that there were positive correlations between compliance issue and age and gender (Roth, Scholz & Witte 1989; Glen 1998; Andreoni, Erard & Feinstein 1998; Kasipillai, Aripin & Amran 2003). From an extensive review, Jackson and Milliron (1986) found that males tended to be more non-compliant than females, but the review noted contradictory results in previous research. By controlling the direct influence of income and education in a large pooled sample size, gender tended to correlate with non-compliance (Kinsey, Grasmick & Smith 1991).[222] Glen (1998) and Kasipillai, Aripin and Amran (2003) concluded that among females, there was improvement in compliance attitudes after they were given lessons on tax. This might not be a clear indicator that gender played a role in compliance, or that females were less compliant. This could possibly be due to insufficient tax knowledge that might have lead to the non-compliance behaviour as Fallan (1999) confirmed that improved in tax knowledge did significantly change the attitudes of both male and female students towards tax. However, these studies did not take into consideration how interactions among participants of different gender affected compliance behaviour.

As for age, a study by Clotfelter (1983) noted a curvilinear relation with middle-aged taxpayers as the least compliant. In contrast, other research noted a negative

[222] This study utilised a survey data derived from the year of 1979, 1985, 1987 and 1988 to analyse attitudes towards tax compliance.

relationship between age and compliance (Witte & Woodbury 1985; Baldry 1987; Dubin & Wilde 1988).

In terms of marital status, taxpayers are classified either as single or married. Apparently, single taxpayers evade more often than married taxpayers (Clotfelter 1993; Young 1994) but this relationship was not applicable to those who were unintentionally non-compliant (Ritsema, Thomas & Ferrier 2003). Perhaps the findings might also differ in different societies with different cultural backgrounds.

2.4.6.2 Culture

Culture represents an environment where one was brought up and where one lives. Cultural values denote the fundamental beliefs of a society. Beliefs in behaviour lead to certain outcomes (Ajzen & Fishbein 1980). The psychology paradigm suggested that cultural background was perhaps an important determinant of compliance behaviour (Lewis 1982b). As noted, cultural differences between taxpayers in Israel and in the US was a concern in a construct validity of experimental design in compliance (Fischer, Wartick & Mark 1992).

Evidence also showed that culture influenced the compliance behaviour and the mode of enforcement (Andreoni, Erard & Feinstein 1998). Likewise, others suggested that cultural background played an important role in forming taxpayers' attitudes (Coleman & Freeman 1997). In particular, an individual's behaviour was influenced by a broader cultural and sub cultural input. "...The attitudes and values which individuals acquire from this input produce an independent thinker engaging in complex behaviour" (Homan 1991, quoted in Coleman & Freeman 1997:6). Chan, Troutman and O'Bryan (2000) noted that there was a relationship between cultural differences and tax compliance among taxpayers in Hong Kong and in the US. Similarly, Richardson (2005) found several significant differences of opinions between the Australian and the Hong Kong survey respondents in relation to tax fairness perceptions.

Cummings, Martinez-Vazquez and McKee (2001) argued that it was possible to isolate cultural effects as a factor in compliance. The writers used laboratory experiments in three different countries, namely the US, South Africa and Botswana to investigate compliance behaviour across different cultural settings while holding

the tax reporting institutions constant. They found that the compliance rate varied between these countries and this could possibly be due to differences in institutional features and in social norms across these countries. Hence, there was a need to tailor the structure of the tax system to the predominant culture of the taxpayers (Chan, Troutman & O'Bryan 2000).

2.4.6.3 Other factors

Factors affecting compliance are not limited to the discussion above as there could be others that, though not very significant, might determine an individual's behaviour. For example, encounters with tax authorities might change the perceptions of a taxpayer towards the tax system. Prior research has convincingly shown how a single experience with a rude official would lower one's support of the legal authority and this indirectly increased non-compliance with the law (Stalans 1992, quoted in Wickerson 1993:6). Likewise, taxpayers' experience with tax authorities might also influence taxpayers' compliance (Kasipillai & Baldry 1998) particularly when taxpayers are unhappy about issues related to the tax authorities.

It has been suggested that persons experiencing financial distress would be more likely to be engaged in tax evasion than those with less financial difficulties (Wärneryd & Walerud 1982; Roy-Chowdhury 2003). In a study, Vogel (1974) found that respondents who experienced improved economic status were likely to admit that they evaded taxes during the last five years as compared to those who suffered economic deterioration. Other evidence showed that the lack of funds and the complexity of the tax system were negatively correlated with the amount of and the level of tax (Ritsema, Thomas & Ferrier 2003). Perhaps, compliance costs might be the principal issue closely linked to the financial position of an individual.

Proponents of the economic models may agree that human beings possess a multiplicity of motives and social roles (Lewis 1982b). The cognitive domain emphasises that the cognitive components need to be examined indirectly through some other cultural background variables or by quizzing people on their knowledge on tax. Different groups in society have varying attitudes towards and different perceptions on tax enforcement.

Economic and social factors appeared to be the prominent determinants in taxpayer compliance. Other factors to some extent do also influence compliance behaviour of taxpayers, and different factors are applicable to different societies in different countries. Nevertheless, social norms appear to have the most significant influence on individual taxpayer's behaviour. Hence, tax administrators should take cognisance of different enforcement strategies when dealing with different groups of taxpayers.

The above review provides valuable insights into tax compliance behaviour in Malaysia and eight other SA tax regimes. It has clearly been demonstrated to be multifaceted and complex, with many factors that impact on such behaviour. There have been valuable contributions, but there are clearly gaps of knowledge in understanding taxpayers' compliance behaviour. Yet understanding taxpayers' compliance behaviour is critical for the tax authority in determining its assessment system and appropriate strategies to enhance compliance.

However in the context of SA in Malaysia, to enhance compliance rate, the IRB has focused mainly on enforcement and penalties. There appears to be a lack of appreciation that compliance behaviour is multifaceted, complex and influenced by factors other than enforcement and penalties. Thus, in the process of formulating policies and strategies to achieve a more efficient and effective tax administration and to enhance compliance, there is a need to take cognisance of and incorporate other factors that impact compliance behaviour. Since SA in Malaysia is still in its infancy stage, research on compliance behaviour under SA is very minimal and the understanding and knowledge in this area is limited. In this context, any expansion of knowledge on, and contribution towards a better understanding of compliance behaviour would be useful to the tax authority. The findings of this research could beneficially narrow the gap pertaining to the knowledge and understanding of compliance behaviour and the implications thereof, particularly in relation to SA in Malaysia.

2.5 Research questions

Given the objectives of the research set out in Chapter 1 and with references to various tax and non-tax compliance literature reviewed in this chapter and in the

context of the implementation of SA in Malaysia, the first research question is (1) 'Has changing from OAS to SA system affected compliance behaviour of Malaysian individual taxpayers?'. Arising from this research question, five other research questions also need to be addressed. These five research questions are:-

(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)?

Having identified these research questions, a more refined theoretical model for personal income tax compliance in the context of Malaysian individual taxpayers' compliance behaviour is developed from that presented in Chapter 1. The theoretical model would provide a framework for research and investigation to address the research questions and the objectives of this research.

2.6 Theoretical model for personal income tax compliance

The works of Ajzen and others in developing the TRA and TPB do have bearings on and thus have contributed to the development of the theoretical model for this research. Both TRA and TPB models considered attitudes and subjective norms as factors that could trigger intentions leading to the behaviour of an individual. The Trivedi, Shehata and Mestelman's (2005) model is adopted to provide support to the TRA and TPB models of Ajzen and that of his co-authors.

The model for the purposes of this research also incorporates the features found in the model of Fischer, Wartick and Mark (1992) and the expanded model of Chan, Troutman and O'Bryan (2000). These features are being incorporated based on a number of justifications. Firstly, these models provide interactions of different categories of variables such as those variables within the economic and the sociological-psychological models. Secondly, Fischer, Wartick and Mark's model

also considered the influence of tax structure features on attitudes and behaviour which could be significant given that tax audits and penalty form part and parcel of SA and that the tax audit and penalty strategy is the current emphasis of the IRB. Lastly, while Fischer, Wartick and Mark's model considered a number of demographic variables as the intervening variables, Chan, Troutman and O'Bryan's model incorporated cultural differences as the determinants of compliance behaviour. Since taxpayers' compliance behaviour might presumably be mediated by demographic variables such as gender, age, education, language proficiency and ethnic background, hence, in the context of compliance behaviour in the Malaysian settings, such demographic variables are relevant as mediating variables.

The issue of SA is current in the present income tax system in Malaysia, with SW and the SE taxpayers having commenced exercising SA in early 2005 when filing their returns in relation to their income derived in 2004. As SA places more responsibilities on individual taxpayers, presumably these taxpayers would seek to acquire relevant and adequate tax knowledge to manage their tax affairs. Thus, there is a possibility that the implementation of SA might affect the tax knowledge of individual taxpayers and that this might in turn affect their compliance behaviour. Hence, taxpayers' perceptions on the change of assessment system and their tax knowledge are incorporated as variables in the model.

In addition, the economic models generally posit that an individual would weigh the expected utilities in terms of costs and benefits while making decisions pertaining to payment of taxes (Allingham & Sandmo 1972). It has been suggested that those experiencing financial distress are more likely to be engaged in tax evasion than those with less financial difficulties (Wärneryd & Walerud 1982; Roy-Chowdhury 2003). Issues of financial constraints, such as income level and family financial commitments are also closely linked to one's financial position. As for financial commitments, presumably, the financial commitment of married taxpayers would probably be more than those who are single. Further, lack of funds also appeared to be a strong motivator related to intentional non-compliance (Ritsema, Thomas & Ferrier 2003). Hence, to a certain extent, the assessment system and the tax structure features in Malaysia might have effects on the financial situation of individual taxpayers and influence their compliance behaviour.

Based on the scenario presented above, a general theoretical model showing the interrelationships between the dependent variable (compliance behaviour), the five independent variables namely assessment system, tax knowledge, tax structure features, financial constraints and attitudes towards tax and the moderating variable (i.e. demographic variables) for personal income tax compliance behaviour in Malaysia is proposed and presented in Figure 2.7.

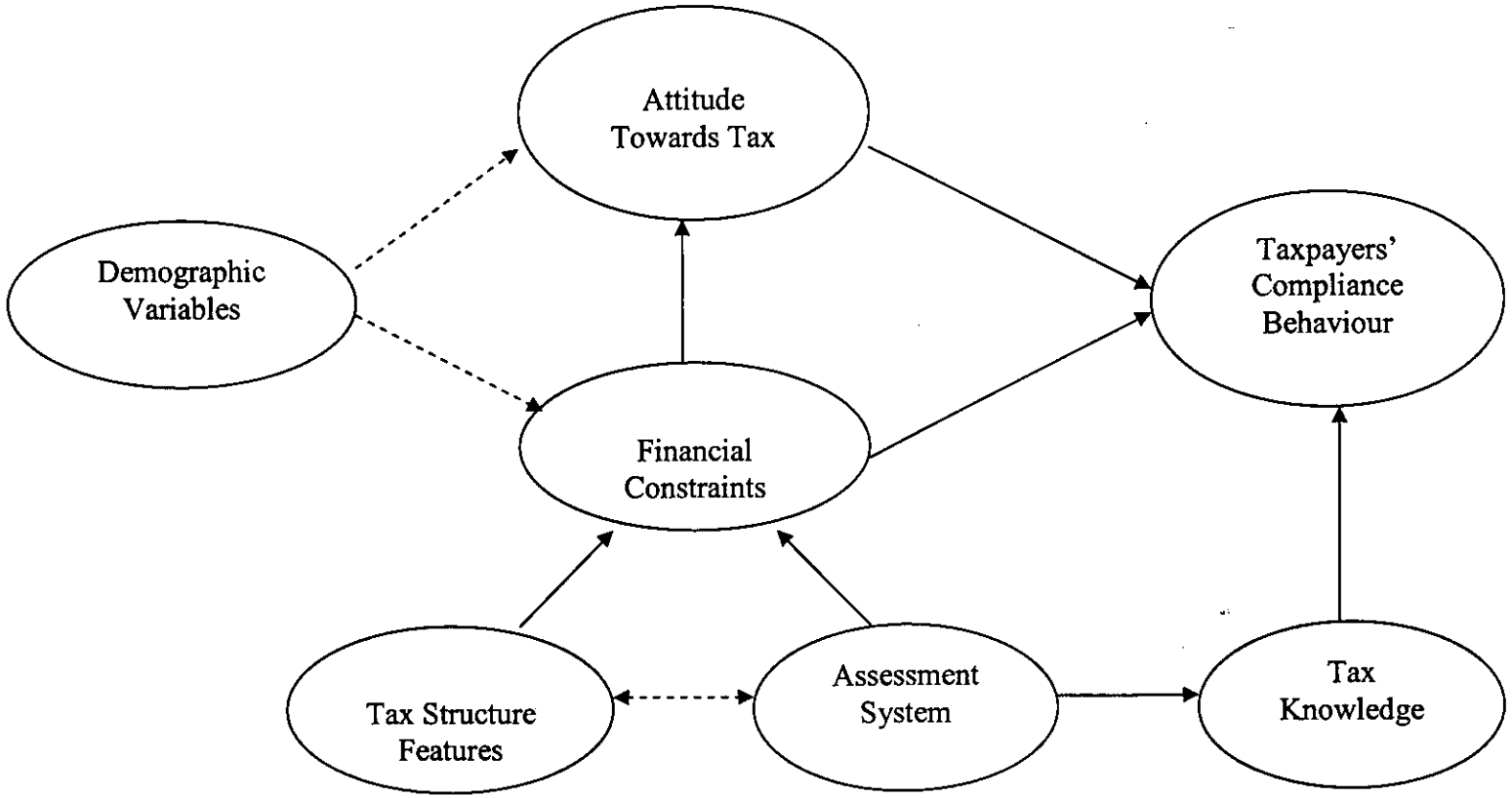
Logically, it is assumed that the assessment system is closely linked to the tax structure features. The implementation of these two independent variables (causes) would affect taxpayers' financial commitments, or perhaps would result in taxpayers experiencing financial constraints. Presumably, regardless of whether taxpayers experienced unfavourable or favourable financial situations, such experience would affect their compliance behaviour.

It is predicted that the interactions of the three independent variables (assessment system, tax structure features and financial constraints) would eventually affect taxpayers' attitudes towards tax, and as a consequence, would in turn affect their compliance behaviour.

While assessment system and tax structure features presumably have effects on financial constraints as well as attitudes towards tax, some demographic variables (such as age, level of education, marital status and types of employment) do have significant bearing on the financial constraints experienced by taxpayers. Similarly, some demographic variables (such as age, gender, level of education and ethnic background) could have roles in shaping taxpayers' attitudes towards tax.

Based on the IRB's current practice, for administrative purposes, individuals are classified into two categories, namely the SW and the SE taxpayers. In line with the objective of this research, the model in Figure 2.7 also aims to examine the different variables in relation to these two different categories of individual taxpayers. In general terms, the proposed model sets out a framework to address the six research questions as well as the overall objective of this research.

Figure 2.7: A theoretical model of personal income tax compliance behaviour



In the literature reviewed in this chapter, various modes of investigation have been adopted by researchers to search for evidence on the causes or factors that were associated with taxpayers' compliance behaviour. In the context of Malaysia, evidence on whether the five categories of causes and the moderating variables that had been theorised as determinants of taxpayers' compliance behaviour requires further investigation. Thus, in searching for the evidence on the effects or the impacts of these causes on compliance behaviour, an appropriate choice of research strategies involving different research paradigms and different research methods is of paramount importance. Discussions on the two distinctive research paradigms, namely qualitative and quantitative, and associated research methods such as survey, experiment and case study are presented in the next chapter together with the rationale for the research design.

The preceding chapter outlined the six research questions to be addressed. To address these questions, the choice of appropriate paradigms and methods is crucial, as the best research design would be the one that can address the research questions effectively and with the utmost inferential quality. The first research question is 'Has changing from OAS to SA system affected compliance behaviour of Malaysian individual taxpayers?' The other five research questions encompass varying causes that were likely to affect taxpayers' compliance behaviour as the result of the introduction of SA. These other causes were the assessment system, tax structure features, taxpayers' tax knowledge, their financial constraints and their attitudes towards tax. Given the nature of these questions, a single research paradigm was considered at the outset to be insufficient to gather adequate evidence and to achieve the objectives of this research. Further, "...the use of multiple methods can neutralise..." some of the limitations or "...disadvantages of certain methods" (Creswell *et al* 2003:211). As such, a mixed method strategy, encompassing both the quantitative and qualitative research paradigms was considered to be the most appropriate design. The mixed method research design adopted herein includes a survey, an experimental design and a case study. The validity of the findings would be greatly enhanced as the consolidated and triangulated results of the survey, experimental design and case study would provide more reliable evidence to address the research questions when compared with findings based on any one single method.

This chapter begins with the introduction of the quantitative and qualitative research paradigms and the methods associated with these paradigms. A more robust rationale for using a mixed method design is then provided. This is followed by discussions and justifications of the chosen methods (namely, survey, experiment and case study). Within each method, the description of the research instrument used, application of the instruments or procedures, data analysis techniques and the appropriateness of each technique used, are outlined. Finally, the chapter concludes with detailed justifications of the mixed method and the linkages between the research questions and the three phrases of data collection, including the appropriate data analysis techniques.

3.1 Research design

A quantitative research paradigm is an approach or study for developing knowledge (Creswell 2003:118). This paradigm draws and develops knowledge from various literatures or evidence and deductively forms a framework to develop research questions and subsequently formulate relevant hypotheses (Ticehurst & Veal 2000). Rational investigation of real world phenomena is conducted to yield universal truth about the character or behaviour of such phenomena (Riley *et al* 2000:10). The behaviours are explained based on facts and observations gathered using theories and models that have been developed (Ticehurst & Veal 2000).

Generally, the methods employed in the quantitative research paradigm usually build on the principles of a positivist approach (Riley *et al* 2000; Neuman 2003) in which it is assumed that, in reality, a cause and effect relationship exists between variables. To test the relationships between the variables, strategies such as surveys, experiments, observations or data from secondary sources are employed. A survey or an experiment normally involves the collection of data via predetermined instruments, of which questionnaires are commonly used. It is acknowledged that questionnaire-based research carries limitations in terms of being solely dependent on the respondents' self-reported behaviour, attitude or intention (Hasseldine & Li 1999:98). In order to improve the reliability of the results, data collected is often from large populations. It is then analysed and interpreted statistically by either accepting or not accepting a particular hypothesis. If a hypothesis is accepted, it "...technically is a contribution to theory..." (Riley *et al* 2000:11). In addition, results may be generalised with a series of descriptive information and some indications of their statistical significance. Nevertheless, the quantitative research paradigm has been criticised for its failure to incorporate a broader range of information, neglecting the essence of life and unable to capture the real meaning of social behaviour (Tashakkori & Teddlie 1998; Sarantakos 1999).

In contrast, the qualitative research paradigm builds on the principle of a critical interpretive approach (Ticehurst & Veal 2000; Neuman 2003) which is "...a field of inquiry in its own right" (Denzin & Lincoln 2000:2). A critical interpretive approach is more inclined towards uncovering meanings and understandings of broad interrelationships. It also places more reliance on the population being studied to

provide their own explanation of their behaviour. Further, the qualitative research paradigm is usually adopted for identification, description and explanation-generation and generally involves the gathering of information from a small number of people (Ticehurst & Veal 2000). The objective is to understand the meaning of individual experience that are socially and historically constructed, "...with an intent of developing a theory or pattern" (Creswell 2003:18).

In addition, the qualitative research paradigm aims at explaining an observed phenomenon that does not involve any formation of hypotheses. Typically, under this research paradigm, methods of inquiry to gather data include the use of narratives, phenomenologies, ethnographies, grounded theory studies or case studies. Both phenomenologies and ethnographies require researchers to carry out studies over a prolonged period. A phenomenological study requires researchers to 'leave' their own experience in order to understand the experience encountered by the subjects. The research process under ethnographies "...typically evolves contextually in response to the lived realities encountered in the field setting" (LeCompte & Schensul 1999, quoted in Creswell 2003:14). In comparison, a grounded theory study requires multiple stages of data collection and refinement by constantly comparing data of different sample groups in order to maximise the similarities and differences of information gathered (Charmaz 2000). These methods of inquiry (other than case study) require a prolonged period of data gathering. Given this requirement, a case study was considered a more appropriate[223] option for this research.

A case study allows researchers to explore in depth one or more subjects or observations. Data gathered through various procedures and case(s) are bounded by time and activity (Burns 1994). Through an inductive approach, a case study aims to discover theory rather than the verification of existing theories (Merriam 1998; Gillham 2000). As a result, there is no manipulation of variables and no predetermined outcomes. This does not mean that a researcher should have an 'empty mind' of what to research on. In fact, a researcher should have a set of

[223] A case study is considered an appropriate option based on the grounds that firstly, the main objective of this research is to explore on the influence of the introduction of SA on individual taxpayers' compliance behaviour. Secondly, the necessary and relatively short timeframe for collection of relevant data for this research was during the transition from OAS to SA (i.e. the timeframe just prior to and after the implementation of SA).

research objectives, which will guide the formulation of the relevant research framework and the process and conduct of the research.

Regardless of the method of inquiry, studies using the qualitative research paradigm do not make general statements about large or total populations. The qualitative paradigm has been criticised for being selective in reporting results because no simple data reduction method is available (Tashakkori & Teddlie 1998). However, studies using the qualitative paradigm are useful when the focus of research is on the attitudes and behaviour of a population (Ticehurst & Veal 2000). The purpose of this research involves the understanding of individual taxpayers' attitudes and behaviour, which in itself could be too complex to be addressed with quantitative methods of inquiry. Hence, logically a qualitative paradigm could complement what the quantitative paradigm is unable to offer (Newman *et al* 2003).

Quantitative and qualitative research approaches differ in terms of their objectives, the nature of the data collected, the assumptions made about social life, and their inherent limitations. However, the superiority of combining both paradigms in a mixed method approach, whereby they could complement each other in searching for comprehensive answers to the research questions is well recognised (Tashakkori & Teddlie 1998; Denzin & Lincoln 2000; Neuman 2003).

3.1.1 A mixed method approach

The concept of a mixed method approach came from a psychology study by Campbell and Fiske in 1959 (quoted in Creswell 2003:15). A mixed method is also known as a triangulation of different data collection strategies involving mixing qualitative and quantitative styles of research and data (Neuman 2003:139; Creswell 2003). It is argued that triangulation will neutralise any inherent bias in a single method. It is also widely suggested that for most applications of social and behavioural sciences, a mixed method approach is the most appropriate research design in answering research questions, rather than solely relying on either a quantitative or qualitative approach (Tashakkori & Teddlie 1998:x). Moreover,

> *"...mixed methodology adds complexity to a design and uses the advantages of both the qualitative and quantitative paradigms...the overall design perhaps best mirrors the research process of working back and forth between*

inductive and deductive models of thinking in a research study" (Creswell 1995:178).

Mixing styles can be conducted either sequentially (Dressler 1991, quoted in Neuman 2003:139) or simultaneously.[224] A sequential strategy involves the collection and analysis of quantitative data followed by the collection and analysis of qualitative data or vice versa. Results of the later phase are used to assist in explaining and interpreting the earlier results. Conversely, in a simultaneous strategy, both data collection phases are conducted at the same time. The objective of using different methods is to confirm, cross-validate, or corroborate findings within a single study (Greene, Caracelli & Graham 1989; Morgan 1998; Steckler *et al* 1992, quoted in Creswell 2003:217). Hence, a mixed method research design, comprising of both the qualitative and quantitative paradigms, combines the rigor and precision of quantitative designs and qualitative data with the in-depth understanding of qualitative methods. Further, data and findings from each of the methods can be complementary and used for cross-validation.

With the understanding of the benefits and strength derived from a mixed method approach, the following section presents and justifies the three methods implemented concurrently in three phases between November 2004 and July 2005. Phase I and Phase II are related to the quantitative research paradigm from which a survey and an experimental design were conducted respectively. Phase III utilises a qualitative research paradigm from which a case study was conducted. Discussion on each of the three phases is set out in the following sections.

3.2 Survey

A survey, as a quantitative method, was conducted to establish the extent to which the five categories of causes, based on literature, namely: assessment system, tax knowledge, tax structure features, financial constraints and attitudes towards tax,[225] had influenced compliance behaviour (Lewis 1982b; Jackson & Milliron 1986; Roth, Scholz & Witte 1989). The survey method was chosen because it is "...a system for collecting information to describe, compare or explain knowledge, attitude and practices or behaviour" (Fink, 1995a:1). In addition, since this research also touches

[224] Also known as concurrent strategy (Creswell 2003:217).
[225] See 1.3.

on the behavioural aspects of tax compliance, a survey would be an appropriate method to gather information on SA factors relating to taxpayers' knowledge of the tax law and also on demographic and cultural variables (Hasseldine, Kaplan & Fuller 1994; Andreoni, Erard & Feinstein 1998). Surveys are normally attempts to cover a representative sample of a given population. Therefore, for respondents located in a wide geographical area such as Malaysia,[226] a mail survey was previously found to be the most reasonable method (Ahmad Mahdzan 1997). For a large-scale study, a mail survey is relatively cheaper and a common means of obtaining information. One important advantage of a mail survey is that it generally enables respondents to complete the questionnaires at their own time, the convenience of which may be significant as compared with the usual single interview (Sandford 1995). Further, surveys involving questionnaires generally consist of many items that, when combined, would be expected to produce more reliable measures than would any single item (Dooley 2001:100).

There is no doubt that the most common limitation of a mail survey is that the response rate is often very low. In addition, a mail survey relies on the respondents' honesty and their ability to correctly interpret the questions (Hasseldine, Kaplan & Fuller 1994; Sandford 1995; Hasseldine & Li 1999). However, these limitations can be minimised to some extent, for example, by follow up mailings to improve the response rate, and by proper pilot testing to improve the comprehensibility of the instrument.

Broadly, the survey was designed to include tax and non-tax factors as determinants of individual taxpayers' compliance behaviour and to address the impacts of these factors on their compliance behaviour. The determinants (or tax factors) included were the assessment system, tax structure, tax knowledge and attitudes towards tax. The non-tax factors included were those related to financial constraints (such as marital status, number of dependants and income level) which could be determinants of individual taxpayers' compliance behaviour. The non-tax factors also included the characteristics and background of the individual taxpayers (such as gender, level of education, occupation, age, ethnic group) which may have mediating effects on

[226] The total area of Malaysia is 328,600 kilometres^2 of which Peninsular Malaysia is 131,600 kilometres^2, Sabah is 73700 kilometres^2 and Sarawak is 123,300 kilometres^2. Peninsular Malaysia is separated from Sabah and Sarawak by 720 kilometres.
(Source:http://www.rrcap.unep.org/lc/cd/html/countryrep/malaysia/studyarea.html).

the determinants of compliance behaviour. Discussion on the implementation and data analysis techniques is set out below.

3.2.1 Instrument and procedures

The survey instrument consisted of open-ended and closed questions in three major parts (see Appendix VI). Part I solicited information on the profile of respondents. This part contained items that were mostly related to the moderating factors as shown in Figure 2.7. Part II[227] contained items relating to one of the independent variables/causes (i.e. tax knowledge). Overall, Part II attempted to investigate the respondents' level of tax knowledge in relation to personal taxation. This included knowledge in relation to the type of income taxable, relief available, rebates allowable to individual taxpayers and a simple computation of tax liabilities. Questions on taxable income and exempted income formed the first two dependent variables. For questions on the reporting of taxable income, it was assumed that 'yes' responses by respondents would indicate that they 'complied' while 'no' responses indicated 'non-compliance' and 'not sure' responses indicated 'unintentional non-compliance'. For questions on reporting of exempted income, 'yes' responses indicated that the respondents 'over complied', 'no' responses indicated they 'complied' and 'not sure' responses indicated 'unintentional non-compliance'. Respondents who were SE were requested to respond to questions in an additional section on business income and deductions, the objective of which was to assess their knowledge on issues pertaining to business taxation.

Part III of the survey instrument attempted to investigate other independent variables/causes as stated in Figure 2.7. These variables included perceptions on the change of assessment system and experience encountered by respondents. The experience encountered included dealings with the tax authority, perceptions in relation to fairness of the tax system and issues pertaining to morals and attitudes towards the tax system. This part consisted of statements that required responses based on a five-point Likert scale, ranging from strong agreement to strong disagreement.[228] The next section of Part III required respondents to indicate their level of confidence relating to assessments and returns. The last three questions of

[227] Except items in F2 and F3 (see Appendix VI) which were related to tax structure.
[228] For the purpose of statistical analysis, the scale was coded as, 1=strongly disagree, 2=disagree, 3=neither agree nor disagree, 4=agree and 5=strong agree.

Part III were related to the reporting of casual income, which formed the third dependent variable. Similar to the reporting of taxable income discussed above, it was assumed that when respondents responded 'yes' it indicated that they 'complied', if 'no' it indicated 'non-compliance' and if the respondents were 'not sure', it indicated 'unintentional non-compliance'.[229] Finally, the last section contained an open-ended question that provided an opportunity for respondents to comment on any issue that may be relevant to tax compliance.

The survey was conducted in two stages. The first stage was conducted between November 2004 and January 2005, before the actual submission of the tax returns under SA. The second stage was conducted between April 2005 and July 2005, after the implementation of SA and the submission of self assessed returns. For both stages, a repeated survey design or 'repeated cross-sectional design' was adopted (Firebaugh 1997) where a similar survey instrument was used but targeted at different samples. The selection of a randomised sample was done independently, both in the first and second stages of the survey. The main reason for carrying out a repeated survey before and after the implementation of SA was to focus on how the introduction of the SA may have influenced compliance behaviour.

The questionnaires were prepared in both the English and Malay languages. A covering letter was included describing the nature of the survey and stressing that complete anonymity was guaranteed [see Appendix VII (a) & (b)]. Due to the sensitive nature of tax issues, the covering letter also emphasised that the research was not conducted by or on behalf of the IRB.

Questionnaires were distributed to a total of 6,000[230] respondents[231] who were selected on a random basis drawing from local telephone directories. This sample

[229] Responses on K19 were slightly different from K17 and K18 (see Appendix VI), where 'all' indicated 'complied', 'not sure' indicated 'unintentional non-compliance', while the remaining responses indicated 'non-compliance'.

[230] The total consisted of 2,500 questionnaires, which were distributed to potential respondents in the first stage i.e. before the implementation of SA system and 3,500 to potential respondents in the second stage i.e. after the implementation of SA system (see Table 3.1).

[231] Following the requirement of random selection as approved by The Human Research Ethics Committee (Ref: 7526), potential respondents were selected randomly. Hence, during the process of selection, the researcher had no prior knowledge as to which category of taxpayers (SW or SE) the potential respondents belonged.

size was drawn from multiple phases of sample selections[232] in order to draw sufficient usable responses for statistical analysis. In terms of determining the sample size, there are a number of views. It has been proposed that the appropriate sample size for most survey research should be larger than 30 and less than 500 (Sekaran 2003). However, in order to analyse the data using multivariate statistical analysis, it has been argued that the sample size should be several times more (preferable ten times or more) than the numbers of variables[233] under study (Sekaran 2003:295). For practical purposes in conducting a survey, Fowler (1993:14) suggested that a random sample size of 150 would describe a population of 15,000 or 15 million with virtually the same degree of accuracy. Taking these views into consideration, the above sample size is considered adequate to describe the Malaysian population of approximately 26 million with total individual taxpayers of approximately 3 million. When deciding on the sample size for this research, non-responses were also considered. Based on this sample size and method, a response rate of 20 per cent was expected, which is consistent with random survey research carried out in Malaysia (Kasipillai *et al* 1999; Nik Ahmad & Sulaiman 2005).

Prior to the conduct of the survey, a pilot study was carried out among a small group of individual taxpayers (academics, professionals and other lay taxpayers) in order to assess the validity of the research instrument and to enhance its reliability, and to improve and refine the wording used in the questionnaires. Effective piloting can improve the wording of questionnaires and make it "...possible to obtain high reliability of response" (Robson 2002:231).

The reliability is operationalised as internal consistency where the degree of intercorrelations among items with the same concept is measured (Sekaran 2000). Cronbach's coefficient alpha is one common inter-item reliability measure applicable to multi-item tests (Dooley 2001). A Cronbach's alpha of 0.70 or more is desirable as an adequate indicator of the internal consistency (Devellis 2003).

---

[232] For example, in the second stage (post SA survey), 800 potential respondents were randomly selected in the first phase. Due to insufficient questionnaires being returned within two weeks, the second phase of sample selection was carried out, which involved another 800 potential respondents. Similar procedures were carried out for phase III and IV. In the final phase, only 300 potential respondents were selected randomly.

[233] Theoretically, there are five independent variables and one moderating variable to be tested in this research.

To ensure the validity of the responses, some questions were negatively worded. In addition, the researcher carefully scrutinised and checked each questionnaire returned prior to coding. Questionnaires with completely unrealistic responses (obvious outliers) were rejected.

To assess the construct validity of a measure, factor analysis can be used (Kim & Muler 1978, quoted in Dooley 2001:90) to identify how many different constructs (or factors) of a test's items, and the extent to which each item of a test, is related to each factor being measured. After correlating all the items of a test, factor analysis is then able to identify groups of items that correlate more highly among themselves than with items outside the groups. Hence, each such group of items defines a common factor. Normally, factor analysis is used when the measurement has theoretical expectable factor structure (usually unidimensional) (Dooley 2001).

Out of the 6,000 questionnaires distributed, a total of 939 questionnaires were returned, of which 350 were from the pre SA survey and 589 from the post SA survey (see Table 3.1). The response rates[234] for both surveys were marginally lower than expected. However, the total number returned was sufficient for statistical analysis as suggested earlier.

Table 3.1: Response rate

	Total Distributed	Total Returned	Response Rate
Pre SA survey	2,500	350	14%
Post SA survey	3,500	589	17%
Total	**6,000**	**939**	

3.2.2 Data analysis techniques

The data obtained from the survey questionnaires was coded and analysed using SPSS and Genstat[235] packages. Negatively worded questions were recoded in order to be consistent with other questions. For questions used as dependent variables (as

[234] Non-response bias could not be computed due to the nature of random sampling as approved by the Human Research Ethics Committee. Similarly, the non-response follow up could not be carried out due to the limited time frame available for the pre and the post SA situations. In addition, in a mail survey, one usually does not know how biased non-responses are (Fowler 1993:40). The possibility of non-responses might be due to the low tax literacy of respondents in understanding the questionnaires, or that tax may be a sensitive issue to which most people would not want to respond.

[235] Genstat software was used to conduct the ordinal stepwise logistic regression; other analyses were conducted using SPSS software.

mentioned in 3.2.1 above), the aggregate scores of the questions were further recoded to form three dependent variables. Four questions on taxable income formed dependent variable 1; three questions on exempted income formed dependent variable 2; and three questions on casual income formed dependent variable 3.

Data was analysed using both descriptive and inferential statistics. Generally, descriptive statistics describe the patterns of behaviour, whereas inferential statistics use probability arguments to generalise findings from samples to population of interest. Descriptive statistics such as frequency, mean ($\bar{x}$) and standard deviation (s) were utilised to analyse the profile of respondents such as their demographic and specific socio-economic backgrounds. These descriptive statistics were also used to illustrate the level of tax knowledge as well as the perceptions and attitudes of respondents. To examine the association between variables, cross tabulation[236] was used. In addition, chi square (χ^2) (goodness of fit) tests and p-value measure of statistical significance were used to determine whether a set of data matches a specific probability distribution; and compare the observed frequencies in a category to the frequencies that are theoretically expected if the data follows a specific probability distribution (Bryman & Cramer 2005). Chi square was also used to test whether there were significant differences between the pre and post SA surveys on the relevant variables.

For both the pre and post SA surveys, as the dependent variables consist of polytomous[237] categories with ordinal data, and the independent variables consist of a combination of continuous and discrete data (see Table 3.2), it

> *"...cannot be easily modelled with a classical regression. Ordinary linear regression is inappropriate because of the non-interval nature of the dependent variable – the spacing of the outcome choices cannot be assumed to be uniform. On the other hand, multinomial logit models,...,though they could be used, would fail to account for the ordinal nature of the dependent*

[236] It was suggested that for cross tab "...if one or more variables are nominal, multivariate analysis through contingency tables is probably the best way forward for most purposes" (Bryman & Cramer 2005:295).

[237] In a polytomous (also called polychotomous or multinomial) case, the dependent variable has more than two categories rather than two categories as in a dichotomous situation.

variable and thus not employ all the information available in that variable" (Liao 1994:37).

Hence, an ordinal stepwise[238] logistic regression[239] analysis with logit function (as in generalised linear model techniques[240]) was considered appropriate to analyse the relationship between a single dependent variable[241] and a few independent variables for the pre SA and post SA surveys respectively. It can also determine the effect of all the five main categories of causes/factors and the two moderating variables on the three separate dependent variables.

Table 3.2: Variables and types of data

	Type of data
Dependent Variables	
Taxable income (DV1)	Ordinal (1,2,3)
Exempted income (DV2)	Ordinal (1,2,3)
Casual income (DV3)	Ordinal (1,2,3)
Independent Variables:	
Assessment system (AS)	Continuous
Tax knowledge (TK)	Continuous
Tax structure features (TS)	Continuous
Financial constraints (FC)	Continuous
Attitude towards tax (AP)	Continuous
Moderating Variables:	
Demography variables	Categorical/nominal

[238] Stepwise logistic regression is "...best seen as a screening or hypothesis generating techniques" (Tabachnick & Fidell 2001:535). Stepwise was criticised "...as an admission of ignorance about the phenomena being studied..." (Studermund & Cassidy 1987, quoted in Menard 1995:54). However, proponents of the use of stepwise procedures argue that it is useful in predictive and exploratory research where a model can be identified, that includes a set of predictors that provides accurate predictions of some phenomena (Menard 1995).

[239] Pampel (2000:v) argued that an ordinary least squares regression produced an inefficient estimation because of multiple problems caused by heteroscedasticity, non-normal error term, non-linearity, and predicted probabilities beyond 1.0. This "...can be overcome with a logit dependent variable; that is, a dependent variable that is the natural log of the odds of Y occurring or not..." (Menard 1995:v; Tabachnick & Fidell 2001:517). Therefore, logistic regression was selected rather than ordinary least squares. In a logistic regression analysis, there were two possible estimation techniques i.e. probit and logit (Aldrich & Nelson 1984; Gujarati 2003). The main difference between these two techniques is the concern of the probability distribution. A probit model assumes an underlying normally distributed dependent variable, while for logit model, a logistic distribution is assumed. Hence, the logit model is more appropriate for this research.

[240] "...The advantage of generalised linear model context is that we need not worry about the type of restrictions to impose on the parameters" (Frees 1996:240).

[241] There is a possibility of analysing all the three dependent variables and all the independent variables using a single multivariate analysis of variance. However, the result might not be useful for explaining the three different dependent variables at once due to differences in types of income. Hence, analysis on each single dependent variable provides a clearer picture on the reporting compliance behaviour upon these three different types of income (i.e. taxable income, exempted income and casual income).

Generally, the equation for the relationship between the dependent variable and the independent variables is:

$$\text{Logit}(Y) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \ldots\ldots + \beta_k X_k$$

Where Y = dependent variable
X = independent variable
β = change in Y associated with one unit change in X
α = constant representing the value of Y when X is zero

As stated in the above equation, a significant difference among factors would imply that knowledge of X could be used to predict the performance of Y. Contribution from each of the independent variables to the model was evaluated by testing its statistical significance (chi-square probability value) and "...then examining the substantive significance of its effect on the dependent variables" (Menard 1995:37). In the process of ordinal stepwise logistic regression, cases with missing values were further deleted[242] from the analysis in order to give a better response to some factors under study. Hence, the total cases analysed in ordinal stepwise logistic regression might differ from the frequency distribution.

Prior to logistic regression analysis, multivariate factor analysis[243] was carried out on the two sets of data in order to identify the relevant variables in the five main categories of causes before establishing a cause-effect relationship of the independent and dependent variables. Factor analysis was chosen to examine the correlations between variables in a large set of data in order to look for a smaller set of underlying factors that could explain the variation in the original set of data (Hinton, Brownlow & Cozens 2004). Hence, factor analysis was used as a way of summarising or reducing data. A Kaiser-Meyer-Olkin (KMO) value of higher than 0.5 provided an indicator that factor analysis was suitable for the both sets of data. Furthermore, the usable data collected had exceeded the requirement of a sample size greater than 250[244] for which factor analysis is considered appropriate (Sekaran 2000).

[242] A number of cases deleted are discussed in the relevant findings in the next chapter (see 4.1.16).
[243] Principal component method was used in the factor analysis.
[244] As previously discussed, a sample size of 10 times or more of the items under study is desirable. For the purpose of factor analysis, multiple items set in the questionnaires were assigned according to the five independent variables presented in the theoretical model (see above n 233). The number of items assigned to each of the independent variables ranged from 4 items to a maximum of 25 items.

In the process of factor analysis, those variables that showed multicollinearity[245] were eliminated. It was suggested that variables with correlation of matrix greater than 0.8 (r>0.8) be eliminated from the analysis. In addition, factors with eigenvalue of greater than one[246] were chosen, as they are highly desirable. "An eigenvalue of one means that the factor can explain as much variability in the data as a single original variable" (Hinton, Brownlow & Cozens 2004:341). With the variance explained and the eigenvalue size determined, a varimax rotation of selected factors was performed to get a clearest and simplest way of associating the original variables to the factors. A rotation also provides a clearer picture of which variables loaded most on the factors. However, it was suggested that only variables having a loading of greater than 0.3 be taken to have make a significant contribution to a factor (Hinton, Brownlow & Cozens 2004).

The research question, 'Are there relationships between the five causes (assessment system, tax knowledge, tax structure features, attitude towards tax and financial constraints)?' also sought to look at the relationships between variables. Thus, a correlation analysis was conducted on these variables based on the data used for ordinal stepwise logistic regression. "Correlation entails the provision of a yardstick whereby the intensity or strength of a relationship can be gauged..." (Bryman & Cramer 2005:214).

3.3 Experimental design

The second quantitative method used in this research was an experimental design. Experimental design takes "...root as an organised procedure as early as the 13th century..." and Sir Isaac Newton had recognised its success (Brown & Melamed 1990:1). An experiment means modifying something in a situation, then comparing the outcome with what is existing without modification (Neuman 2003:238). In the 20th century, 'classical' randomised experiments were common practices among studies in the pure sciences. A classical randomised (true) experiment means that the

Taking the maximum multiple items of 25, the sample size should be greater than 250, i.e. 25 x 10 times = 250.

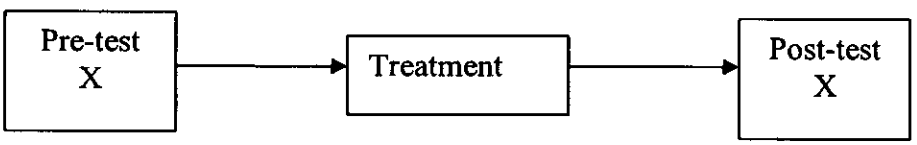
[245] Prior to elimination, the original data set was re-examined to ensure that important variables were not left out as the result of multicollinearity.

[246] It was suggested that factors having eigenvalue greater than one are considered to be significant, while all factors with eigenvalue less than one are regarded as insignificant and should be disregarded (Hair *et al* 1998:103).

participants are randomly assigned to either a control group or an intervening group. However, a number of applied research studies have not been able to assign participants randomly simply because these groups were already intact or in existence, such as those in classroom settings. Hence, a non-randomised method - known as a quasi-experimental research approach - is used (Neuman 2003; Keppel 1991, quoted in Creswell 2003:14). Campbell and Stanley (1963, quoted in Brewer & Hunter 1989:52; Shadish 2000:13) argued that quasi-experimental design could provide a prototype for multi-method investigations in which other feasible methods alone might not be able to provide compelling evidence, specifically in the testing of causal relationships.

Generally, a quasi-experimental approach is divided into three categories, pre-test post-test design, time series design and single subject design. Time series design and single subject design were not appropriate for this research as both involve numerous measurement periods prior to and after the introduction of interventions. Further, it was considered not possible to get a control group to participate in this research. Hence, in Phase II of this research a 'One-Group Pre-test Post-test' design was chosen as the most appropriate. In a 'One-Group Pre-test Post-test' design, the experiment includes a pre-test, a treatment and a post-test, and no control group is needed (Neuman 2003). A diagrammatic representation of this design is shown at Figure 3.1.

Figure 3.1: One group pre-test-post-test design



Having no control group could be expected to reduce the risk of withdrawal from the group, as no intervention or no treatment given might not attract the interest of participants to continue to participate in the experiment. Therefore, the only comparison available would be the pre-test and the post-test within the same group. This could be expected to threaten the internal validity of the design as well as giving rise to possible problems such as carryover effects from the pre-test to post-test. To overcome these threats, it was expected that increasing the number of dependent

variables in the measurement tools would improve control and thus enhance the validity of the interpretation of the results (Gliner & Morgan 2000).

It is widely acknowledged that research involving taxation often encounters difficulties in getting actual data (Alm 1991; Torgler 2002), either from the tax authority or from taxpayers themselves. In particular, getting information from the SE can be even more difficult. The factors that were included in the survey instrument for this research may or may not have any actual influence on taxpayers' behaviour. Through a simulation experiment, it may either possibly confirm or repudiate the survey results as well as the appropriateness of other factors used in the survey on the influence of SA on compliance behaviour. In addition, simulation studies are able to provide insights into the behaviour by observations of reactions set up in hypothetical situations (Nesbitt 1971; Friedland, Maital & Rutenberg 1978; Spicer & Becker 1980).

In Phase II, two main groups of undergraduate students were chosen to participate[247] in the experiment, using two different simulation packages (Spicer & Becker 1980; Alm & McKee 1998; Torgler 2002). The basic criteria was that both groups of students had not studied any subject related to income tax, had never paid any income taxes and had never carried out any employment nor engaged in any SE ventures.

The two different main groups of students participating in the experiments were taken to represent the two main target groups of individual taxpayers for the purpose of this research. It is acknowledged that the use of these two groups of students is pragmatic and does have shortcomings. Students with no knowledge on tax, particularly in the pre-test, might not be able to handle issue related to tax returns. However, a review of the literature does indicate that experimental design using students does give certain indications of the actual behaviour of taxpayers (Andreoni, Errad & Feinstein 1998; Eriksen & Fallan 1996). Through simulations, theoretical relationships between reporting behaviour and tax structure features (such as tax rate, audit rate and penalty rate) could be experimentally determined (Lewis 1982b). Meaningful factors associated with SA and compliance behaviour could possibly be

[247] Student participation was entirely voluntarily as required by the Human Research Ethics Committee (Ref: 7527). Any student was allowed to withdraw at any point of time if he/she did not wish to continue in the experiment.

established using this design. Discussion on the implementation and data analysis techniques are set out in the following section.

3.3.1 Instrument and procedures

For the first main group of students, the pre-test experiment involved the solving of a simulation package [see Appendix VIII (a)]. The simulation package presented a scenario of a SW. The second main group was given a simulation package (see Appendix IX) which presented a scenario of a SE. Information furnished in the simulation package of the SW scenario included income from various non-business sources (such as employment income, dividend, interest and rental income) and donations made. Personal particulars (such as marital status and number of dependants) and insurance premium payments pertaining to relief available were also included. In the simulation package for the SE scenario, a profit and loss account presenting and disclosing the income and expenses of a business, and income from other non-business sources (except from employment), together with similar personal particulars such as those given to the SW, were included.

A total of 125 undergraduates participated in two different experiments of which 62[248] represented the SW group and 63[249] represented the SE group. To undertake the experiment, each of the two main groups was subdivided into 12 small sub-groups, consisting of five students per group.[250] In addition to the simulation package provided, participants were also informed of the possibility of being audited. The probability of being audited was between 10 per cent and 50 per cent, with different percentages being assigned to different sub-groups. A different penalty rate (of between 1 per cent and 20 per cent) was also assigned to each different sub-group (see Appendix XI for detailed design). At the end of the simulation, participants were required to fill in their own tax returns that were attached with the simulation

[248] It is proposed that for possible success in experimental research, a sample size as small as 10 to 20 is sufficient (Sekaran 2003:295).
[249] Ibid.
[250] For the SW, in the pre-test, (except for one sub-group with four students), all the other sub-groups consisted of five students each. Three students were absent during the pre-test simulation and as a result, in the post-test simulation, one was assigned to the sub-group that had four students and one each was assigned to two other sub-groups, resulting in these two sub-groups having 6 students each. As for the SE, due to the odd number of participants, there were three sub-groups having 6 students per group and 9 sub-groups having five students each.

package and to compute their own tax liabilities. In the pre-test experiment, tax returns for the YA 2003 were used [see Appendix VIII (b)].

Subsequent to the pre-test experiment, the group representing the SW was given a two-hour lesson on personal income tax knowledge as treatment, followed by a post-test experiment. For the post-test experiment, a similar simulation package was given. At the end of the post-test experiment, participants were again required to fill in their tax returns and to compute their tax liabilities under SA, where the tax returns for the YA 2004[251] were used [see Appendix X (a) & (b)].

Similar procedures were conducted on the second main group that represented the SE. However, five hours of lessons on personal income tax knowledge were given as treatments. The treatments of the two main groups differed mainly due to the additional coverage required for business taxation. For both the main groups, participants were given similar coverage on personal income tax knowledge. This included the computation of aggregate income from various income sources, computation of total income, the understanding of various relief and rebates available to individual taxpayers as well as the computation of tax liabilities. For the SE group, additional lessons on business taxation covering adjustments on business income (or receipts) and allowable deductions were given.

3.3.2 Data analysis techniques

The main purpose of experimental design is to test whether the effect of one factor (e.g. A) is dependent on the level of another factor (e.g. B) by examining the interactions between them. In a one way analysis of variance (ANOVA), the variance of the means of the groups is compared with the variance within them combined for all the groups (Bryman & Cramer 2005), which might provide an estimation error. In a factorial design, "...these variances due to the other factors can be removed from the overestimation of the error variance, whereby giving a more accurate calculation..." (Bryman & Cramer 2005:525). Factorial design is considered appropriate when the research interest is in the effects of more than one independent variable on the dependent variable. "Factorial designs are usually analysed as linear models..." of which the simplest models are the main effect

[251] For YA 2004, the tax returns for SW and SE taxpayers were different.

models (Stenson 2002:235). The equation of a main effect model is summarised as follows:

$$y = \mu + \alpha_i + \beta_j + \ldots + \varepsilon$$

Where y is the response variable and α_i, β_j, ...represent the treatment effects of the factors. The goal of the models is not necessarily to identify all the effects realistically but merely to identify influential factors (Stensen 2002).

Three factors were manipulated across participants, namely, tax rate, audit rate and penalty rate, resulting in a '2 x 2 x 3' completely crossed factorial design. Due to the unbalanced/unequal sub-group size of both main groups;[252] a general ANOVA (with no block and no covariate) was selected from Genstat software to analyse the data collected (Genstat Committee 2003).

A four way ANOVA was used to investigate the interactions between the variables, namely, the pre-test score, audit rate, tax rate, penalty rate and the effects of lessons on tax knowledge on the post-test score of participants. "...A significant interaction occurs when the effect of one factor is different at the different conditions of the other factors..." (Hinton 2001:155). A probability value of less than 0.05 is desirable to identify factors with significant interactions. Where there was no significant interaction between these four factors, a three way ANOVA was to be conducted. However, if there were still no significant interactions between factors, a final two way ANOVA would be used.

As discussed earlier, two separate experiments were conducted, one on the SW and the other on the SE. The number of hours on the lessons given to these two main groups differed. As such, it is appropriate to analyse the outcome of the experiments separately for each of the experiments conducted in order to determine the factors that had significant interactions with tax knowledge.

The outcomes of the two experiments were subsequently 'stacked' together to investigate the significant differences between these two groups. A T-test was used to test the significant differences between pre-test and post-test score of these two main groups. A four way ANOVA was conducted to investigate whether there were

[252] See above n 250.

significant interactions between factors and tax knowledge for both the SW and SE groups.

3.4 Case study[253]

The main concerns of qualitative research are the search for evidence and the development of a theory. A case study is a detailed research inquiry into a single example or a social unit that can be made up of people or organisations (Payne & Payne 2005). It is a strategy involving empirical investigation of a particular contemporary phenomenon within its real life context and seeks a range of different kinds of evidence to get the best possible answers to the research questions (Yin 1994:23; Gillham 2000; Robson 2002). Unlike quantitative research, a qualitative case study permits "...intensive analysis that does not commit the researcher to a highly limited set of variables and thus increases the probability that critical variables and relations will be found" (Eckstein 1975, quoted in Merriam 1990:59). As such, the interest of a qualitative case study is in the context rather than specific variables, in discovery rather than confirmation (Merriam 1998:19). It is also less concerned with generalisability[254] or representative of a sample. However, a single case could be used to disprove a general statement, to challenge any earlier assumption of a theory and to develop fresh insight (Payne & Payne 2005:32-33).

The case study was chosen for this research as it is able "...to *explain* the presumed causal links in real-life interventions that are too complex for the survey or experimental strategies" (Yin 2003:15). In addition, this research encompassed compliance activities (of SW and the SE) that are widely acknowledged to have been heavily influenced by behavioural phenomenon. Thus, a case study would be an appropriate research strategy, particularly in relation to the SE because it sought to understand the phenomena of single example and also provided opportunities to conduct exploratory research (Romano n.d.; Ticehurst & Veal 2000).

Tax compliance research in general has been based on self-reported, simulated or hypothetical behaviour, all of which have been questioned in terms of their

[253] See above n 223.

[254] Yin (1989) stated that the results of a case study are in principle generalisable to theoretical propositions, not to the population or universal. Hence, it is analytical rather than statistical generalisation (Mitchell 1983, quoted in Verschuren 2003:135).

indicativeness of actual behaviour. The case study attempts to address these shortcomings. In addition, the factors that were included in the survey might or might not actually influence compliance behaviour or reflect the respondents' actual experience. Likewise, the hypothetical setting of experimental design only focuses on a few variables. Hence using the case study may provide an inductive research approach to identify the impact or influence of SA on compliance behaviour. The survey results may confirm or repudiate the findings of the case study.

A case study also provides indications of the influence of SA based on actual behaviour as close as possible to the time of occurrence, judged objectively based on a wider range of information obtained (i.e. the examination of the actual tax returns, taxpayers' records and documents as well as the opportunities to systematically interview the taxpayers).[255] Further, the case study, relying on the researcher's judgement is the most appropriate methodology for gaining better insights into how SA had influenced the individual taxpayers' behaviour.[256]

To strengthen the construct validity of the design, data collection involved multiple sources and chains of evidence. Multiple replications of the case study protocol were conducted in order to strengthen external validity. However, there is no evidence as to the ideal number of replications required for pattern matching; even having two replications would be sufficient to form a pattern (Yin 2003). However, more replications would contribute towards enhancing confidence in the findings.

Traditionally, observations of subjects in case studies were being criticised as researcher-dependent. However such similar issues also surfaced in other research strategies such as survey and experiment (Verschuren 2003). Case studies also have been criticised as lacking rigor and allowing biases to influence the directions of the findings and conclusions. However, by coupling the case study protocol (as an observation and interview guide) with the expertise of the researcher, preconception biases can be minimised (Yin 2003; Verschuren 2003).

[255] The researcher was able to view and scrutinise the subjects' documentation and was able to seek clarification from subjects in relation to their documentation. Some document kept by some subjects were found to be not relevant for claims of deductions, and such claims, based erroneously on such document resulted in unintentional under reporting of tax liabilities. Some document relevant for claims of deductions were not kept, thus the forgoing of such claims resulted in unintentional over compliance.

[256] The researcher was able to interact and discuss with the subjects and to observe the subjects' responses to issues pertaining to the preparation of their (the subjects') actual tax returns.

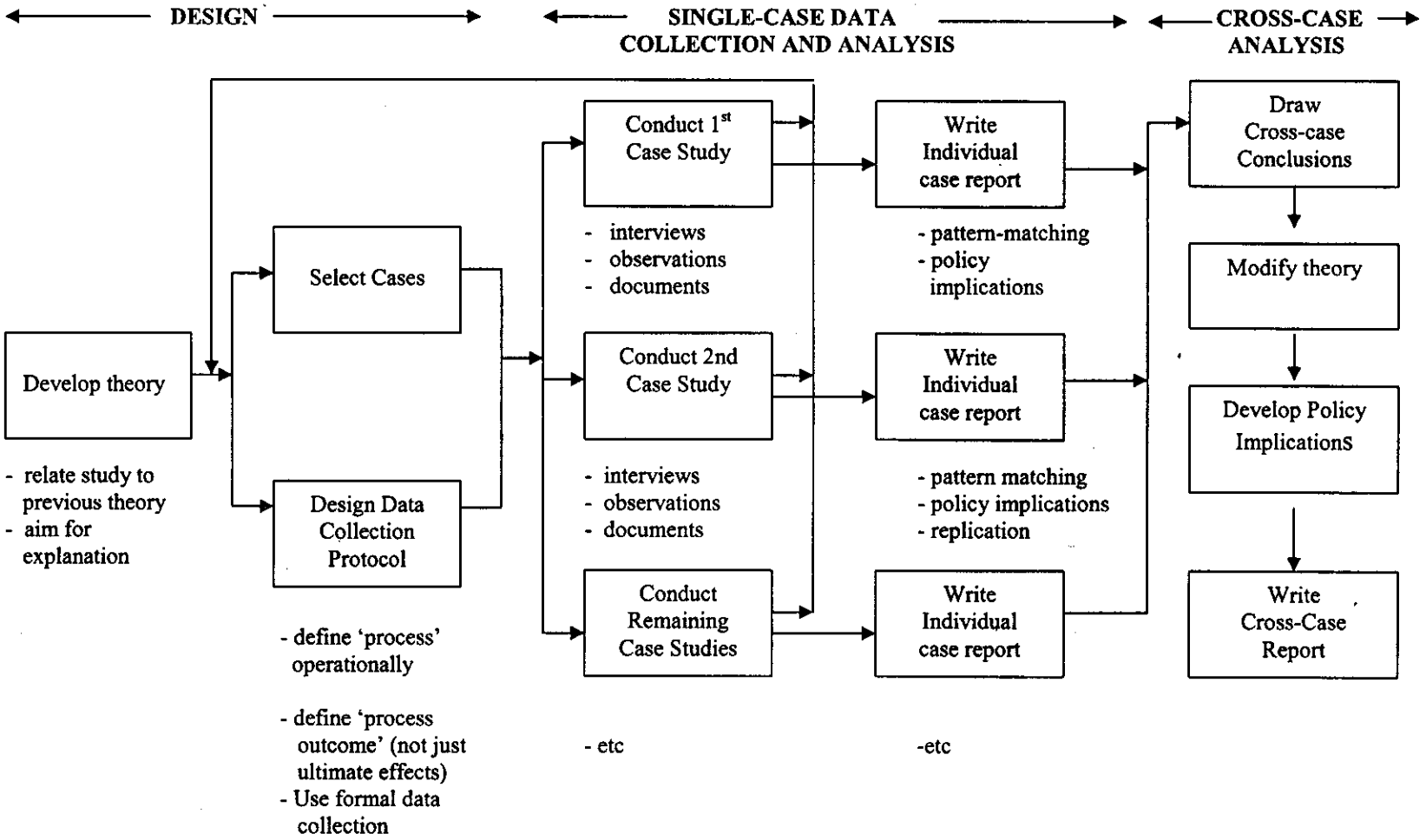
The first research question of this research is 'Has changing from OAS to SA system affected compliance behaviour of Malaysian individual taxpayers?'. The other questions deal with the factors within the five main categories of causes (i.e. assessment system, tax knowledge, tax structure features, financial constraints and attitudes towards tax) and their impact on compliance behaviour. The six research questions are used to develop a theory at the outset, but this will subsequently be modified as patterns emerged through the conduct of the case study. At the outset, it was theorised that the introduction of SA does influence the compliance behaviour of individual taxpayers. It is presumed that the SA factors (and other factors) might result in a certain level of intentional or unintentional error when taxpayers (SW and the SE) file their tax returns. Discussion on the implementation and data analysis techniques are set out in the following section.

3.4.1 Procedures

A single unit case study was conducted, bounded by activity and time, (i.e. respectively by the preparation of tax returns on income earned for the year ended 31 December 2004 and the deadline for filing tax returns). The deadline for submission of tax returns by the SW was 30 April 2005 and 30 June 2005 for the SE. In this case study, detailed information was collected using various data collection procedures including observations, interviews, examinations and inspections of relevant and related document. A diagrammatic representation adopted from Yin (1994) of a single unit case study is shown in Figure 3.2.

Documentation (a protocol) for the case study was prepared (see Appendix XII). This documentation contains a set of substantive questions reflecting the actual inquiry. It allows data collection to follow a general plan with some consistency, allowing for inferences to be as unbiased as possible. Nevertheless, the documentation is a guide only and does not have to be necessarily adhered to rigidly.

Figure 3.2: Single unit case study [adapted from Yin (1994:49)]



The subjects in the case study were recruited locally in Malaysia via convenience sampling.[257] The recruitment of subjects was through invitations[258] to the faculty staff of MARA University of Technology, Malacca Campus and the Main Campus in Shah Alam,[259] as well as to the local community.[260]

For each subject, an observation included the examination of the subject's tax returns prior to lodgement and an inspection of any available relevant supporting documents. This was followed by an in-depth interview in order to arrive at a judgement on the pattern of the subject's compliance.

At the outset, it was expected that only about 20 repetitions or observations would be undertaken. Surprisingly however, a total of 74 subjects consisting of 64 SW and 10 of the SE voluntarily participated in this research. This high response rate could be due to SA being implemented for the first time, and also that individual taxpayers would like to be certain that their tax returns were properly filled and that their tax liabilities were accurately computed. All the observations, examinations, inspections and interviews in relation to each subject were conducted independently without any interaction among the subjects (at least as far as the researcher was aware).

3.4.2 Data analysis techniques

Qualitative data analysis techniques were utilised for this case study. Data collected from examinations of tax returns, inspections of relevant supporting document and in-depth interviews were coded and form the basis of a narrative that is to be presented as a description of the compliance behaviour observed. The techniques not only involved identifying and marking of the underlying idea[261] in the data, but also for grouping or classification of similar information to enable the formation of analytical generalisations (Neuman 2003). One of the most desirable techniques is pattern matching logic, which "...compares an empirically based pattern with a

[257] Convenience sampling is one of non-probability sampling and often used during the exploratory phase of a research project, where collections of information are from members of population who are conveniently available to provide it (Sekaran 2003:276-277).
[258] As approved by the Human Research Ethics Committee (Ref: 7525), the researcher was not permitted to directly approach any potential subjects. Thus, an email was sent to staff members to invite them (or any other interested person) to participate in the case study.
[259] Capital city of the Selangor, one of the states in the Federation of Malaysia.
[260] Members of the local community were recruited via staff members of the faculty (see above n 258).
[261] Common constructs emerged from the cross-case analysis.

predicted one..." (Trochim 1989, quoted in Yin 2003:116). If the results reveal the pattern as predicted, the internal validity of a case study is strengthened (Yin 2003). Nevertheless, it is possible to analyse the data using quantitative analysis techniques (Ticehurst & Veal 2000). A qualitative analysis is chosen as it helps to identify not only the causes under study, but it also enable the researcher to identify other possible causes that may emerge from the qualitative analysis which cannot be achieved by the quantitative analysis as under the quantitative methods causes are predetermined.

The purpose of the case study was to study the process of completing tax returns with a view to understanding the subjects' compliance behaviour as well as associated causes. Hence, in the next chapter, the discussions will firstly focus on the problems encountered in the completion of the tax returns, followed by the common errors detected from examination of the tax returns and the cause (or causes) of the errors. Drawing on pattern matching, judgement will subsequently be formed on the patterns of compliance behaviour of the subjects.

3.5 Linkage with research questions

Having discussed and justified the use of the three methods of data collection, it is essential now to link these three methods to the research questions to further clarify the need of the mixed method research design as proposed. The first research question deals with the influence of the change from the OAS to SA. Ideally, the survey should be able to provide an overall indication of the respondents' perceptions on whether the change in assessment system affected them. Further, the case study should provide an in-depth understanding of the taxpayers' perceptions on the changes and whether their compliance behaviour has been affected.

The second research question deals with the effect of the tax structure features on taxpayers' compliance behaviour. While both the survey and the case study could provide an understanding of the tax structure features, the experimental design appeared to be more appropriate in determining how the manipulation of tax structure features and the interactions of these features affected the participants' compliance behaviour, particularly in relation to their reporting compliance.

The objective of the third research question is to determine whether taxpayers' attitude towards tax (such as their attitude towards the tax administration as well as towards tax paying) affected their compliance behaviour. A list of self-reported attitudes towards tax could be captured in the survey. The case study could then provide the means to simultaneously, either confirm or repudiate what were observed in the statistical analysis of survey data.

The fourth research question is to investigate whether tax knowledge affects compliance behaviour. Similar to the third research question on attitude towards tax, a survey could only indicate the level of tax knowledge that is self-reported by respondents. However, an experimental design might provide a better means to identify more objectively the taxpayers' level of tax knowledge and to investigate whether tax knowledge lessons could improve tax compliance (or otherwise). In addition, thorough examination of taxpayers' tax returns in the case study should enable the researcher to draw conclusions on the level of tax knowledge of subjects, which in turn could provide some linkage to the different compliance behaviour, particularly unintentional non-compliance.

The fifth research question encompasses the effect of taxpayers' financial constraints on their compliance behaviour. As the variables are specific, a survey and case study should be sufficient to provide details on the financial constraints of respondents.

The sixth and final research question is formulated to investigate the relationships between the five causes, namely, the assessment system, tax knowledge, tax structure features, taxpayers' attitude towards tax and the financial constraints of taxpayers. The relationships could be identified through statistical analysis, particularly results from the survey, while the other two methods i.e. the experimental design and case study can be used to enhance the overall results underpinning the three research methods.

While the quantitative components of the methods chosen could provide some statistical evidence of the influences on compliance behaviour, the qualitative component should make the data collected from the survey and the experiment more meaningful and understandable. That is, the components can inform each other.

Table 3.3: Key research questions and data collection specifications

	Research questions	Research method(s)	Analysis techniques	Data collection requirements
Q1.	Has changing from OAS to SA system affected compliance behaviour of Malaysian individual taxpayers?	Survey Case study	Descriptive/ Ordinal stepwise logistic regression Pattern matching	Met by Part II Observation/ interview/judgement
Q2.	Do tax structure features (tax rates, tax audit and penalty) affect compliance behaviour?	Survey Experiment Case study	Ordinal stepwise logistic regression Factorial design Pattern matching	Met by Part III Simulations Observation/ interview/judgement
Q3.	Does taxpayer's attitude towards tax affect compliance behaviour?	Survey Case study	Ordinal stepwise logistic regression Pattern matching	Met by Part III Observation/ interview/judgement
Q4	Does taxpayer's tax knowledge affect compliance behaviour?	Survey Experiment Case study	Descriptive/ Ordinal stepwise logistic regression Factorial design Pattern matching	Met by Part II Simulations Observation/ interview/judgement
Q5.	Do financial constraints of taxpayers affect compliance behaviour?	Survey Case study	Ordinal stepwise logistic regression Pattern matching	Met by Part III Observation/ interview/judgement
Q6.	Are there relationships between the five causes (assessment system, tax knowledge, tax structure features, attitude towards tax and financial constraints)?	Survey Experiment Case study	Correlation Interaction effect Pattern matching	Met by Part II & III Simulations Observation/ interview/judgement

Drawing from the research questions in Chapter 2 and research design outlined in this chapter, a summary of the specifications of the key research questions, data collection methods and quantitative and qualitative data analysis techniques is presented in Table 3.3. To determine the extent to which the five causes (assessment system, tax knowledge, tax structure features, financial constraints and attitude towards tax) affected individual taxpayers' compliance behaviour, quantitative methods of analysis are utilised for the two methods derived from the quantitative

paradigm. Data from both the pre and post SA surveys is mainly analysed using ordinal stepwise logistic regression. This method will enable the researcher to identify all possible factors underlying the five causes before and after the implementation of SA. Data acquired via the experimental designs is analysed mainly using factorial analysis. Through factorial analysis, the effect of the causes as well as the interactions between causes would be identified. In respect of the case study, at the outset, it seeks to identify patterns that might emerge, hence a qualitative analysis is used for data gathered. The pattern matching method will also enable the researcher to identify causes other than those mentioned in the problem statement that are not able to be identified from the quantitative methods of analysis. Discussions on the results or outcomes arising from each of the three research methods adopted are set out in the next chapter.

In the previous chapter a mixed method design was developed to address the research questions that were identified in Chapter 2.[262] Data collected via the conduct of the mixed method research design was analysed and the results are presented and discussed in this chapter. The discussion is based on the results of the three methods used, namely the survey, experimental design and the case study. The results of these three respective methods are discussed independently of each other in this chapter. A cross-method analysis to address the research questions is then presented in Chapter 5.

4.1 Survey

A total of 800 usable questionnaires were returned, 322 from pre SA survey and 478 from post SA survey (see Table 4.1). Overall, the Cronbach's alpha for the pre SA survey was 0.8882 and 0.8453 for post SA survey, which provide adequate indicators of the internal consistency of the responses.

Table 4.1: Questionnaires returned

	Pre SA *n* (%)	Post SA *n* (%)
Usable	322 (92.0)	478 (81.2)
Unusable/incomplete	2 (0.6)	44 (7.5)
Not paying tax	26 (7.4)	67 (11.3)
Total	**350 (100)**	**589 (100)**

4.1.1 Profile of respondents

In the pre SA survey, the respondents comprised of 62.1 per cent male and 37.9 per cent female; while in the post SA survey, 52.3 per cent were male and 47.7 per cent were female as summarised in Table 4.2. In the pre and post SA surveys collectively, 94.4 per cent of the respondents revealed that they were proficient in both the English and Malay languages.

Table 4.2: Gender and marital status

	Pre SA (*n* =322)		Post SA (*n* =478)	
	Male *n* (%)	Female *n* (%)	Male *n* (%)	Female *n* (%)
Single	48 (14.9)	37 (11.5)	46 (9.6)	78 (16.3)
Married	151 (46.9)	85 (26.4)	202 (42.3)	149 (31.2)
No response	1 (0.3)	-	2 (0.4)	1 (0.2)
Total	**200 (62.1)**	**122 (37.9)**	**250 (52.3)**	**228 (47.7)**

[262] See 2.5.

Nearly three-quarters (pre=73.3%; post=73.4%) of the respondents were married. In terms of age, as presented in Figure 4.1, for the pre SA survey, slightly more than half (57.0%) were above the age of 41 years; while for the post SA survey, 74.1 per cent were above 31 years old.

Figure 4.1: Age of respondents

As presented in Table 4.3, more than half (pre=58.1%; post=65.9%) of the respondents were Malay, about a third were Chinese and the remaining comprised of Indian and other ethnic groups (such as the indigenous people). The ethnic composition[263] of the respondents does reasonably reflect that of the Malaysian population (Statistic 2000).

Table 4.3: Ethnic background

	Pre SA *n* (%)	Post SA *n* (%)
Malay	187 (58.1)	315 (65.9)
Chinese	108 (33.5)	139 (29.1)
Indian	21 (6.5)	18 (3.8)
Others	6 (1.9)	2 (0.4)
No response	-	4 (0.8)
Total	**322 (100)**	**478 (100)**

In terms of education (see Table 4.4), there was a significant difference between the pre and post SA survey (χ^2=45.60 with 3d.f., p<0.001). Nearly two-thirds (62.1%) of respondents in the pre SA survey and more than three-quarters (77.6%) in the post

[263] Malaysia is a multi-ethnic society comprising of Ethnic Malay and other indigenous groups 58 per cent, Ethnic Chinese 24 per cent, Ethnic Indian 8 per cent and other ethnic groups 10 per cent (2000 statistics, source: <http://www.nationbynation.com/malaysia>).

SA survey had tertiary education.[264] These results indicate that in both the pre and post SA surveys, the majority of respondents were literate.

Table 4.4: Highest level of education

	Pre SA *n* (%)	Post SA *n* (%)
School (SPM/STPM)	96 (29.8)	73 (15.3)
University/College (Diploma)	79 (24.5)	80 (16.7)
University/College (Degree)	121 (37.6)	291 (60.9)
Other	24 (7.5)	32 (6.7)
No response	2 (0.6)	2 (0.4)
Total	**322 (100)**	**478 (100)**

With regards to the category of respondents, in the pre SA survey, 63 per cent were SW, while 36.9 per cent were SE. In the post SA survey, 69.2 per cent were SW and 30.7 per cent were SE.[265]

As shown in Table 4.5, of the SW, more than half (pre=56.6%; post=62.6%) were employed in the private sector, while less than half (pre=42.5%; post=36.7%) were employed in the public sector. The other remaining SW (0.7%) did not indicate the sector in which they were employed. For the SW, the nature of their occupation ranged from professional (pre=33.8%; post=42.2%) to technical (pre=12.1%; post=4.7%). Those who had classified themselves as 'others' were mainly lecturers or teachers.

Table 4.5: Sector of employment vs. occupation

Sector	Pre SA			Post SA		
	Public *n* (%)	Private *n* (%)	NR *n* (%)	Public *n* (%)	Private *n* (%)	NR *n* (%)
Professional	58 (20.6)	37 (13.2)		97 (23.0)	80 (19.0)	1 (0.2)
Managerial	24 (8.5)	48 (17.1)	1 (0.4)	23 (5.5)	83 (19.7)	
Supervisory	11 (3.9)	24 (8.5)		11 (2.6)	43 (10.2)	
Technical	7 (2.5)	27 (9.6)	1 (0.4)	5 (1.2)	14 (3.3)	1 (0.2)
Others	14 (5.0)	19 (6.8)		11 (2.6)	37 (8.8)	1 (0.2)
No response	6 (2.2)	4 (1.4)		8 (1.9)	7 (1.7)	
Total	**120 (42.7)**	**159 (56.6)**	**2 (0.8)**	**155 (36.8)**	**264 (62.6)**	**3 (0.6)**

NR=No Response

Of the SE, for the pre SA survey, nearly one-quarter (23.5%), while for the post SA survey, nearly one-third (32.0%) of respondents were in the business of 'trading'. As presented in Table 4.6, a substantial percentage, 37.0 per cent (for the pre SA survey) and 25.2 per cent (for the post SA survey), classified themselves as 'Others'. Further

[264] Those who have at least a diploma or an undergraduate degree.

[265] For the SE group, in the pre SA survey, 24.2 per cent comprised of those who were both SW and SE, while in the post SA survey, 19 per cent were both SW and SE.

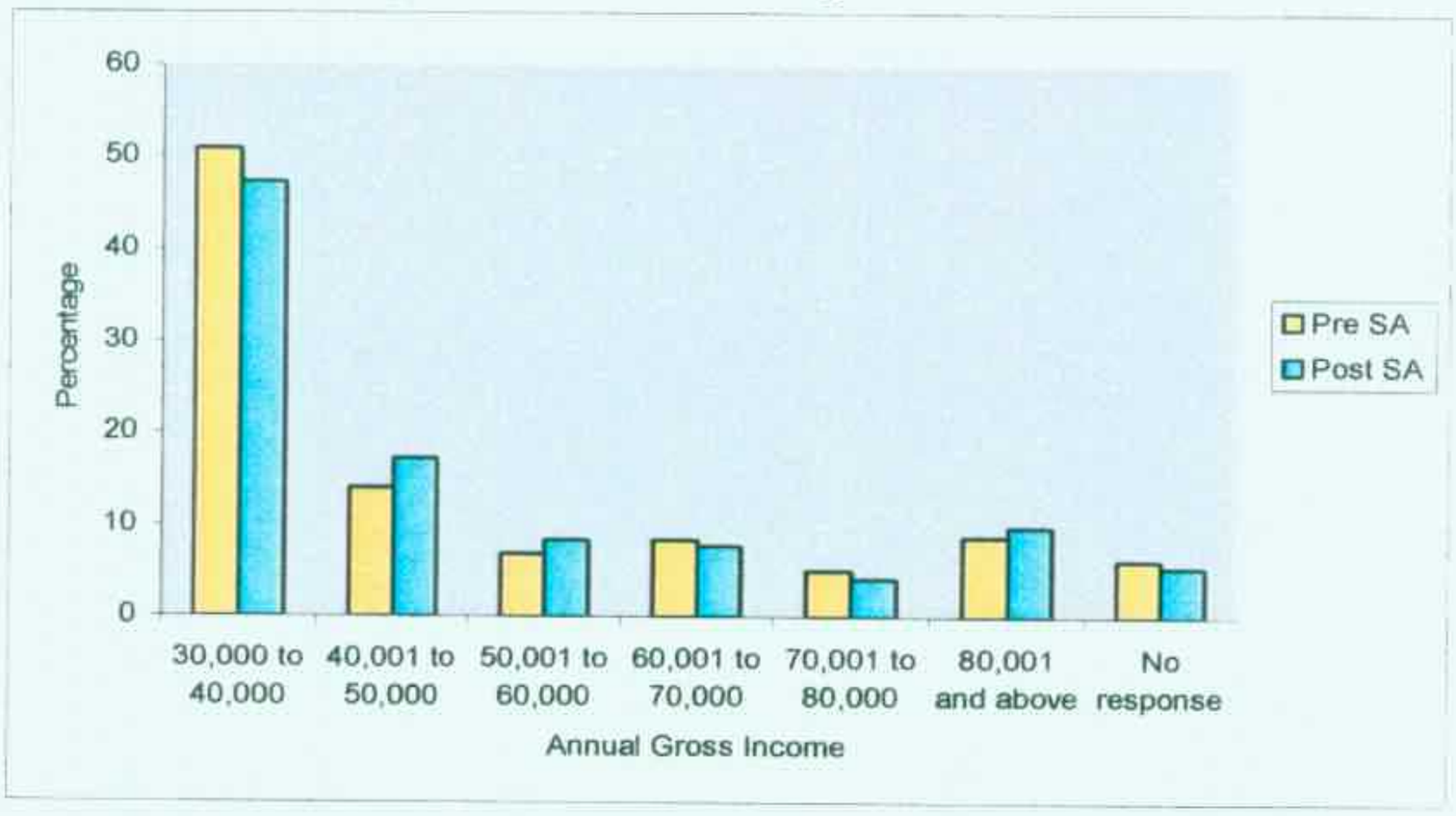
analysis revealed that under the 'Others' category, the nature of their SE business ventures included that of insurance agents, medical practitioners, dealers engaged in direct selling (e.g. Amway products), operators of child care centres or nurseries, providers of tailoring and laundry services and education services such as operators of education tuition centres. Respondents in the 'Others' category might not have considered themselves as 'trading'[266] in that they were merely providing services.

Table 4.6: Type of business

	Pre SA *n* (%)	Post SA *n* (%)
Trading	28 (23.5)	47 (32.0)
Agriculture or similar business	5 (4.2)	4 (2.7)
Manufacturing	8 (6.7)	10 (6.8)
Management or consultancy services	22 (18.5)	33 (22.4)
Construction	10 (8.4)	11 (7.5)
Others	44 (37.0)	37 (25.2)
No response	2 (1.7)	5 (3.4)
Total	**119 (100)**	**147 (100)**

With regards to the respondents' annual income, as shown in Figure 4.2, for the pre SA survey, slightly more than half (50.9%) and for the post SA survey, nearly half (47.3%) earned an annual gross income of between RM30,000 and RM40,000.[267]

Figure 4.2: Annual gross income



[266] Generally, the SE would consider themselves as 'trading' if they are engaged in the purchase and sales of goods. Thus, those engaged in the provision of services did not consider themselves as 'trading', although they were engaged in business activities. In the case of direct selling, respondents did not consider themselves as 'trading' but rather as 'sales agents'.

[267] The per capital income in Malaysia was RM16,616 in 2004 and RM18,106 in 2005 (Source: Bank Negara Malaysia, Annual Report 2005:4). Taking into account the minimum relief of RM8,000 and rebate of RM350, any individual having an annual gross income not exceeding the amount of the per capital income would not be liable to pay any income tax. Similarly, based on the minimum relief and rebate available, only an individual having an annual gross income of RM23,834 and above would have a tax liability. The tax payable by an individual with an annual income of RM30,000 would be RM265 and the tax payable by those with an annual income of RM40,000 would be RM965.

As to how the respondents acquired their knowledge on tax law (see Table 4.7), about three-quarters (pre=76.7%; post=72.2%) indicated that they acquired the knowledge from the instructions accompanying the tax returns. Only a handful (pre=9.9%; post=6.7%) acquired the knowledge from the internet and media. At a significant level of 0.10, there was a significant difference between the pre and post SA survey (χ^2=11.47 with 6d.f., p=0.075) in terms of sources from which their tax knowledge was acquired.

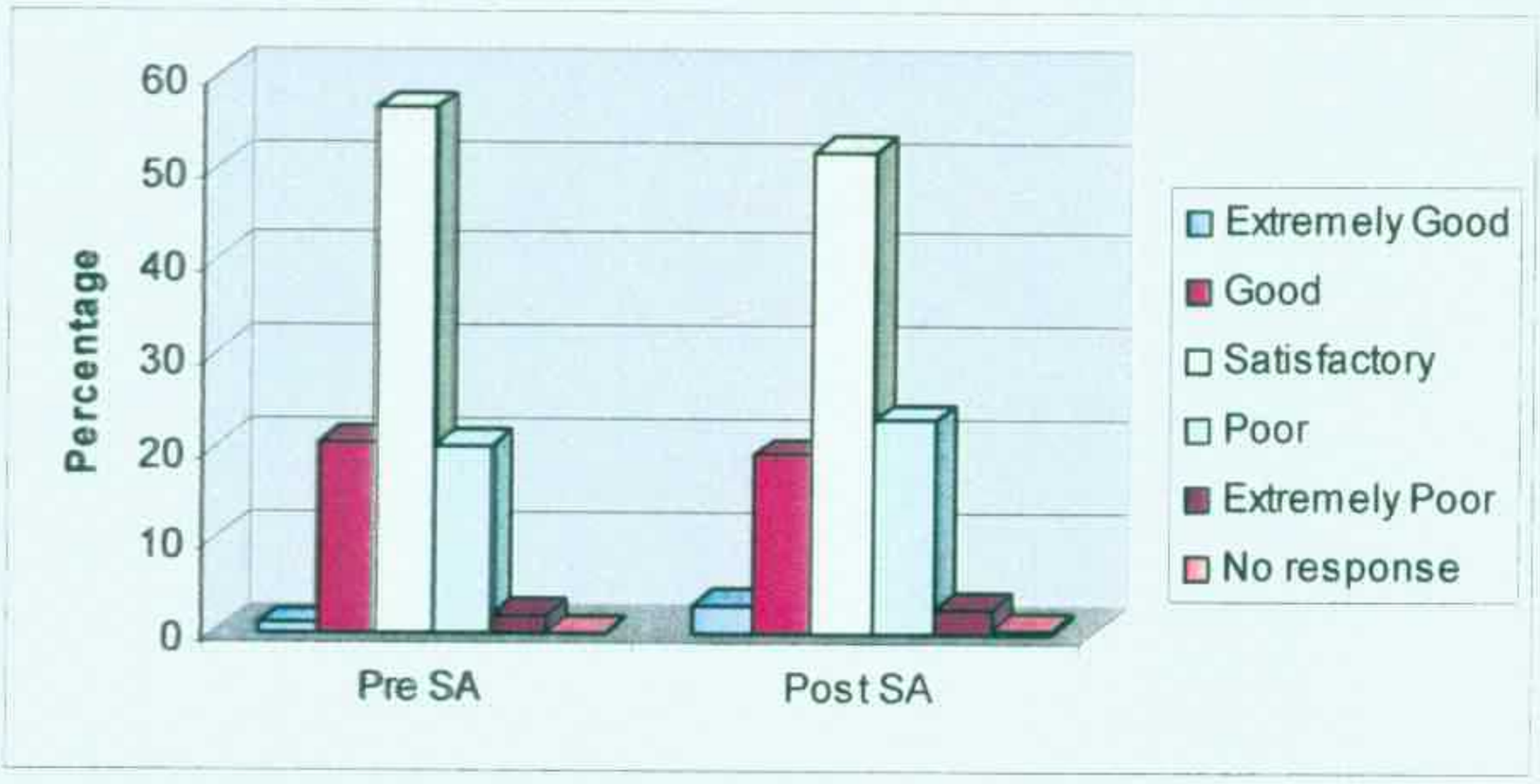
Table 4.7: Tax knowledge

Gain knowledge on tax laws from:	Pre SA *n* (%)	Post SA *n* (%)
Instructions accompanying tax forms	247 (76.7)	345 (72.2)
Friends	124 (38.5)	165 (34.5)
Family members	66 (20.5)	82 (17.2)
IRB officers' advice and instructions	94 (29.2)	127 (26.6)
Formal education (college, university etc)	74 (23.0)	149 (31.2)
Books on taxation	44 (13.7)	83 (17.4)
Other, internet and media	32 (9.9)	32 (6.7)

% do not make up to 100%

Slightly more than half (pre=56.5%; post=51.7%) of the respondents rated their knowledge on Malaysian income tax law as 'satisfactory'. Only a very small percentage (pre=0.9%, 1.9%; post=2.9%, 0.4%) rated their tax knowledge as either 'extremely good' or 'extremely poor'. Thus, this reflects a normal distribution as shown in Figure 4.3.

Figure 4.3: Rated knowledge on Malaysia income tax law



Results of further analysis as presented in Table 4.8 revealed that, overall, for those who had tertiary education (either diploma or degree), 48.8 per cent of the pre SA survey and 57.6 per cent of the post SA survey rated their tax knowledge as 'satisfactory' or better than 'satisfactory' i.e. 'good' and 'extremely good'.

Table 4.8: Level of education vs. knowledge rated

Rate	Pre SA					Post SA					
	EG %	G %	S %	P %	EP %	EG %	G %	S %	P %	EP %	NR %
School (SPM/STPM)	0.0	6.5	17.4	5.3	0.6	0.8	2.3	7.9	4.0	0.2	0.0
University/College (Diploma)	0.3	5.0	14.6	4.3	0.3	0.4	3.8	8.2	4.0	0.2	0.2
University/College (Degree)	0.0	8.1	20.8	8.1	0.6	1.5	12.3	31.4	13.4	2.1	0.2
Other	0.3	0.9	3.4	2.5	0.3	0.2	0.6	4.0	1.7	0.2	0.0
No Response	0.3	0.0	0.3	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0
Total (%)	**0.9**	**20.5**	**56.6**	**20.2**	**1.8**	**2.9**	**19.2**	**51.7**	**23.1**	**2.7**	**0.4**

EG=extremely good; G=good; S=satisfactory; P=poor; EP=extremely poor; NR=no response

In relation to children, more than two-thirds (pre=70.5%, n=227; post=68%, n=325) of the respondents do have children, with a majority (pre=85.5%; post=90.8%) having children under the age of 18 years (see Table 4.9). This is not surprising, as a majority of the respondents for both the pre and post SA surveys were of the age 50 and below (see Figure 4.2).

Table 4.9: Children

	Pre SA n (%)	Post SA n (%)
Under the age of 18 years	194 (85.5)	295 (90.8)
Age 18 years and above and still in		
- school	56 (24.7)	47 (14.5)
- college/university in Malaysia	115 (50.7)	63 (19.4)
- college/university outside Malaysia	9 (4.0)	9 (2.8)
No Children	95 (29.5)	153 (32.0)

Total of 100% not applicable here

4.1.2 Tax knowledge

Overall, with the exception of the five items as presented in Table 4.10, there were no significant differences between the pre and post SA surveys in terms of knowledge on taxable income, exempted income, allowable deduction and non-allowable deduction.[268] At 0.01 level of significance, knowledge of the chargeability of casual income (such as income derived from a part time job and from the provision of private tuition etc.) showed highly significant differences (χ^2=15.51 with 2d.f., p<0.001) between the pre and post SA surveys. At 0.05 level of significance, two items showed significant differences, namely, 'donation to an approved institution' (χ^2=8.78 with 2d.f., p=0.012) and 'disclosure of casual income'

[268] Items that formed the dependent variables of the research are presented in a later section, see 3.2.1 and 4.1.13.

(χ^2=10.89 with 4d.f., p=0.028)'. At 0.10 level of significance, two other items showed significant differences, namely knowledge on 'withholding tax deducted on dividend by a company in Malaysia' (χ^2=4.86 with 2d.f., p=0.088) and on the 'losses from disposal of shares' (χ^2=5.35 with 2d.f., p=0.069).

Out of those respondents (pre=61.2%, n=197; post=68.6%, n=328) who had indicated that they were aware that withholding tax was deducted from dividends paid by a company in Malaysia; about half (pre=57.9%; post=46.5%) knew that the taxes so deducted by the company were available to the shareholders as tax credits. The other remaining respondents were either 'do not know' (pre=4.6%; post=7.1%); 'not sure' (pre=36.5%; post=21.9%); or did not respond to these questions (pre=1.0%; post=4.6%).

4.1.3 Joint assessment, relief and rebates[269]

As to whether the respondents were aware of joint assessment,[270] there was a highly significant difference (χ^2=29.10 with 2d.f., p<0.001) between the pre and post SA survey results. The majority of respondents (pre=79.2%; post=91.6%) indicated that they had heard of joint assessment, with only a very small number (pre = 4.4%; post = 3.2%) not having heard of it while the remainder (pre=16.4%; post=5.2%) were unsure of its meaning.

As presented in Table 4.11, of those who were aware of joint assessment, the married respondents, as compared with the singles, were more knowledgeable on issues pertaining to it. 'Husband allowance' appeared to be an item that most of the respondents (pre=45.4%, post=44.9%) were either 'not sure' or 'do not know'. This might be expected since 'husband allowance' as a tax relief was only introduced and implemented effective from the YA 2001. Overall, the χ^2 test for goodness of fit revealed that all items presented in Table 4.11 in relation to joint assessment showed highly significant differences (p<0.001) between the pre and post SA survey.

Those respondents who had children were more knowledgeable about child relief as compared with those who had none. However, as presented in Table 4.12, with the exception of one item there were no significant differences between the pre and post

[269] For relief and rebates, the amount referred to are for the YA 2004.
[270] See 1.2.4 for discussion on the technical aspects of joint assessment.

SA survey for all other items, based on their status regarding children. The one item that showed a significant difference (χ^2=7.74 with 2d.f., p=0.021) was the 'RM1,000' relief for each child under the age of 18 years. This seemed to correlate with the earlier reported findings which indicated that most respondents had children under the age of 18 years (see Table 4.9). About two-thirds (pre=62.1%, post=63.4%) of the respondents knew that child relief was only available to a taxpayer in relation to unmarried children while the others were either unsure or did not know.

As for the knowledge in relation to the Section 46 relief as presented in Table 4.13 overall, there were significant differences between the pre and post SA survey results. Four items that revealed highly significant differences were 'expenses incurred on purchase of books'(χ^2=20.83 with 2d.f., p<0.001); 'medical expenses for treatments of serious disease'(χ^2=14.86 with 2d.f., p<0.001); 'Employees' Provident Fund (EPF) contributions and life insurance premium paid' (χ^2=28.80 with 2d.f., p<0.001) and 'payment to EPF for annuity insurance scheme'(χ^2=16.87 with 2d.f., p<0.001). The findings also revealed that, overall, the respondents in the post SA survey were more knowledgeable of the relief as compared with those in the pre SA survey.

With regards to tax rebates available to taxpayers, there were significant differences between the pre and post SA survey results as summarised in Table 4.14. It appeared that the respondents were knowledgeable regarding the 'rebate of RM400 for computer purchased' (pre=74.5%; post=81.4%) and '*zakat*[271] paid by a Muslim taxpayer' (pre=73.3%; post=84.6%). However, with regards to 'fees paid to the Immigration Department for the application of work permits', that are available as tax rebate, a majority (pre=75.4%; post=65.5%) of the respondents were either 'not sure' or 'do not know'. Perhaps this was due to the fact that work permits were only required for non Malaysians and that the majority of respondents probably did not require a work permit.

[271] See above n 57.

Table 4.10: Taxable, exempted or casual income and allowable and non-allowable deduction

	Pre SA			Post SA		
	Yes *n* (%)	Not Sure *n* (%)	No *n* (%)	Yes *n* (%)	Not sure *n* (%)	No *n* (%)
Taxable Income						
Income earned outside Malaysia and remitted to Malaysia in the year 2003	153 (47.5)	88 (27.3)	81 (25.2)	247 (51.7)	121 (25.3)	110 (23.0)
Rental Income received from letting out house/property in the year 2003.	243 (75.5)	50 (15.5)	29 (9.0)	392 (82.0)	43 (9.0)	43 (9.0)
Dividend received from a bank/finance company (listed on the KLSE)	189 (58.7)	49 (15.2)	74 (26.1)	307 (64.3)	69 (14.4)	102 (21.3)
Withholding tax deducted on dividend by a company in Malaysia**	197 (61.2)	99 (30.7)	26 (8.1)	328 (68.6)	116 (24.3)	34 (7.1)
Exempted Income:						
Interest earned on his/her savings (less than RM100,000) in any savings/fixed deposit account in National Saving Bank, any bank or finance company	190 (59.0)	50 (15.5)	82 (25.5)	271 (56.7)	81 (16.9)	126 (26.4)
Dividend received from a cooperative society in Malaysia by members in the year 2003.	101 (31.4)	78 (24.2)	143 (44.4)	161 (33.7)	117 (24.5)	200 (41.8)
Dividend received by unit holders from a government sponsored unit trust (e.g. ASN, ASM).	117 (36.3)	55 (17.1)	150 (46.6)	204 (42.7)	79 (16.5)	195 (40.8)
Allowable Deduction:						
Donation to an approved institution**	210 (65.2)	86 (26.7)	26 (8.1)	354 (74.1)	99 (20.7)	25 (5.2)
Non-Allowable Deduction:						
Losses from disposal of shares by taxpayers (other than share dealers)**	69 (21.4)	151 (46.9)	102 (31.7)	105 (22.0)	256 (53.5)	117 (24.5)
Casual Income:						
Income from part time job, private tuition , etc**	170 (52.8)	73 (22.7)	79 (24.5)	316 (66.1)	68 (14.2)	94 (19.7)
Penalty imposed for not reporting or underreporting	193 (59.9)	33 (10.2)	96 (29.8)	309 (64.6)	50 (10.5)	119 (24.9)
	All	Partial/ none†	Not Sure	All	Partial/ none†	Not Sure
Amount to be disclosed**	151 (46.9)	72 (22.4)	99 (30.7)	276 (57.7)	91 (19.0)	111 (23.2)

** Significant differences between pre and post SA survey. † = Responses that comprised of either disclosed 'most of it'; 'some of it' or 'none'.

- Only four items showed significant differences between the pre and post SA survey.

Table 4.11: Joint assessment and spouse relief

Marital status	Pre SA							Post SA							χ^2	d.f.	p*
	Single			Married			NH	Single			Married			NH			
	Yes %	NS %	No %	Yes %	NS %	No %	%	Yes %	NS %	No %	Yes %	NS %	No %	%			
1. If both a husband and his wife earned income that is taxable, can the:-																	
a. wife request for joint assessment?	14.6	1.9	0.6	56.5	4.3	0.9	20.8	17.6	2.1	0.8	64.2	3.1	3.1	8.4	29.33	3	<0.001
b. husband request for joint assessment?	12.7	2.5	1.9	51.2	8.1	2.5	20.8	14.9	3.8	1.9	55.6	8.4	6.5	8.4	28.60	3	<0.001
2. For joint assessment under a **husband's** name he will be entitled to:																	
a. a deduction ('wife allowance') of RM3,000 from that joint taxable income	9.3	5.9	1.9	36.0	14.0	11.8	20.8	14.0	3.8	2.7	50.2	10.5	9.8	8.4	38.04	3	<0.001
b. further deduction of RM2,500 from that joint taxable income if the wife is a disabled person	8.7	6.8	1.6	39.1	18.9	3.7	20.8	14.6	4.6	1.3	51.3	14.0	5.2	8.4	37.80	3	<0.001
3. For joint assessment under a **wife's** name, she will be entitled to:																	
a. a deduction of RM3,000 ('husband allowance') from that joint taxable income	5.9	5.9	5.3	27.6	20.2	14.0	20.8	10.7	5.9	4.0	35.6	15.5	19.5	8.4	33.49	3	<0.001
b. a further deduction of RM2,500 from that joint taxable income if the husband is a disabled person	5.6	6.8	4.7	31.4	23.0	7.5	20.8	12.3	6.5	1.7	38.7	21.3	10.5	8.4	30.95	3	<0.001

* all significance at 0.01 level.

NS = 'not sure'; NH='not heard of joint assessment'

- For pre SA survey, one respondent whose marital status was not known (see Table 4.2) indicated 'yes' to all items.
- For post SA survey, for those whose marital status were not known (see Table 4.2), three respondents indicated 'yes' for 'heard of joint assessment', items 1a, 1b and 3a. Two respondents indicated 'yes' for items 2a, 2b and 3b. One respondent indicated 'not sure' to items 2a, 2b and 3b.

Table 4.12: Child relief

	Pre SA						Post SA					
	Have Children			No Children			Have Children			No Children		
	Yes %	NS %	No %	Yes %	NS %	No %	Yes %	NS %	No %	Yes %	NS %	No %
If an individual has taxable income, when computing his/her chargeable income, can he/she deduct the following from his/her income?												
a. RM1,000 (for each child) who is under 18 years old	56.2	7.1	7.1	18.9	6.8	3.7	58.2	5.6	4.2	23.0	7.5	1.5
b. RM1,000 (for each child) whose age is 18 years or more, but still a full time student in school	51.6	11.2	7.8	14.9	9.9	4.7	50.8	11.5	5.7	18.6	8.8	4.6
c. RM4,000 (for each child) whose age is 18 years or more, but still a full time university/college student in Malaysia	45.7	15.8	9.0	14.9	11.2	3.5	44.8	17.4	5.9	17.3	11.1	3.6
d. RM2,000 (for each child) whose age is 18 years or more, but still a full time university/college student **outside** Malaysia	35.7	23.0	11.8	12.1	11.5	5.9	37.4	21.8	8.8	12.5	12.8	6.7
e. RM5,000 (for each child) if that child is a disabled child	48.8	18.6	3.1	20.2	8.1	1.2	49.8	15.9	2.3	21.5	9.2	1.3
Child relief is allowed only if the child is unmarried?	44.4	15.2	10.9	17.7	9.6	2.2	43.9	14.4	9.6	19.5	8.2	4.4

- Note: Except for item a, no significant differences in responses were found between the pre and post SA surveys.

Table 4.13: Section 46 relief

	Pre SA			Post SA			χ^2	d.f.	*p*
	Yes	Not Sure	No	Yes	Not sure	No			
	n (%)	*n* (%)	*n* (%)	*n* (%)	*n* (%)	*n* (%)			
If an individual has taxable income, when computing his/her chargeable income, can he/she deduct the following from his/her income?									
A personal relief of RM8,000	261 (81.1)	37 (11.5)	24 (7.5)	415 (86.8)	44 (9.2)	19 (4.0)	6.08	2	0.042^
Expenses up to a maximum of RM500 incurred on the purchase of books and/or journals	242 (75.2)	63 (19.6)	17 (5.3)	416 (87.0)	42 (8.8)	20 (4.2)	20.83	2	<0.001**
Payment of medical expenses (for his/her parents) up to a maximum of RM5,000	240 (74.5)	68 (21.1)	14 (4.4)	408 (85.4)	56 (11.7)	14 (2.9)	14.86	2	<0.001**
Expenses up to a maximum of RM5,000 incurred on the purchase of supporting equipment for use of himself/herself (if he/she is disabled) or for the use of his/her disabled children / parents	239 (74.2)	76 (23.6)	7 (2.1)	383 (80.1)	81 (16.9)	14 (3.0)	5.62	2	0.060^^
A maximum of RM5,000 in relation to an individual's EPF contributions and his/her (or spouses') life insurance premium paid	226 (70.2)	76 (23.6)	20 (6.2)	409 (85.6)	50 (10.5)	19 (4.0)	28.80	2	<0.001**
A maximum of RM3,000 in relation to medical and educational insurance premium paid.	221 (68.6)	82 (25.5)	19 (5.9)	380 (79.5)	80 (16.7)	18 (3.8)	12.16	2	0.002*
Medical expenses up to a maximum of RM5,000 incurred on himself/herself or on his/her children suffering from a serious disease	318 (67.7)	89 (27.6)	15 (4.7)	371 (77.7)	79 (16.5)	38 (5.8)	9.92	2	0.007*
A sum amounting to RM5,000 if he/she is a disabled person	213 (66.1)	90 (28.0)	19 (5.9)	357 (74.7)	107 (22.4)	14 (2.9)	8.51	2	0.014^
Medical examination fees up to a maximum of RM500 incurred on his/her medical examination	190 (59.0)	98 (30.4)	34 (10.6)	337 (70.5)	106 (22.2)	35 (7.3)	11.34	2	0.003*
Education fees up to a maximum of RM5,000 incurred on himself/herself for his/her education/training	176 (54.7)	117 (36.3)	29 (9.0)	320 (66.9)	126 (26.4)	32 (6.7)	12.09	2	0.002*
A maximum of RM1,000 in relation to payment to the EPF for annuity insurance scheme	162 (50.3)	130 (40.4)	30 (9.3)	310 (64.9)	135 (28.2)	33 (6.9)	16.87	2	<0.001**

Significance levels: **p<0.001, *p<0.01, ^p<0.05, ^^p<0.10

- At different levels of significance, all items showed significant differences between the pre and post SA survey. For example, four items showed highly significant (p<0.001) differences, another four items showed significant (p<0.01) differences between the pre and post SA survey.

Table 4.14: Rebates

	Pre SA			Post SA			χ^2	d.f.	*p*
	Yes *n* (%)	Not Sure *n* (%)	No *n* (%)	Yes *n* (%)	Not sure *n* (%)	No *n* (%)			
If an individual has taxable income, in computing his/her tax payable, can he/she deduct the following from his/her tax chargeable? ...									
A rebate of RM350, if his/her chargeable income is not more than RM35,000	181 (56.2)	117 (36.3)	24 (7.5)	344 (72.0)	115 (24.1)	19 (3.9)	21.61	2	<0.001***
RM400 for purchase of computer for personal use	240 (74.5)	59 (18.3)	23 (7.2)	389 (81.4)	64 (13.4)	25 (5.2)	5.37	2	0.068*
In the case of a Muslim individual, the amount of *zakat* paid by that individual	236 (73.3)	68 (21.1)	18 (5.6)	404 (84.6)	58 (12.1)	16 (3.4)	15.17	2	<0.001***
The amount of fees paid to the Immigration Department to obtain work permit for a foreign worker	79 (24.5)	193 (59.9)	50 (15.5)	165 (34.5)	241 (50.4)	72 (15.1)	9.54	2	0.008**

Significance levels: ***p<0.001, **p<0.01, *p<0.05

- Significant differences in responses were found between the pre and post SA surveys.

4.1.4 Penalty

As SA relies heavily on tax audit activities and penalty sanctions, responses in relation to penalties were solicited. As presented in Table 4.15, more than 70 per cent of the respondents were aware of the fact that a penalty would be imposed on any tax not assessed if a taxpayer 'failed to file a tax return'. Only half (pre=50.6%; post=51.6%) of the respondents were aware that imprisonment may be imposed if any taxpayer did not file any tax return that resulted in no chargeable income being declared. Likewise, for filing fraudulent tax returns, the majority (pre=74.5%; post=80.5%) were aware that a penalty may be imposed. Most respondents were aware that possible imprisonment was a penalty faced for filing fraudulent returns (pre=61.8%; post=65.9%).

There was a highly significant difference (χ^2=37.30 with 2d.f., p<0.001) between the pre and post SA surveys on knowledge in relation to 'automatic extension (of deadline) given if a taxpayer cannot file his/her tax return on time'. Nearly two-thirds (60.3%) of the respondents from the post SA survey were aware that no automatic extension would be given. In contrast, slightly more than a third of the respondents in the pre SA survey were aware of this fact. With regards to the deductibility of income tax penalties against a taxpayer's taxable income, at 0.10 level of significance, there was a significant difference (χ^2=5.76 with 2d.f., p=0.056) between the pre and post SA surveys. More respondents in the post SA survey (42.9%), as compared to those in the pre SA survey (34.8%), knew that tax penalties paid were not allowed as deductions against taxable income.

Table 4.15: Penalty

	Pre SA			Post SA		
	Yes *n* (%)	Not Sure *n* (%)	No *n* (%)	Yes *n* (%)	Not sure *n* (%)	No *n* (%)
If a taxpayer does not file any tax return that results in no chargeable income being declared, he/she may:-						
a. have to pay a penalty on the tax not assessed	229 (71.1)	71 (22.0)	22 (6.8)	350 (73.2)	87 (18.2)	41 (8.5)
b. have to pay a penalty for not filing the tax return	227 (70.5)	78 (24.2)	17 (5.3)	370 (77.4)	85 (17.8)	23 (4.8)
c. even face possible imprisonment	163 (50.6)	123 (38.2)	36 (11.2)	247 (51.6)	178 (37.2)	53 (11.1)
If a person files a fraudulent return, he/she may:-						
a. have to pay a penalty on the tax not assessed	240 (74.5)	69 (21.4)	13 (4.0)	385 (80.5)	79 (16.5)	14 (3.0)
b. have to pay a penalty for filing a fraudulent return	211 (65.5)	93 (28.9)	18 (5.6)	331 (69.2)	105 (22.0)	42 (8.8)
c. even face possible imprisonment	199 (61.8)	100 (31.1)	23 (7.1)	315 (65.9)	135 (28.2)	28 (5.9)
If a taxpayer cannot file his/her return on time, an automatic extension (of the deadline) may be given*	84 (26.1)	115 (35.7)	123 (38.2)	84 (17.6)	106 (22.2)	288 (60.3)
Income tax penalties paid are allowed as deductions against taxpayer's taxable income*	66 (20.5)	144 (44.7)	112 (34.8)	78 (16.3)	195 (40.8)	205 (42.9)

*Showed significant differences between pre and post SA surveys

4.1.5 Computation of tax liability

There was a highly significant difference between the pre SA and post SA surveys (χ^2=34.70 with 2d.f., p<0.001) in relation to the respondents' ability to compute the correct tax chargeable.[272] With a given chargeable income, 43.8 per cent in the pre SA survey and 64.2 per cent in the post SA survey indicated that they were able to compute the tax liability correctly. However, as shown in Table 4.16, of those in the pre SA survey who indicated their ability to correctly compute the tax liability, 98 (69.5%) actually got it right. For those who were not sure of the correct computation, only 3 (2.1%) produced the correct computation. Likewise, in the post SA survey, of those who indicated that they were able to compute, 224 (73%) produced the correct computation, while out of those who were not sure, only 3 (2.4%) managed to compute correctly. These findings may be due to the significant differences in the level of education between respondents in the pre and post SA surveys. It may also imply that the implementation of SA has had a positive influence on the respondents' knowledge regarding tax computation.

Table 4.16: Computation of tax liability vs. amount computed

	Pre SA			Post SA		
Able to Compute	**Yes** *n* (%)	**No Sure** *n* (%)	**No** *n* (%)	**Yes** *n* (%)	**Not Sure** *n* (%)	**No** *n* (%)
Amount Computed						
Right	98 (30.4)	3 (0.9)	0 (0.0)	224 (46.9)	3 (0.6)	2 (0.4)
Wrong	22 (6.8)	1 (0.3)	0 (0.0)	54 (11.3)	7 (1.5)	1 (0.2)
Not Sure	21 (6.5)	142 (44.1)	35 (10.9)	29 (6.1)	117 (24.5)	41 (8.6)
Total	**141 (43.7)**	**146 (45.3)**	**35 (10.9)**	**307 (64.3)**	**127 (26.6)**	**44 (9.2)**

4.1.6 Arrears

There was a significant difference (χ^2=14.70 with 2d.f., p<0.001) between the pre and post SA surveys in relation to the correct year[273] for which an 'income in arrear received by an individual should be chargeable' to tax. Only less than a quarter (pre=15.0%; post=23.3%) of the respondents managed to identify the correct year,

[272] An amount of RM65,000 together with the necessary Tax Table were given in the questionnaire and respondents were requested to attempt to compute the tax liability, the correct amount of which should be RM6,325. The researcher scrutinised each returned questionnaire to verify the accuracy of the computation.

[273] In the questionnaire, it was stated that an arrear for bonus was received in 2003, but bonus was for the year 2001. Thus, the arrear should correctly be chargeable to tax in the year for which it was earned, i.e. 2001.

that is, 'year 2001'. Nearly one-third of respondents wrongly identified 'year 2003' (the year the arrears were received). Meanwhile more than one-third (pre=47.7%; post=35.3%) were not sure of the correct year. Further results of the analysis as presented in Table 4.17 revealed that for the SW in the pre SA survey, in terms of percentage, there were no difference between those who were employed either in the public or in the private sectors who had identified the correct year for the arrear to be assessed to tax. In contrast, of the total respondents in the post SA survey, more of those employed in the private sector (11.1%) as compared with those in the public sector (4.6%) managed to identify the correct year. Only a small number (pre=4.7%; post=7.7%) of the SE were able to identify the correct year. This could perhaps be due to the fact that the SE may not have ever received any arrear (such as a bonus).

Table 4.17: Year chargeable for arrears received

Category	Pre SA				Post SA			
	SW			SE	SW			SE
Sector	Public *n* (%)	Private *n* (%)	NR *n* (%)	*n* (%)	Public *n* (%)	Private *n* (%)	NR *n* (%)	*n* (%)
Year stated								
2001*	17 (5.3)	16 (5.0)		15 (4.7)	22 (4.6)	53 (11.0)		37 (7.7)
2002	8 (2.5)	5 (1.6)		3 (0.9)	7 (1.5)	12 (2.5)		6 (1.3)
2003	23 (7.1)	45 (14.0)		30 (9.3)	47 (9.8)	64 (13.4)	1 (0.2)	40 (8.4)
2004	2 (0.6)	2 (0.6)		2 (0.6)	9 (1.9)	6 (1.3)		5 (1.0)
Not sure	40 (12.4)	43 (13.3)	2 (0.6)	69 (21.4)	39 (8.2)	70 (14.6)	1 (0.2)	59 (12.3)
Total	90 (27.9)	111 (34.5)	2 (0.6)	119 (36.9)	124 (26.0)	205 (42.8)	2 (0.4)	147 (30.7)

* The correct year for which the arrears should be assessable to tax

4.1.7 Business deductions and receipts

As mentioned earlier, in the questionnaire there was a separate section on knowledge in relation to business deductions and receipts. The objective was to solicit responses from the SE in relation to these issues. The results of the analysis showed that there were no significant differences between the pre and post SA survey results in relation to knowledge on business deductions and receipts. As summarised in Table 4.18, more respondents appeared to have knowledge (pre=79.0%, post=76.2%) in relation to 'medical expenses for employees' as allowable deductions as compared with the other deductible expenses.

Knowledge on non-allowable expenses was relatively lower as compared with that on deductible expenses for both the pre and post SA surveys. For instance, less than half (pre=42%; post=34%) of the respondents knew that 'expenses incurred on

goods/products that do not bear any logo of the business and given as free gifts to customer' were not deductible, while about a one-quarter (pre=28.6%; post=25.2%) indicated that 'expenses incurred for the entertainment of clients[274]' was non-deductible. As for 'payment of business *zakat*', a majority (pre=67.2%; post=68.7%) of the respondents incorrectly indicated that it was a deductible expense.

For income or receipts derived from 'disposal of goods or provision of services', nearly half (pre=40.3%; post=40.1%) of the respondents were either 'not sure' or 'did not know' that these were taxable income. On the other hand, slightly more than half (pre=62.2%; post=53.7%) of the respondents wrongly indicated that 'receipts from disposal of an asset used in the business'[275] were taxable income.

The implications of not claiming deductible expenses and of incorporating non-taxable income would result in over reporting. Meanwhile, the implications for claiming non-deductible expenses as allowable deductions would lead to under reporting of chargeable income.

[274] Previously, expenses incurred on entertainment of clients were generally not allowed as deductions. However, effective from YA 2004 and subsequent years, 50 per cent of the total expenses incurred on the entertainment of clients are allowable deductions (Public Ruling No 3/2004). Although it was effective for YA 2004, the public ruling was only released in November 2004. The questionnaire for this survey was formulated before the release of this public ruling. Thus, for the purpose of this survey, entertainment was treated as a non-deductible expense.

[275] For the purpose of income tax, the disposal of a fixed asset would be subject to Balancing Charges or Balancing Allowances.

Table 4.18: Business deductions and receipts

	Pre SA *n* =118			Post SA *n* = 147		
	Yes *n* (%)	Not Sure *n* (%)	No *n* (%)	Yes *n* (%)	Not sure *n* (%)	No *n* (%)
Allowable Deductions						
Medical expenses for employees	94 (79.0)	19 (16.0)	6 (5.0)	112 (76.2)	27 (18.4)	8 (5.4)
Interest on loan taken to purchase computer for business used	76 (63.9)	25 (21.0)	18 (15.1)	103 (70.1)	33 (22.4)	11 (7.5)
Donation of RM10,000 to University Hospital	80 (67.2)	31 (26.1)	8 (6.7)	97 (66.0)	38 (25.9)	12 (8.1)
Donation of RM 20,000 to public library	70 (58.8)	37 (31.1)	12 (10.1)	98 (66.7)	34 (23.1)	15 (10.2)
Fire insurance premiums on shop premises	83 (69.7)	28 (23.5)	8 (6.7)	96 (65.3)	38 (25.9)	13 (8.8)
Expenses on work clothing that can only be worn on the job (e.g. uniform)	40 (33.6)	41 (34.5)	38 (31.9)	55 (37.4)	50 (34.0)	42 (28.6)
Festive gatherings for staff (e.g. *Hari Raya*[276]/Chinese New Year gathering)	60 (50.4)	35 (29.4)	24 (20.2)	67 (45.6)	42 (28.6)	38 (25.9)
A business operator can claim capital allowances on plant and machinery used for business purposes	45 (37.8)	45 (37.8)	29 (24.4)	65 (44.2)	46 (31.3)	36 (24.5)
Interest charged on credit card used to pay expenses for business purposes	39 (32.8)	56 (47.1)	24 (20.2)	38 (25.9)	63 (42.9)	46 (31.3)
Non-allowable Deductions						
Expenses incurred on goods/products that do not bear any logo of the business and given as free gifts to customers	50 (42.0)	44 (37.0)	25 (21.0)	50 (34.0)	60 (40.8)	37 (25.2)
Entrance fees paid to trade associations	48 (40.3)	41 (34.5)	30 (25.2)	48 (32.7)	51 (34.7)	48 (32.6)
Interest on loan to finance the purchase of a proprietor's residential house	38 (31.9)	32 (26.9)	49 (41.2)	56 (38.1)	43 (29.3)	48 (32.7)
Total rental incurred when a business operator rented a two-storey building and uses it partly for his/her business operations and partly for residential purposes	37 (31.1)	43 (36.1)	39 (32.8)	34 (23.1)	53 (36.1)	60 (40.8)
Expenses incurred for the entertainment of clients	34 (28.6)	44 (37.0)	41 (34.5)	37 (25.2)	41 (27.9)	69 (46.9)
Bad debts on loan to ex-workers written off	28 (23.5)	50 (42.0)	41 (34.5)	39 (26.5)	55 (37.4)	53 (36.1)
Depreciation on plant and machinery used in a business	18 (15.1)	29 (24.4)	72 (60.5)	28 (19.0)	33 (22.4)	86 (58.5)
Payment of business *zakat*	6 (5.0)	33 (27.7)	80 (67.2)	15 (10.2)	31 (21.1)	101 (68.7)
Taxable Income:						
Receipts from the disposal of goods/provision of services	71 (59.7)	37 (31.1)	11 (9.2)	88 (59.9)	41 (27.9)	18 (12.2)
Compensation received from insurance for goods lost/destroyed	49 (41.2)	48 (40.3)	22 (18.4)	43 (29.3)	55 (37.4)	39 (33.3)
Non-Taxable Income:						
Compensation received for damages to an asset used in the business	29 (24.3)	52 (43.7)	38 (31.9)	44 (36.7)	56 (38.1)	37 (25.2)
Receipts from disposal of an asset used in the business	19 (15.9)	26 (21.8)	74 (62.2)	27 (18.4)	41 (27.9)	79 (53.7)

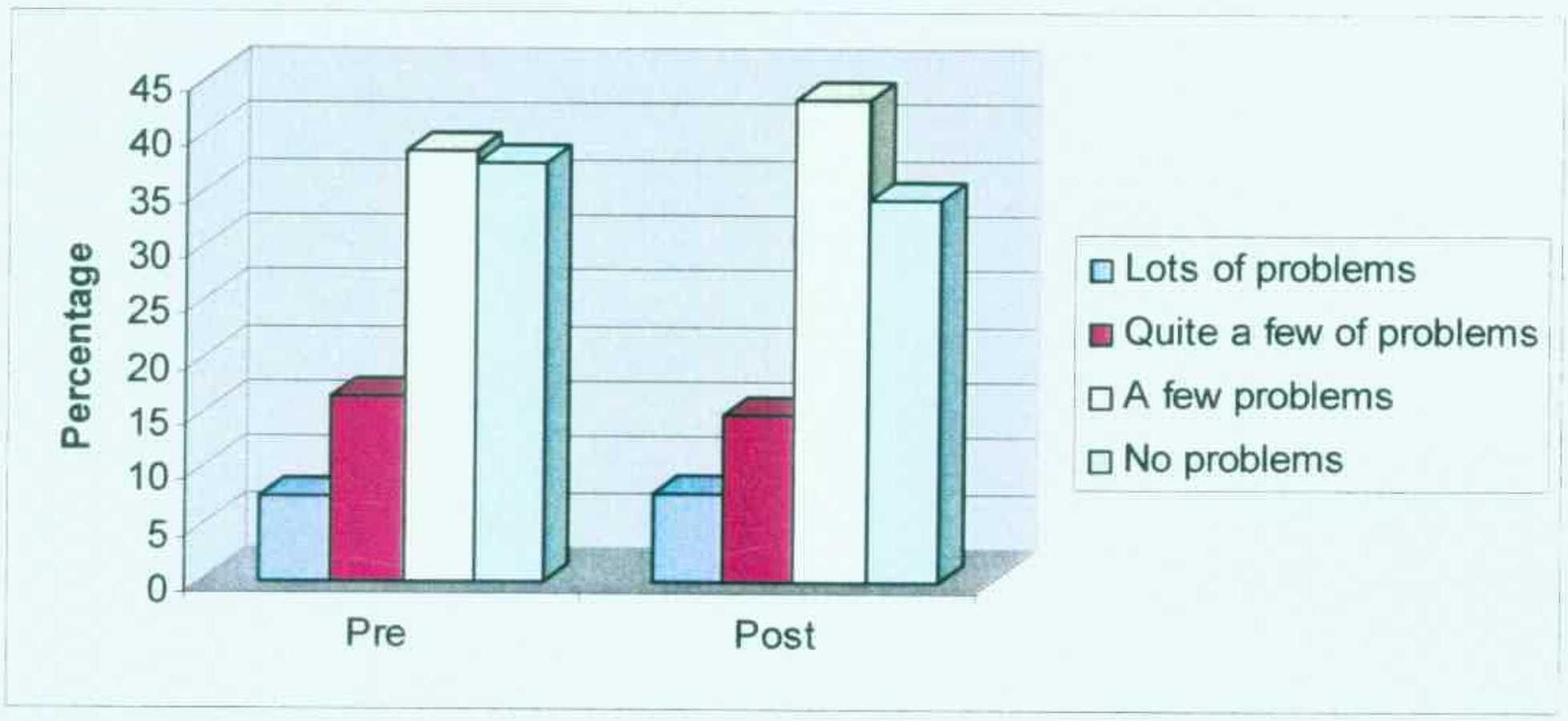
[276] In Malaysia, the celebration by Muslims after the end of the fasting month of Ramadan is known as *Hariraya.*

4.1.8 Income tax returns

On the preparation of tax returns, the majority (pre=73.6%; post=80.0%) of respondents prepared their own/spouse tax returns while a minority (pre=11.5%; post=8.4%) used the services of tax agents or accountants.

With regards to problems encountered in completing their tax returns, as summarised in Figure 4.4, only about one-third of the respondents (pre=37.6%; post=34.3%) revealed that they did not encounter any problem. In the pre SA survey, taxpayers had only to report their income etc while in the post SA survey they had to report and to self assess their tax liabilities. It is noted that a higher percentage in the post SA survey were assuming the responsibilities of preparing their own/spouse tax returns with only about one-third encountering problems.

Figure 4.4: Problems in completing latest tax returns



Further analysis as presented in Table 4.19 revealed that those who prepared their own tax returns encountered more problems (pre=33.2%; post=38.8%) compared with those who sought help from others or used the services of tax agents or accountants. It appeared that those SW (pre=21.4%; post=28.8%) who prepared their own tax returns encountered different degrees of problems as compared with the SE (pre=11.8%; post=10.0%).

Table 4.19: Person who prepared tax returns vs. problems in completing returns

Pre SA	SW				SE				
Problems in completing returns	**Lots %**	**Quite %**	**Few %**	**No %**	**Lots %**	**Quite %**	**Few %**	**No %**	**Total *n* (%)**
Taxpayer	2.8	4.0	14.6	15.2	2.2	3.7	5.9	7.8	181 (56.2)
Spouse		1.6	2.5	1.2			1.6	1.9	28 (8.7)
Spouse together with taxpayer	0.3	1.2	1.9	1.9	1.2	0.9	0.9	0.9	30 (9.3)
Help from others (e.g. colleague, friends)	0.3	0.6	1.6	2.2	0.3	0.3	2.8	0.6	28 (8.7)
Qualified tax agent or accountant	0.3	1.6	2.5	2.8		0.3	2.8	1.2	37 (11.5)
Unlicensed accountant									-
Others		0.6	0.6				0.3	0.3	6 (1.9)
Taxpayer, spouse and help from others		0.3						0.6	3 (0.9)
Taxpayer and help from others		1.2		0.9				0.3	8 (2.5)
Taxpayer and qualified tax agent or accountant			0.3						1 (0.3)
Post SA	**SW**				**SE**				
Problems in completing returns	**Lots %**	**Quite %**	**Few %**	**No %**	**Lots %**	**Quite %**	**Few %**	**No %**	**Total *n* (%)**
Taxpayer	2.3	5.6	20.9	16.5	1.0	1.3	7.7	7.5	301 (63.0)
Spouse	0.8	0.6	2.3	2.7	0.6	0.2	0.4	0.4	39 (8.2)
Spouse together with taxpayer	0.4	2.1	2.3	2.1	0.2	0.4	1.0	0.2	42 (8.8)
Help from others (e.g. colleague, friends)	0.4	1.3	2.9	0.8	0.6	1.5	0.4		38 (7.9)
Qualified tax agent or accountant			1.7	0.6	0.8	1.0	1.0	3.1	40 (8.4)
Unlicensed accountant					0.2				1 (0.2)
Others		0.2	0.2	0.2					3 (0.6)
Taxpayer, spouse and help from others			0.2			0.2			2 (0.4)
Taxpayer and help from others	0.2		1.3			0.2	0.2		9 (1.9)
Taxpayer and qualified tax agent or accountant									-
Taxpayers, spouse and qualified tax agent		0.2							1 (0.2)
Spouse and help from others			0.2						1 (0.2)
Help from others and qualified tax agent							0.2		1 (0.2)

Note: Lots = Lots of problems, Quite=Quite a few of problems, Few=A few problems, No=No problems

It should be noted that there were tremendous changes in terms of format and contents to the new tax returns used for YA 2004 compared with those of previous years. In both the pre and post SA surveys, respondents indicated that, to some degree, all the problems listed in the questionnaires were being encountered when completing their tax returns, the details of which are summarised in Table 4.20. There were significant differences (χ^2=19.93 with 7d.f., p=0.006) between the pre and post SA survey results in relation the these problems faced. More than half of the respondents encountered three particular problems as listed. These were, that 'the accompanying instructions (attached together with the tax return forms) were difficult to understand' (pre=54.7%; post=60.5%); that they 'do not understand some of the terms used' (pre=53.2%; post=45.5%) and that 'it took too much time' (pre=57.7%; post=45.5%) for them to complete their tax returns.

Table 4.20: Problems experienced while preparing tax returns

	Pre SA (n = 201) n (%)	Post SA (n = 314) n (%)
The accompanying instructions (attached together with the tax return forms) were difficult to understand	110 (54.7)	190 (60.5)
Do not understand some of the terms used	107 (53.2)	153 (48.7)
It took too much time to complete the tax returns	116 (57.7)	143 (45.5)
The tax return form itself was difficult to follow	84 (41.8)	117 (37.3)
The tax computations were too difficult	84 (41.8)	91 (29.0)
First time filling in the form	18 (9.0)	63 (20.1)
Do not understand the language used	20 (10.0)	36 (11.5)
Others	13 (6.5)	17 (5.4)

% does not make up to 100%

The 'difficulty in understanding the accompanying instructions' is ranked as the most commonly encountered problem by respondents in both the pre and post SA surveys (pre=24.8%; post=30.3%) (see Table 4.21). In comparison, the language used in the tax returns ranked as the least difficult problem (pre=1.4%; post=2.9%) encountered by respondents in both the pre and post SA surveys.

Table 4.21: Problems ranked most difficult

Pre SA	*n* =201 (%)
The accompanying instructions (attached together with the tax return forms) were difficult to understand	24.8
The tax computations were too difficult	20.5
It took too much time to complete the tax returns	19.5
Do not understand some of the terms used	13.3
The tax return form itself was difficult to follow	10.5
First time filling in the form	2.9
Others	2.4
Do not understand the language used	1.4

% does not make up to 100%

Post SA	*n* = 314 (%)
The accompanying instructions (attached together with the tax return forms) were difficult to understand	30.3
It took too much time to complete the tax retutns	15.6
Do not understand some of the terms used	15.3
The tax return form itself was difficult to follow	12.1
The tax computations were too difficult	9.9
Others	7.3
First time filling in the form	6.7
Do not understand the language used	2.9

% does not make up to 100%

Of those respondents who encountered problems [pre(*n*)=201; post(*n*)=314] as presented in Table 4.22, some (pre=39.3%; post=29.9%) revealed that for the last five preceding years, the format and contents of the tax returns remained 'about the same' as previous years. Those who experienced 'fewer problems' (pre=28.4%; post=25.5%) found that the tax returns were getting 'easier' to complete. Others (pre=21.9%; post=26.8%) found that the tax returns were getting more 'difficult' or 'harder' to complete.

Table 4.22: Problems vs. harder or easier to complete tax returns

	Pre SA				Post SA			
	Lots *n* (%)	Quite *n* (%)	Few *n* (%)	Total *n* (%)	Lots *n* (%)	Quite *n* (%)	Few *n* (%)	Total *n* (%)
Much easier	2 (1.0)	2 (1.0)	14 (7.0)	18 (9.0)	1 (0.3)	6 (1.9)	37 (11.8)	44 (14.0)
A little easier	2 (1.0)	12 (6.0)	43 (21.4)	57 (28.4)	5 (1.6)	19 (6.1)	56 (17.8)	80 (25.5)
About the same	16 (8.0)	26 (12.9)	37 (18.4)	79 (39.3)	12 (3.8)	24 (7.6)	58 (18.5)	94 (29.9)
A little harder	3 (1.5)	6 (3.0)	20 (10.0)	29 (14.4)	6 (1.9)	11 (3.5)	40 (12.7)	57 (18.2)
Much harder	0 (0.0)	5 (2.5)	10 (5.0)	15 (7.5)	13 (4.1)	9 (2.9)	5 (1.6)	27 (8.6)
No Response	1 (0.5)	2 (1.0)	0 (0.0)	3 (1.5)	0 (0.0)	2 (0.6)	10 (3.2)	12 (3.8)
				201 (100)				**314 (100)**

% does not make up to 100%

4.1.9 OAS vs. SA system

As mentioned in Chapter 1, prior to the implementation of SA, the previous system was known as OAS.[277] In relation to these two assessment systems, there were significant differences between respondents in the pre and post SA surveys in their understanding of the meaning of OAS (χ^2=16.11 with 3d.f., p=0.001) and SA (χ^2=24.76 with 3d.f., p<0.001). As shown in Table 4.23, the majority (pre=64.0%; post=65.1%) of the respondents were 'not sure' or had not heard of OAS, while the majority (pre=78.0%; post=88.1%) had heard of the SA system. For those who had heard of the SA system, only 59 per cent in the pre SA survey and 71.5 per cent in the post SA survey understood its meaning and operation.

Table 4.23: OAS vs. SA System

	Pre SA			Post SA		
	Yes *n* (%)	No *n* (%)	Not Sure *n* (%)	Yes *n* (%)	No *n* (%)	Not Sure *n* (%)
Heard of OAS	116 (36.0)	128 (39.8)	78 (24.2)	167 (34.9)	238 (49.8)	73 (15.3)
Heard of SA system	251 (78.0)	42 (13.0)	29 (9.0)	421 (88.1)	28 (5.9)	29 (6.1)

Pre SA	Understand the meaning of OAS/SA System			
	Yes *n* (%)	No *n* (%)	Not Sure *n* (%)	Total *n* (%)
Heard of OAS	63 (54.3)	22 (19.0)	31 (26.7)	116 (100.0)
Heard of SA system	148 (59.0)	29 (11.6)	74 (29.5)	251 (100.0)

Post SA	Understand the meaning of OAS/SA System				
	Yes *n* (%)	No *n* (%)	Not Sure *n* (%)	NR *n* (%)	Total *n* (%)
Heard of OAS	125 (74.9)	18(10.8)	20 (12.0)	4 (2.4)	167 (100)
Heard of SA system	301 (71.5)	39 (9.3)	76 (18.1)	5 (1.2)	421 (100)

NR = no response

[277] See above n 1.

Table 4.24: Perceptions on OAS to SA System

	Pre SA								Post SA							
	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	s	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	s
By replacing the OAS with SA system:																
The IRB's burden will be reduced	5.3	11.8	22.4	45.3	9.3	5.9	3.59	1.157	7.5	11.1	14.9	39.3	22.0	5.2	3.73	1.276
The IRB will not be responsible for your tax affairs	12.1	27.6	23.6	23.6	7.8	5.3	3.03	1.337	19.0	25.1	18.8	18.6	13.0	5.4	2.98	1.487
The IRB is able to reduce their administrative cost	4.7	13.4	23.6	41.6	9.9	6.8	3.59	1.184	4.4	12.6	14.4	42.7	20.9	5.0	3.78	1.186
The rate of tax returns to be received by the IRB is likely to improve	5.9	14.9	32.5	34.5	3.7	8.1	3.39	1.206	8.6	18.4	30.8	26.8	9.2	6.3	3.28	1.285
SA system will increase taxpayers' burden	5.0	18.3	23.9	35.1	11.2	6.5	3.49	1.239	5.6	13.8	20.9	34.1	21.3	4.2	3.64	1.235
Taxpayers will be responsible for their own tax affairs	3.7	8.4	17.7	52.2	12.1	5.9	3.78	1.078	3.1	5.4	11.3	50.2	26.2	3.8	4.02	1.013
Taxpayers will incur more expenses in order to file tax returns	4.7	18.6	27.6	28.3	10.2	10.6	3.52	1.316	6.1	19.5	21.1	30.1	15.5	7.7	3.53	1.334

SD = strongly disagree, D=disagree, N=neither agree nor disagree, A=agree, SA=strongly agree, NA=not applicable

In relation to the respondents' perceptions on the replacement of the OAS with the SA system, on average they agreed ($\bar{x}$>3.00) with all the seven statements listed in Table 4.24. There were no significant differences (p>0.05) in terms of perceptions between the respondents in the pre and post SA surveys. However, in the post SA survey, the respondents were more 'neutral' ($\bar{x}$>2.98) in perceiving that the IRB would no longer be responsible for one's tax affairs once the SA system was in place. In contrast, the post SA survey respondents were more agreeable ($\bar{x}$=4.02, s=1.013) that taxpayers would be responsible for their own tax affairs as compared with respondents in the pre SA survey.

4.1.10 Levels of confidence

On issues relating to the levels of confidence in coping with SA, there were no significant differences between pre and post SA survey results. As presented in Table 4.25, in the pre SA survey, surprisingly, on average, the respondents were about 80 per cent [pre ($\bar{x}$=8.08, s=2.496); post ($\bar{x}$=8.84 s= 2.373)] confident in filing their returns on time. For both the pre and post SA surveys, only between 60 per cent and 70 per cent of respondents were confident of the ability to keep up to date with the changes in the tax law. Overall, the respondents in the post SA survey showed more confidence in coping with SA. However, a small number (0.6% to 2.5%) of respondents, both in the pre and in the post SA surveys, still had no confidence at all (0%) in their ability to cope with SA.

4.1.11 Service of tax agents

There were no significant differences (χ^2=0.55 with 1d.f., p=0.456) between the respondents in the pre and post SA surveys in the use of the services of tax agents. It was envisaged that, with the implementation of SA, more taxpayers would seek the services of tax agents before completing their tax returns. However, the majority of respondents (pre=85.4%; post=87.2%) indicated that they would not do so. Only about 15 per cent (pre=14.6%; post=12.8%) of respondents were currently using the services of tax agents, and were mainly from the SE category (pre=66.0%; post=67.2%). Overall, in both the pre and post SA surveys, respondents agreed ($\bar{x}$>4.00) or tended to agree ($\bar{x}$>3.85) with the reasons presented in Table 4.26. Of the six reasons for using the services of tax agents, the 'cost of using outweigh the

consequences for wrong computation' (χ^2=17.63 with 5d.f., p=0.003) and 'better leave things to the experts' (χ^2=10.38 with 5d.f., p=0.065) were two reasons that at a 0.05 level, showed significant differences between the pre and post SA surveys.

In terms of continuing to use the services of tax agents, there were significant differences (χ^2=22.34 with 5d.f., p<0.001) between the pre and post SA surveys. In this respect, 13.1 per cent expressed 'neutrality' in the post SA survey, compared to only 6.4 per cent in the pre SA survey. This perhaps implies that, in future, the respondents would prefer to take responsibility for their own tax affairs.

For those who were not using the services of tax agents, as summarised in Table 4.27, most respondents [pre ($\bar{x}$ =4.04, s=0.841); post ($\bar{x}$ =4.06, s=0.950)] agreed that they were 'not prepared to spend money on the services of tax agents'. Overall, there were no significant differences between the pre and post SA surveys on reasons for not using the services of tax agents. Respondents in both the pre and post SA surveys agreed that they were 'able to do a correct tax computation' [pre ($\bar{x}$ =3.94, s=1.000), post ($\bar{x}$ =4.04, s=0.937)], and that 'tax computation is not too difficult' [pre ($\bar{x}$ =3.93, s=0.916), post ($\bar{x}$ =3.93, s=0.857)] after all.

4.1.12 Attitude towards tax

There are suggestions in the literature[278] that a taxpayer's compliance behaviour is closely linked to the taxpayer's attitude and perception on issues pertaining to tax administration, particularly the manner in which tax officers handle a taxpayer's affairs and on how the tax revenue is spent. Of the thirteen statements as summarised in Table 4.28, at 0.10 level of significance, only one statement showed a significant difference (χ^2=9.65 with 5d.f., p=0.086) between the pre and post SA surveys; namely that 'the tax administration is seen to be friendly (towards taxpayers who encountered problems)'. In the post SA survey, more respondents (74.9%) agreed or strongly agreed with this statement as compared with respondents in the pre SA survey (64.9%).

[278] For more discussion, see Chapter 2. For example, see Lewis 1982b; Smith & Stalans 1991; Alm, Jackson & McKee 1992b; Eriksen & Fallan 1996; Brodie 1999; Thompson & Teviotdale 1999; Forest & Sheffrin 2002.

More than two-thirds of the respondents either agreed or strongly agreed that a taxpayer was more likely to file an honest return and on time if penalties for non-compliance were strictly enforced (pre=73.9%; post=75.5%) and heavy (pre=67.7%; post=69.5%). However, the level of agreement was lower when they perceived that the chances of being audited was high (pre=47.8%; post=56.9%) or that a taxpayer was not being unfairly 'tax audited' (pre=45.4%; post=51%). This could imply that with the implementation of SA, the penalty regime and tax audit activities should remain prominent to ensure the filing of honest and on time returns.

On average, respondents in the post SA survey agreed ($\bar{x}$ =3.96-4.15) that taxpayers would file honest returns if the tax administration was seen to be transparent, efficient, friendly and that tax officers were seen to be approachable, helpful and not penalising taxpayers for honest errors. Similarly, taxpayers would file honest returns if tax revenue were seen to be properly administered ($\bar{x}$ =3.91, s=0.977) and equitably distributed ($\bar{x}$ =3.93, s=0.977). In contrast, the respondents were 'neutral' [pre ($\bar{x}$ =3.21, s=1.269), post ($\bar{x}$ =2.96, s=1.427)] on the issue that 'tax revenues are seen to have been wasted'. However, when compared with the other issues (listed in Table 4.28), there were more disagreements (disagreed or strongly disagreed) (pre=26.7%; post=38.9%) than agreements in relation to this issue in both the pre and post SA surveys.

Taxpayers' awareness of their various obligations also influenced their attitudes and perceptions towards tax compliance. On average, as presented in Table 4.29, respondents in the post SA survey as compared with those in the pre SA survey expressed a higher degree of agreement that taxpayers would file honest returns if they were aware of their obligations. The respondents were in agreement that taxpayers were more likely to file honest and on time returns if taxpayers were more aware of their legal obligations [pre ($\bar{x}$ =3.86, s=0.789); post ($\bar{x}$ =4.08, s=0.806)]; moral and ethical obligations [pre ($\bar{x}$ =3.82, s=0.861); post ($\bar{x}$ =4.06, s=0.788)]; and social obligations [pre ($\bar{x}$ =3.84, s=0.858); post ($\bar{x}$ =4.05, s=0.783)]. In addition, more than three-quarters (pre=78%; post=81.8%) of the respondents agreed or strongly agreed that if taxpayers understood more about the tax law and rules, they would be more likely to file honest and on time returns.

Similarly, three-quarters (pre=75.8%; post=75.1%) of the respondents agreed that taxpayers would more likely to file honest and on time returns if they felt that they were paying their fair share. At 0.10 level of significance, there were significant differences (χ^2=9.32 with 5d.f., p=0.097) between responses in the pre and post SA surveys in relation to the statement that 'taxpayer feels that he/she is getting a share of the benefits, services and amenities funded by taxpayers' money'. More respondents (73.5%) in the post SA survey agreed or strongly agreed with this statement compared with respondents in the pre SA survey (67.1%).

Table 4.25: Levels of confidence in handling SA

	Levels of Confidence												
	0 %	10 %	20 %	30 %	40 %	50 %	60 %	70 %	80 %	90 %	100 %	$\bar{x}$	s
Pre SA													
Confident in doing correct assessment	0.9	3.7	2.8	3.4	7.1	21.4	10.6	15.5	14.3	14.9	5.3	7.29	2.317
Confident in filing return on time	0.6	3.4	1.6	2.2	5.3	18.0	6.5	12.7	14.0	13.4	22.4	8.08	2.496
Confident that IRB will take the computation as correct	1.6	2.5	1.9	2.5	5.6	22.7	12.1	12.7	14.3	17.1	7.1	7.51	2.300
Confident to be able to keep up to date with changes in tax law	2.2	6.8	4.3	5.6	7.8	23.3	13.4	14.3	10.9	7.8	3.7	6.54	2.432
Post SA													
Confident in doing correct assessment	1.9	1.5	2.5	2.1	1.9	11.1	8.4	17.6	17.8	25.3	10.0	8.19	2.275
Confident in filing return on time	1.3	1.5	1.7	1.5	2.5	9.4	7.1	11.3	10.5	20.9	32.4	8.84	2.373
Confident that IRB will take the computation as correct	1.7	1.9	3.1	2.7	3.1	12.1	11.1	13.4	14.0	24.9	11.9	8.05	2.411
Confident to be able to keep up to date with changes in tax law	2.5	6.1	6.9	4.4	5.9	16.7	11.5	14.9	10.7	13.6	6.9	6.90	2.689

- On average, there were improvement in levels of confidence for 'doing correct assessment' and ' filing return on time' from the pre SA survey as compared with the post SA survey. Minimal improvement in levels of confidence were also noted for statements 'that IRB will take the computation as correct' and ' able to keep up to date with changes of tax law' in the pre SA survey as compared with the post SA survey.

Table 4.26: Using and reason for using services of tax agents

	Pre SA								Post SA							
								n=47								*n*=61
	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	*S*	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	*s*
To make sure that the correct amount of tax is computed	2.1	2.1	6.4	66.0	21.3	2.1	4.09	0.803	0.0	0.0	1.6	68.9	27.9	1.6	4.30	0.527
Do not want to break the law unintentionally	0.0	6.4	4.3	63.8	25.5	0.0	4.09	0.747	0.0	1.6	6.6	55.7	32.8	3.3	4.30	0.715
Not able to understand tax law	2.1	8.5	14.9	55.3	14.9	4.3	3.85	1.000	4.9	13.1	8.2	52.5	11.5	9.8	3.82	1.245
Do not have the time to handle own tax affairs	2.1	10.6	6.4	51.1	27.7	2.1	3.98	1.032	1.6	9.8	4.9	60.7	18.0	4.9	3.98	0.991
Better leave things to the experts	0.0	6.4	6.4	59.6	27.7	0.0	4.09	0.775	0.0	3.3	3.3	60.7	24.6	8.2	4.31	0.807
Cost of using out weight the consequences for wrong computation	2.1	8.5	25.5	36.2	21.3	6.4	3.85	1.122	0.0	3.3	9.8	60.7	19.7	6.6	4.16	0.820
Continue to use the services of tax agents	0.0	4.3	6.4	46.8	42.6	0.0	4.28	0.772	0.0	3.3	13.1	65.6	14.8	3.3	4.02	0.741

SD = strongly disagree, D=disagree, N=neither agree nor disagree, A=agree, SA=strongly agree, NA=not applicable

- In the pre SA survey, only 47 out of 322 respondents used the services of tax agents while in the post SA survey, 61 out of 478 respondents engaged tax agents to file their tax returns.

Table 4.27: Reasons for not using services of tax agents

	Pre SA							*n*=275	Post SA							*n*=417
	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	*S*	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	*s*
Able to do a correct tax computation	2.5	5.1	14.9	58.5	11.3	7.6	3.94	1.000	1.2	5.5	12.7	54.2	21.1	5.3	4.04	0.937
Not an offence if cannot understand how to do a tax computation	4.0	20.7	23.6	38.9	4.7	8.0	3.44	1.217	8.9	19.4	22.8	35.5	6.7	6.7	3.32	1.296
Know and understand the tax law	2.5	12.0	29.1	44.4	4.0	8.0	3.59	1.095	1.4	11.5	29.3	44.4	8.4	5.0	3.62	1.012
Able to handle tax affairs on time	2.5	6.9	17.8	59.3	5.5	8.0	3.82	1.015	1.2	3.8	14.9	64.3	12.9	2.9	3.93	0.807
Tax computation is not that difficult to warrant the services of tax agents	0.4	5.1	20.4	57.1	9.5	7.6	3.93	0.916	1.2	5.3	14.6	60.2	15.8	2.9	3.93	0.857
The cost saved for not using the services of tax agents outweighed the consequences for wrong computation	2.2	6.5	28.4	42.9	8.0	12.0	3.84	1.132	2.2	9.8	28.5	42.9	9.6	7.0	3.69	1.074
Not prepared to spend money on the services of tax agents	0.7	2.9	14.2	62.5	13.5	6.2	4.04	0.841	2.2	3.1	14.9	51.3	23.5	5.0	4.06	0.950

SD = strongly disagree, D=disagree, N=neither agree nor disagree, A=agree, SA=strongly agree, NA=not applicable

Table 4.28: Attitude towards tax administration and tax system

	Pre SA								Post SA							
	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	S	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	s
A taxpayer is more likely to file an honest return and on time if:-																
Penalties for non-compliance are strictly enforced	2.2	8.7	14.6	59.0	14.9	0.6	3.78	0.903	3.3	7.5	12.6	55.2	20.3	1.0	3.85	0.975
Penalties for non-compliance are heavy	4.0	9.9	17.7	55.3	12.4	0.6	3.64	0.980	4.4	10.7	13.4	49.8	19.7	2.1	3.76	1.087
The chances of being 'tax audited' is high	4.0	8.1	34.5	37.9	9.9	5.6	3.58	1.088	4.2	8.8	25.7	41.2	15.7	4.4	3.69	1.105
Taxpayer is not being unfairly 'tax audited'	5.0	8.7	35.7	37.0	8.4	5.3	3.51	1.100	5.9	8.6	29.7	36.4	14.6	4.8	3.60	1.161
The tax administration is seen to be efficient	3.4	6.2	20.2	52.5	16.1	1.6	3.76	0.964	2.5	3.6	18.4	48.1	25.3	2.1	3.96	0.943
The tax administration is seen to be transparent	2.2	7.5	19.6	54.7	15.5	0.6	3.76	0.902	1.0	4.2	17.4	50.2	24.9	2.3	4.01	0.882
The tax administration is seen to be friendly (towards taxpayers who encountered problems)	3.1	7.1	23.6	47.2	17.7	1.2	3.73	0.979	2.1	3.1	18.2	46.2	28.7	1.7	4.01	0.922
IRB officers are seen to be easy to approach when taxpayers have problems.	3.1	8.7	19.9	48.1	19.3	0.9	3.75	0.997	1.9	6.5	15.3	44.6	29.9	1.9	4.00	0.979
Taxpayer should be advised and not penalised for honest errors	1.2	5.6	14.3	57.1	20.2	1.6	3.94	0.861	1.7	2.7	11.9	51.5	31.6	0.6	4.10	0.843
IRB is seen to help taxpayer, not just to collect	1.6	5.0	19.6	54.0	18.3	1.6	3.87	0.875	1.7	2.5	12.3	47.9	34.1	1.5	4.15	0.868
Tax revenue are seen to be properly administered	0.9	5.0	26.7	50.9	15.5	0.9	3.78	0.834	2.1	5.6	20.9	43.3	26.2	1.9	3.91	0.977
Tax revenue are seen to be equitably distributed	2.5	5.0	26.4	47.2	15.2	3.7	3.79	0.973	2.1	5.2	20.5	44.8	24.7	2.7	3.93	0.977
Tax revenue are seen to have been wasted	12.4	14.3	29.8	31.1	8.4	4.0	3.21	1.269	19.2	19.7	27.6	17.8	10.5	5.2	2.96	1.427

SD = strongly disagree, D=disagree, N=neither agree nor disagree, A=agree, SA=strongly agree, NA=not applicable

Table 4.29: Attitude towards tax

	Pre SA								Post SA							
	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	s	SD (%)	D (%)	N (%)	A (%)	SA (%)	NA (%)	$\bar{x}$	s
A taxpayer is more likely to file an honest return and on time if:-																
The taxpayer understand more about the tax laws and rules	2.2	5.6	14.3	64.6	13.4	0.0	3.81	0.814	1.9	5.4	10.5	56.3	25.5	0.4	3.99	0.875
Taxpayer is more aware of his/her legal obligations in relation to tax	0.6	6.2	15.5	62.4	14.3	0.9	3.86	0.789	1.3	3.3	10.3	57.7	26.4	1.0	4.08	0.806
Taxpayer is more aware of his/her moral & ethical obligations in relation to tax	3.4	3.1	16.5	64.0	11.5	1.6	3.82	0.861	0.6	2.9	13.6	57.7	23.0	2.1	4.06	0.788
Taxpayer is more aware of his/her social obligations in relation to tax	2.2	4.3	17.1	62.1	11.8	2.5	3.84	0.858	0.6	2.7	14.0	58.6	21.8	2.3	4.05	0.783
Taxpayer feels he/she is paying his/her fair share.	1.2	3.4	18.3	58.4	17.4	1.2	3.91	0.806	1.7	5.2	16.5	49.4	25.7	1.5	3.97	0.917
Others are seen to be paying their fair share	2.5	4.0	27.3	48.4	15.2	2.5	3.77	0.928	1.5	4.6	26.2	42.5	22.0	3.3	3.89	0.959
A taxpayer feels that he/she is getting a share of the benefits, services and amenities funded by taxpayers' money.	1.6	4.3	25.2	53.1	14.0	1.9	3.79	0.859	2.3	7.5	15.1	44.8	28.7	1.7	3.95	1.006
A taxpayer feels that others are getting more than their fair share of the benefits, services and amenities funded by taxpayers' money.	8.1	13.7	31.1	33.9	9.9	3.4	3.34	1.179	9.6	16.7	24.3	28.5	17.6	3.3	3.38	1.305

SD = strongly disagree, D=disagree, N=neither agree nor disagree, A=agree, SA=strongly agree, NA=not applicable

4.1.13 Dependent variables vs. category vs. gender

In Chapter 3, it was explained that the aggregate scores for items summarised in Table 4.10 were used to form the dependent variables[279] in this research. At 0.05 levels of significance, there were significant differences in compliance behaviour between the pre and post SA survey respondents on the three dependent variables, i.e. reporting of taxable income (χ^2=7.66 with 2d.f., p=0.022), exempted income (χ^2=5.45. with 2d.f., p=0.066) and casual income (χ^2=12.05 with 2d.f., p=0.002).

As presented in Table 4.30, and in relation to the reporting of taxable income, slightly over half (pre=58.4%; post=57.9%) of the respondents would have been unintentionally non-compliant. Further, more respondents in the pre SA survey (29.8%) as compared with the post SA survey (23.8%) would have been intentionally non-compliant. As for reporting of exempted income, more respondents in the pre SA survey (57.2%) would have been unintentionally non-compliant compared with those in the post SA survey (48.7%). In contrast, more respondents in the post SA survey (42.9%) compared with the pre SA survey (30.7%) would have complied with reporting casual income while lower percentages (pre=18.0%; post=15.1%) would have not complied.

Further analysis using cross tabulation as presented in Table 4.30 revealed that for the SW in both pre and post SA surveys, less females as compared with males would have complied with reporting taxable income. Conversely, for similar taxable income, for the SE, fewer females (pre=3.7%; post=1.9%) would have not complied compared with male respondents (pre=4.0%; post=3.3%). Although the majority of respondents would have unintentionally not complied in relation to all three dependent variables, it must be noted that overall in the post SA survey, respondents would have exercised higher levels of compliance compared with those in the pre SA survey. This could possibly be due to the higher level of education, which in turn could have contributed to better knowledge in tax and thus resulting in a higher level of compliance among respondents in the post SA survey.

[279] See 3.2.1 for more discussion.

Table 4.30: Dependent variables vs. category vs. gender

	Pre SA					Post SA				
	SW		SE		Total	SW		SE		Total
	Male *n* (%)	Female *n* (%)	Male *n* (%)	Female *n* (%)	*n* (%)	Male *n* (%)	Female *n* (%)	Male *n* (%)	Female *n* (%)	*n* (%)
DV1										
C	12 (3.7)	9 (2.8)	11 (3.4)	6 (1.9)	38 (11.8)	34 (7.1)	27 (5.6)	14 (2.9)	12 (2.5)	87 (18.2)
UNC	79 (24.5)	40 (12.4)	47 (14.6)	22 (6.8)	188 (58.4)	87 (18.2)	102 (21.3)	58 (12.1)	30 (6.3)	277 (57.9)
NC	30 (9.3)	33 (10.2)	21 (6.5)	12 (3.7)	96 (29.8)	38 (7.9)	43 (9.0)	19 (4.0)	14 (2.9)	114 (23.8)
DV2										
OC	4 (1.2)	5 (1.6)	4 (1.2)	1 (0.3)	14 (4.3)	10 (2.1)	8 (1.7)	3 (0.6)	3 (0.6)	24 (5.0)
C	45 (14.0)	34 (10.6)	27 (8.4)	18 (5.6)	124 (38.5)	73 (15.3)	81 (16.9)	40 (8.4)	27 (5.6)	221 (46.2)
UNC	72 (22.4)	43 (13.4)	48 (14.9)	21 (6.5)	184 (57.1)	76 (15.9)	48 (10.0)	83 (17.4)	26 (5.4)	233 (48.7)
DV3										
C	37 (11.5)	31 (9.6)	23 (7.1)	8 (2.5)	99 (30.7)	72 (15.1)	64 (13.4)	43 (9.0)	26 (5.4)	205 (42.9)
UNC	67 (20.8)	35 (10.9)	43 (13.4)	20 (6.2)	165 (51.2)	62 (13.0)	86 (18.0)	32 (6.7)	21 (4.4)	201 (42.1)
NC	17 (5.3)	16 (5.0)	13 (4.0)	12 (3.7)	58 (18.0)	25 (5.2)	22 (4.6)	16 (3.3)	9 (1.9)	72 (15.1)

DV1=Dependent Variable 1, i.e. taxable income;
DV2=Dependent Variable 2, i.e. exempted income;
DV3=Dependent Variable 3, i.e. casual income
C=complied, UNC=unintentional non-compliance, NC=non-compliance, OC=over compliance

- For all the three dependent variables, significant differences were found between the pre and post SA surveys. The percentage of unintentional non-compliance remained the highest.

Having presented the descriptive statistics on both the pre and post SA surveys, the question of whether the five main categories of causes (i.e. assessment system, tax knowledge, tax structures features, financial constraints, attitude towards tax) and the moderating variables influence the compliance behaviour of individual taxpayers, is addressed in the following section. This includes further analysis derived from an ordinal stepwise logistic regression (within a generalised linear model).

4.1.14 Factor analysis

As mentioned in the data analysis techniques in the preceding chapter, prior to ordinal stepwise logistic regression, factor analysis was conducted to summarise the data in order to form meaningful components of each cause. For both the pre and post SA surveys, the results of factor analysis identified the presence of 22 (pre SA survey) and 24 (post SA survey) factors respectively as follows:

- Two factors for Assessment System (AS);
- Six factors for Tax Knowledge (TK);
- Three factors for Tax Structure Features (TS);
- Two factors for Financial Constraints (FC);
- Three factors (pre) and four factors (post) for Attitude Towards Tax (AP) and
- Six factors (pre) and seven factors (post) for Tax Knowledge on Business Income and Deduction (KB).

The components for TS and FC were identical for both the pre and post SA surveys. Other factors had slight variations between the pre and the post SA surveys. Where there were major differences in the components of the pre and the post SA surveys, separate descriptions were listed. The descriptions of each factor for the pre and the post SA surveys are summarised in Table 4.31.

Table 4.31: Descriptions of the components of factors

Factors	Descriptions
Assessment system	Implications of the change of assessment system on the responsibility of IRB and taxpayers
AS1	Reduced responsibility of IRB
AS2	Increased responsibility of taxpayers
Tax knowledge	Tax knowledge of respondents in relation to joint assessment, S46 relief, child relief, rebates and some issues on tax returns
TK1	Understanding of joint assessment and S46 relief and rebates
TK2	Disabled child relief and others, principally S46 relief
TK3 (pre)	Principally S46 relief
TK3 (post)	Child relief
TK4 (pre)	Child relief
TK4 (post)	Understanding of a joint assessment, rebates and tax computation
TK5 (pre)	Relief for unmarried child, disabled taxpayer and rebates
TK5 (post)	Knowledge on extension (of deadline) and deduction
TK6 (pre)	Knowledge on computation, extension (of deadline) and deduction
TK6 (post)	Relief for unmarried child, education fees, rebate on levy and deduction
Tax structure	Penalty and tax audit
TS1	Penalty for failure to file tax returns or for filing fraudulent tax returns
TS2	Strict enforcement and heavy penalty
TS3	Tax audit
Financial constraints	Financial situation of taxpayers in terms of marital status, income levels, number of dependents and use of tax agents
FC1	Family commitment (Marital status and dependents)
FC2	Level of income and use of services of tax agent
Attitude towards tax	Attitude of taxpayer towards tax in terms perception on the tax administration, benefits gain from taxes paid and level of confidence in handling tax matters
AP1	Principally on issue related to tax administration, moral/ethical obligations
AP2	Level of confidence in handling tax
AP3 (pre)	Perception on IRB officers and on fair share of tax revenue
AP3 (post)	Understanding of tax law, moral/ethical obligations, transparency of tax administration, fair share gained
AP4 (post)	Perception on IRB officers and fair share of tax revenue

Table 4.31: Descriptions of the components of factors (continue)

Tax knowledge	Knowledge on business deduction and receipts for SE
KB1 (pre)	Expenses incurred on interest, staff welfare and entertainment; and depreciation
KB1 (post)	Expenses incurred on staff welfare, entertainment and fire insurance premium; and depreciation
KB2 (pre)	Donation, fire insurance premium paid and expenses for festive gatherings; and receipts/compensation from disposal of assets
KB2 (post)	Expenses incurred on interest, staff welfare and entertainment
KB3 (pre)	Expenses incurred on staff welfare, entrance fees and free gift
KB3 (post)	Expenses incurred on interest, staff welfare, entrance fees and free gift; and capital allowances
KB4 (pre)	Expenses incurred on interest, free gift and rental incurred for dual purposes; and receipts/compensation from disposal of assets
KB4 (post)	Expenses incurred on interest, free gift; capital allowances and receipts/compensation from disposal of assets
KB5 (pre)	Expenses incurred on interests, medical expense and *zakat*
KB5 (post)	Receipts/compensation from disposal of assets
KB6 (pre)	Capital allowances and interest expense
KB6 (post)	Private expense and donation
KB7 (post)	Depreciation and dual purpose expenses

4.1.15 Validity and reliability

The validity and reliability of each component of the five main causes derived from factor analysis are summarised in Table 4.32. The data matrix of each component showed a KMO value of greater than 0.5 and the significant result of Bartlett's Test of Sphericity (p<0.000) indicated that the construct validity of each item and the related components within each construct were significantly correlated. Detail results of the components and the factor loadings are included in Appendix XIII.

Table 4.32: Result of validity and reliability analysis test

Variable	No of Item	Pre SA KMO	Alpha	Post SA KMO	Alpha
AS	7	.810	.8107	.721	.7465
TK	25	.882	.8774	.890	.8572
TS	10	.756	.6234	.715	.6514
AP	14	.820	.8003	.836	.8157
FC	4	.516	.585*	.512	.603*
KB	20	.656	.7768	.601	.6860

* inter-items correlation

As shown in Table 4.32, the number of items combined for each of the five main causes differed. There were 7 items in AS and results of the Cronbach's Alpha [pre (α=0.8107); post (α=0.7465)] provided satisfactory internal consistency of the

responses. For TK, a multiple items of 25 revealed reasonably high internal consistency [pre (α=0.8774); post (α=0.8572)]. Similarly, for AP, a 14 items reliability test revealed a Cronbach's Alpha greater than 0.7 [pre (α=0.8003); post (α=0.8157)] indicating a reasonably high internal consistency of responses. The Cronbach's Alpha for a 10 items TS were slightly lower [pre (α=0.6238); post (α=0.6514)] than suggested by Devellis (2003). For the reliability test on the 20 items in relation to KB of the SE, Cronbach's Alpha for the pre SA survey revealed a satisfactory [pre (α=0.7768)] internal consistency. However in the post SA survey, the result was marginally lower [post (α=0.6860)] than suggested. FC consisted of only four items and the data comprised of nominal and interval scale, an inter-item correlation was more appropriate[280] to report the internal consistency of the items. The results of mean inter-item correlation for both the pre and post SA surveys were respectively 0.585 and 0.603, thus, being representative that the constructs were very specific. Based on these tests, the questions used for this survey were reasonably valid and the multiple items used to measure the same construct were reasonably reliable.

4.1.16 Ordinal stepwise logistic regression

The number of cases to be analysed using ordinal stepwise logistic regression (hereafter refer as 'logistic regression') was reduced due to cases with missing values, particularly in the demographic variables. The deletion of the cases with missing values reduced the available sample size to 315 for the pre SA survey and 469 for the post SA survey.

Logistic regression models were used to estimate the determinants/factors that influenced the compliance behaviour of individual taxpayers (Greene 2003). Logistic regression involved two types of inferential tests: test of models and test of individual predictors (Tabachnick & Fidell 2001:536). Ideally, a perfectly fitted model would have an expected residual equal to 1, while a well fitted model could have residual of less than or equal to 2 (Menard 1995). Factors were to be considered for inclusion in the model only if their significant levels were not more

[280] As suggested by Pallant (2005:90), a shorter scale (scale fewer than 10 items) commonly has quite low Cronbach's Alpha. It is more appropriate to report the mean inter item correlation for the items. Briggs & Cheek (1986) recommended an optimal range for inter-item correlation of 0.2 to 0.4. Above this range, the factor is considered to be very specific.

than p=0.10.[281] For the test of individual predictor, as the equation has a non-linear form, only the sign of the parameter estimate can be directly interpreted and not its size (Liao 1994). As similar to the test of the model, an individual predictor is considered significant if the p (t probability) is less than 0.10.

The data sets were further divided into three groups, one comprising of the combination of both the SW and SE (hereafter refer as 'All groups'), one solely on the SW group and the other solely on the SE group. For these three sets of data, the analyses on the three dependent variables[282] and the independent variables/factors were conducted independently in order to provide a better picture of the effects of the factors on compliance behaviour of each dependent variable, i.e. reporting compliance of taxable income (DV1), exempted income (DV2) and casual income (DV3). It appeared that for both the pre and post SA surveys, all the factors (except TS and FC) comprised of different components of items as presented in Table 4.31 and Appendix XIII. Hence, for DV1, it was only appropriate to focus separately on the factors found in each of the pre and post SA models followed by the common moderating variables appearing in both the pre and post SA models.

Subsequently, factors that were revealed as significant determinants in the models would be highlighted. A similar process was adopted for DV2 and DV3. In addition to the tests of models, tests of individual predictors on significant factors or moderating variables[283] in the post SA[284] models are further discussed at the end of each discussion on the dependent variable. Factors that showed significant parameter estimates are identified. Discussion includes the indication of different types of compliance behaviour derived from the moderating variables.

4.1.16.1 Determinants for all groups

For DV1 as presented in Table 4.33, five factors, AP2, AP3, TS2, TK1 and TK4 were included in the pre SA model. However, only two factors revealed significant

[281] However, Hosmer & Lemeshow (1989) recommended a criterion for inclusion of a variable that is less stringent than .05; they suggested that something in the range of .15 or .20 is more appropriate to ensure entry of variables with parameter estimate difference from zero (quoted in Tabachnick & Fidell 2001:535).

[282] See 3.2.1 for discussion on the formation of dependent variables.

[283] The different levels in each moderating variable were discussed in terms of the three types of compliance behaviour of each dependent variable. (See 3.2.1 for more discussion).

[284] Discussions would be centred on the post SA survey, as it would be more relevant to focus on the determinants after the implementation of SA.

association with DV1. At 0.01 level of significance, *ceteris paribus* (all other things being equal), AP2 appeared to be a significant (χ^2=7.22 with 1d.f., p=0.007) determinant in the pre SA model. At 0.10 level of significance, *ceteris paribus*, TS2 appeared to be a significant (χ^2=3.70 with 1d.f., p=0.055) determinant on DV1. Three other factors, AP3 (p=0.113), TK1 (p=0.279) and TK4 (p=0.195) were non-significant determinants.

Table 4.33: Factors associated with reporting of taxable income (DV 1) - All groups (pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		-0.27	1.02	-0.27	0.788			
Cut-point 1/2		1.53	1.03	1.49	0.135			
AP2	1	0.0589	0.0175	3.36	<.001***	7.224	7.22	0.007**
A1	1					4.886	4.89	0.027*
A1 2		-0.411	0.241	-1.71	0.088^			
TS2	1	-0.1393	0.0750	-1.86	0.063^	3.696	3.70	0.055^
AP3	1	-0.1516	0.0908	-1.67	0.095^	2.512	2.51	0.113
A2	1					1.792	1.79	0.181
A2 2		-0.671	0.551	-1.22	0.223			
A4	3					1.591	1.59	0.189
A4 2		-0.246	0.341	-0.72	0.471			
A4 3		-0.264	0.296	-0.89	0.372			
A4 4		0.426	0.351	1.22	0.224			
TK1	1	0.0535	0.0347	1.54	0.123	1.173	1.17	0.279
TK4	1	-0.0629	0.0477	-1.32	0.188	1.682	1.68	0.195
Residual	303					1.899		
Total	313					1.927		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A1 (Gender)	1 (Male)
A2 (Language Proficiency)	1 (Malay Language & English)
A4 (Age)	1 (21 -30 years)

Seven factors were included in the post SA model as presented in Table 4.34. The four factors which revealed significant association with DV1 were TK4, TS1, TK1 and AP4. TK4 appeared to be highly significant (χ^2=29.34 with 1d.f., p<0.001) in determining the compliance behaviour of reporting taxable income in the post SA model. Likewise, at 0.01 level of significance, TS1 was a significant (χ^2=9.64 with 1d.f., p=0.002) determinant, while TK1 and AP4 revealed significant [TK1(χ^2=3.47 with 1d.f., p=0.062); AP4 (χ^2=4.54 with 1d.f., p=0.060)] association at 0.10 level of significance, *ceteris paribus*. The other three factors, AP3 (p=0.104), AP2 (p=0.247) and TK5 (p=0.262) were non-significant determinants. Analysis on the test of

individual predictor revealed that TK1 appeared to be an insignificant predictor (p=0.126) even though it was a significant determinant in the model. The parameter estimates of TK4 (β=0.1449, p=0.040), TS1 (β=0.0659, p=0.039) and AP4 (β=-0.1602, p=0.016) remained significant as individual predictors.

Table 4.34: Factors associated with reporting of taxable income (DV 1) - All groups (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		1.09	1.13	0.96	0.335			
Cut-point 1/2		3.79	1.15	3.31	<.001			
TK4	1	0.1449	0.0706	2.05	0.040*	29.342	29.34	<.001***
TS1	1	0.0659	0.0318	2.07	0.039*	9.638	9.64	0.002**
A4	3					3.681	3.68	0.011*
A4 2		-0.669	0.238	-2.81	0.005**			
A4 3		-0.050	0.258	-0.19	0.846			
A4 4		-0.997	0.437	-2.28	0.022*			
A2	1					5.455	5.45	0.020*
A2 2		0.957	0.420	2.28	0.023*			
TK1	1	0.0501	0.0328	1.53	0.126	3.470	3.47	0.062^
A14	4					2.022	2.02	0.088^
A14 2		0.017	0.640	0.03	0.978			
A14 3		0.511	0.616	0.83	0.407			
A14 4		0.647	0.637	1.02	0.310			
A14 5		1.316	0.844	1.56	0.119			
AP4	1	-0.1602	0.0666	-2.41	0.016*	3.536	3.54	0.060^
AP3	1	0.1043	0.0608	1.72	0.086^	2.639	2.64	0.104
A1	1					1.964	1.96	0.161
A1 2		-0.251	0.191	-1.31	0.190			
AP2	1	-0.0213	0.0158	-1.35	0.177	1.341	1.34	0.247
TK5	1	0.0678	0.0594	1.14	0.253	1.259	1.26	0.262
Residual	451					1.779		
Total	467					1.885		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A4 (Age)	1 (21 -30 years)
A2 (Language Proficiency)	1 (Malay Language & English)
A14 (Levels of Tax Knowledge Rated)	1 (Extremely Good)
A1 (Gender)	1 (Male)

Three common moderating variables, Gender (A1), Language Proficiency (A2) and Age (A4) were included as determinants in the model. At 0.05 level of significance, Gender showed a significant (χ^2=4.86 with 1d.f., p=0.027) mediating effect in the pre SA model but not significant in the post SA model. In contrast, at 0.05 level of significance, Language Proficiency (χ^2=5.45 with 1d.f., p=0.020) and Age (χ^2=3.68 with 3d.f., p=0.011) showed significant mediating effects on DV1 in the post SA model but not in the pre SA model, *ceteris paribus*. In addition, another moderating

variable in the post SA model that revealed significant effect was Level of Tax Knowledge Rated (A14). At 0.10 level of significance, Level of Tax Knowledge Rated showed significant (χ^2=2.02 with 4d.f., p=0.088) mediating effect, *ceteris paribus*. Further analysis revealed that, in the post SA model, those within the age of '31-40 years' (β=-0.669, p=0.005) and '51 years and above' (β=-0.997, p=0.022) were more compliant than their reference level ('21-30 years') and other age groups. In contrast, the parameter estimate for Level of Tax Knowledge Rated did not reveal any significant parameter estimate (p>0.10) at the different levels of tax knowledge rated. Overall, the residual (mean deviance=1.779 with 451d.f.) suggested that the post SA model was reasonably well fit.

Table 4.35: Factors associated with reporting of exempted income (DV 2) - All groups (pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		1.506	0.749	2.01	0.044			
Cut-point 1/2		3.072	0.765	4.02	<.001			
AP1	1	0.0676	0.0302	2.24	0.025*	5.504	5.50	0.019*
TK6	1	0.1180	0.0601	1.96	0.049*	3.408	3.41	0.065^
TK4	1	0.0618	0.0400	1.55	0.122	2.692	2.69	0.101
FC2	1	-0.0624	0.0591	-1.05	0.292	1.102	1.10	0.294
Residual	309					2.195		
Total	313					2.207		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

For DV2 as presented in Table 4.35, in the pre SA model, two factors, namely AP1 and TK6 have significant effects on the dependent variable, *ceteris paribus*. AP1 showed a significant (χ^2=5.50 with 1d.f., p=0.019) effect at 0.05 level of significance while TK6 was significant (χ^2=3.41 with 1d.f., p=0.065) at 0.10 level of significance, *ceteris paribus*. The other factors, FC2 (p=0.294) and TK4 (p=0.101) appeared to be non-significant determinants in the pre SA model. No moderating variables were found in the pre SA model.

In the post SA model, at the different respective levels of significance, three factors appeared to have significant effects on the dependent variable as presented in Table 4.36. At 0.05 level of significance, TK3 appeared to be a significant (χ^2=5.02 with 1d.f., p=0.025) determinant while the other two factors, i.e. TK5 (χ^2=2.98 with 1d.f., p=0.084) and AP2 (χ^2=3.43 with 1d.f., p=0.064) were significant determinants at 0.10 level of significance, *ceteris paribus*. Other non-significant factors that were

included in the model were AS1 (p=0.205), TK1 (p=0.121) and TK4 (p=0.220). The parameter estimates of the three factors that showed significant effects in the model, TK3 (β=0.085, p=0.030), TK5 (β=-0.1220, p=0.025) and AP2 (β=0.0295, p=0.034) also revealed that they were significant individual predictors. In addition, two moderating variables i.e. Language Proficiency (p=0.307) and Category (A8) (p=0.244) were included in the model. However, they did not reveal any significant moderating effects on the DV2. Likewise, the parameter estimates for these two moderating variables did not differ significantly from the respective reference levels as shown in Table 4.36. The residual (mean deviance=2.174 with 459d.f.) showed some dispersion, however it was not considered as large, therefore the model presented for post SA model is considered a reasonable fit.

Table 4.36: Factors associated with reporting of exempted income (DV 2) - All groups (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		-0.726	0.682	-1.06	0.287			
Cut-point 1/2		0.582	0.682	0.85	0.394			
TK3	1	0.0805	0.0372	2.17	0.030*	5.023	5.02	0.025*
TK5	1	-0.1220	0.0543	-2.25	0.025*	2.980	2.98	0.084^
AP2	1	0.0295	0.0139	2.12	0.034*	3.431	3.43	0.064^
AS1	1	-0.0374	0.0309	-1.21	0.226	1.604	1.60	0.205
TK4	1	0.1109	0.0663	1.67	0.094^	1.504	1.50	0.220
TK1	1	-0.0455	0.0315	-1.44	0.149	2.399	2.40	0.121
A8	1					1.355	1.36	0.244
A8 2		-0.243	0.191	-1.27	0.203			
A2	1					1.042	1.04	0.307
A2 2		0.417	0.393	1.06	0.288			
Residual	459					2.174		
Total	467					2.178		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A8 (Category)	1 (Salary & Wage Earner – SW)
A2 (Language Proficiency)	1 (Malay Language & English)

For DV3, in the pre SA model, six factors were included in the model as presented in Table 4.37. At the different respective levels of significance, three factors, i.e. AP1, AS2 and FC1 appeared to be significant determinants on DV3. At 0.01 level of significance, AP1 showed significant (χ^2=9.59 with 1d.f., p=0.002) effect on DV3, while AS2 (χ^2=2.79 with 1d.f., p=0.095) and FC1 (χ^2=3.03 with 1d.f., p=0.082) were significant at 0.10 level of significance, *ceteris paribus*. AP2 (p=0.283), AP3 (p=0.126) and TS2 (p=0.258) were included in the model, however, they appeared to

be non-significant determinants on DV3.

Table 4.37: Factors associated with reporting of casual income (DV 3) - All groups (pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		3.08	8.74	0.35	0.724			
Cut-point 1/2		4.97	8.74	0.57	0.569			
AP1	1	-0.1539	0.0388	-3.97	<.001***	9.589	9.59	0.002**
A6	3					3.310	3.31	0.019*
A6 2		-0.478	0.332	-1.44	0.150			
A6 3		0.392	0.290	1.35	0.177			
A6 4		0.608	0.462	1.32	0.188			
AS2	1	-0.1181	0.0538	-2.20	0.028*	2.786	2.79	0.095^
FC1	1	-0.155	0.104	-1.49	0.136	3.035	3.03	0.082^
AP3	1	0.184	0.103	1.79	0.074^	2.346	2.35	0.126
A14	4					1.887	1.89	0.110
A14 2		5.92	8.66	0.68	0.494			
A14 3		6.35	8.66	0.73	0.463			
A14 4		6.79	8.66	0.78	0.433			
A14 5		6.74	8.70	0.77	0.439			
AP2	1	0.0209	0.0180	1.16	0.247	1.152	1.15	0.283
TS2	1	-0.0898	0.0774	-1.16	0.246	1.281	1.28	0.258
Residual	300					1.841		
Total	313					1.885		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A6 (Levels of Education)	1 (School)
A14 (Levels of Tax Knowledge Rated)	1 (Extremely Good)

Similarly, in the post SA model, six factors were included as presented in Table 4.38 i.e. AP2, TK4, TS1, TK2, TK5 and AP3. The first three factors appeared to have significant effect on DV3, *ceteris paribus*; the latter three factors, i.e. TK2 (p=0.202), TK5 (p=0.210) and AP3 (p=0.123) were not significant in determining the compliance behaviour of reporting casual income. AP2 showed a highly significant (χ^2=26.76 with 1d.f., p<0.001) effect on DV3. At 0.01 level of significance, TK4 showed a significant effect (χ^2=9.84 with 1d.f., p=0.002), whereas TS1 showed a significant effect (χ^2=5.77 with 1d.f., p=0.016) at 0.05 level of significance. The parameter estimates of these three factors [AP2 (β=-0.0428, p=0.007); TK4 (β=0.02417, p=0.003); TS1 (β=0.0810, p=0.017)] also revealed that they were significant individual predictors.

In relation to the demographic variables, no common moderating variables were found in either the pre or post SA models. Two variables were included in the pre SA model. Variables that showed mediating effects were Level of Education (A6)

(χ^2=3.31 with 3d.f., p=0.019); while Level of Tax Knowledge Rated showed non-significant (p=0.11) effect. In the post SA model, Language Proficiency, Age and Ethnicity (A5) were included in the model. The effects of the first two variables, namely Language Proficiency (p=0.264) and Age (p=0.133) were not significant, while Ethnicity, at 0.01 level of significance, *ceteris paribus*, appeared to have significant (χ^2=4.82 with 3d.f., p=0.002) mediating effect on DV3. Further results on Ethnicity revealed that the parameter estimate for Chinese was significant (β=-0.859, p=0.001), indicating that they were more compliant as compared to the reference level (Malay). However, the parameter estimates for the other two ethnic groups (Indian and Others) did not differ significantly from the reference level as shown in Table 4.38. Overall, the residual (mean deviance=1.664 with 454d.f.) of the logistic regression revealed that the model was well fit.

Table 4.38: Factors associated with reporting of casual income (DV 3) - All groups (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		-0.871	0.951	-0.92	0.360			
Cut-point 1/2		-0.059	0.951	-0.06	0.950			
AP2	1	-0.0428	0.0160	-2.68	0.007**	26.759	26.76	<.001***
TK4	1	0.2417	0.0802	3.01	0.003**	9.836	9.84	0.002**
A5	3					4.819	4.82	0.002**
A5 2		-0.859	0.269	-3.20	0.001**			
A5 3		-0.752	0.546	-1.38	0.168			
A5 4		-6.04	9.10	-0.66	0.507			
TS1	1	0.0810	0.0339	2.39	0.017*	5.768	5.77	0.016*
A4	3					1.865	1.87	0.133
A4 2		0.025	0.248	0.10	0.921			
A4 3		-0.240	0.284	-0.85	0.397			
A4 4		-1.236	0.566	-2.18	0.029*			
AP3	1	-0.0921	0.0611	-1.51	0.131	2.375	2.38	0.123
TK2	1	-0.0556	0.0422	-1.32	0.188	1.626	1.63	0.202
TK5	1	-0.0837	0.0642	-1.30	0.193	1.569	1.57	0.210
A2	1					1.248	1.25	0.264
A2 2		0.549	0.489	1.12	0.261			
Residual	454					1.644		
Total	467					1.747		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A5 (Ethnicity)	1 (Malay)
A4 (Age)	1 (21 -30 years)
A2 (Language Proficiency)	1 (Malay Language & English)

For the three dependent variables in the post SA model, there was clear evidence that factors under TK had the most effects in determining the compliance behaviour of

individual taxpayers. Two other main factors, AP and TS somehow were not prevalent on DV2 but had revealed reasonable effects in determining the compliance behaviour of taxpayers in relation to reporting taxable income and casual income. In addition, Language Proficiency also played an important role in mediating the compliance behaviour of individual taxpayers.

Two separate logistic regression analyses were then conducted on the data set of SW and the SE in order to include the two variables relevant only to the SW;[285] and the other variables that were only applicable to SE.[286] As there were missing values in the demographic variables in relation to Sector of Employment (A9) and Occupation (A10) for the SW, the further deletion of responses reduced the sample size to 303 in the pre SA survey and 451 in the post SA survey. For the SE, the deleting of responses with missing values in relation to the Types of Business (A11) reduced the sample size to 313 for the pre SA survey and 466 for the post SA survey.

4.1.16.2 Determinants for the SW

Table 4.39 and Table 4.40 present the models in relation to SW's compliance behaviour on reporting of taxable income. In the pre SA model, six factors that were included in the model were AP2, FC1, FC2, TK1, TK3 and TS2; however only three factors, i.e. AP2, TK1 and TS2 showed significant effect on DV1. At the different respective levels of significance, *ceteris paribus*, AP2 (χ^2=7.99 with 1d.f., p=0.005), TK1 (χ^2=3.58 with 1d.f., p=0.058) and TS2 (χ^2=6.18 with 1d.f., p=0.013) showed significant effects on DV1.

[285] The two variables relevant to the SW were Sector of Employment (A9) and Occupation (A10).
[286] The variables relevant only to SE were Type of Business (A11), Business Income and Deduction (KB).

Table 4.39: Factors associated with reporting of taxable income (DV1) - SW (pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		2.02	1.30	1.55	0.122			
Cut-point 1/2		4.09	1.33	3.07	0.002			
A2	1					6.512	6.51	0.011*
A2 2		-2.66	1.12	-2.37	0.018*			
TS2	1	-0.241	0.107	-2.25	0.024*	6.181	6.18	0.013*
AP2	1	0.0843	0.0256	3.30	<.001***	7.987	7.99	0.005**
A4	3					2.060	2.06	0.103
A4 2		-0.693	0.467	-1.48	0.138			
A4 3		-0.327	0.481	-0.68	0.496			
A4 4		0.432	0.549	0.79	0.431			
TK1	1	0.1272	0.0586	2.17	0.030*	3.582	3.58	0.058^
FC2	1	0.1465	0.0932	1.57	0.116	1.807	1.81	0.179
FC1	1	0.186	0.158	1.18	0.239	1.767	1.77	0.184
A9	1					1.374	1.37	0.241
A9 2		0.373	0.336	1.11	0.266			
TK3	1	-0.0960	0.0972	-0.99	0.324	1.038	1.04	0.308
Residual	174					1.842		
Total	185					1.929		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A2 (Language Proficiency)	1 (Malay Language & English)
A4 (Age)	1 (21 -30 years)
A9 (Sector of Employment)	1 (Public Sector)

Similarly, in the post SA model, six factors were included in the model, namely AP2, AP3, AP4, TK4, TK6 and TS1. The effect of TK4 appeared to be highly significant (χ^2=21.16 with 1d.f., p<0.001) on DV1, while that of AP4 and AP2 were significant [AP4 (χ^2=5.15 with 1d.f., p=0.023); AP2 (χ^2=4.53 with 1d.f., p=0.033)] at 0.05 level of significance, *ceteris paribus*. As for AP3 (p=0.239), TK6 (p=0.188) and TS1 (p=0.185), the effects of these three factors were not significant. For the three factors that were significant in the model, the parameter estimates [TK4 (β=0.2032, p=0.020); AP4 (β=-0.2072, p=0.011); AP2 (β=-0.043, p=0.037)] in the results as presented in Table 4.40 showed that they were significant individual predictors.

Table 4.40: Factors associated with reporting of taxable income (DV 1) - SW (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		-0.04	1.24	-0.04	0.972			
Cut-point 1/2		2.84	1.26	2.26	0.024			
TK4	1	0.2032	0.0873	2.33	0.020*	21.155	21.16	<.001***
AP4	1	-0.2072	0.0817	-2.53	0.011*	5.153	5.15	0.023*
AP2	1	-0.0403	0.0194	-2.08	0.037*	4.526	4.53	0.033*
A9	1					2.874	2.87	0.090^
A9 2		0.314	0.246	1.28	0.202			
TK6	1	0.1178	0.0863	1.36	0.173	1.736	1.74	0.188
A4	3					1.953	1.95	0.119
A4 2		-0.655	0.285	-2.30	0.021*			
A4 3		-0.176	0.314	-0.56	0.575			
A4 4		-0.670	0.555	-1.21	0.227			
AP3	1	0.1092	0.0761	1.44	0.151	1.388	1.39	0.239
TS1	1	0.0552	0.0399	1.38	0.166	1.755	1.76	0.185
A2	1					1.644	1.64	0.200
A2 2		0.724	0.586	1.24	0.216			
Residual	303					1.756		
Total	314					1.841		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A9 (Sector of Employment)	1 (Public Sector)
A4 (Age)	1 (21 -30 years)
A2 (Language Proficiency)	1 (Malay Language & English)

With regards to the moderating variables, three common variables i.e. Language Proficiency, Age and Sector of Employment were found to have mediating effects on the compliance behaviour in relation to DV1. However, the effect of Age was not significant (p>0.10) either in the pre or post SA models. At 0.05 level of significance, Language Proficiency revealed significant (χ^2=6.51 with 1d.f., p=0.011) mediating effects in the pre SA model but insignificant effect (p=0.200) in the post SA model on compliance behaviour, *ceteris paribus*. Conversely, Sector of Employment revealed the least significant (χ^2=2.87 with 1d.f., p=0.090) mediating effect on compliance behaviour in the post SA model but was not significant (p=0.241) in the pre SA model. Although Sector of Employment had a significant mediating effect on compliance behaviour in the model, however, the parameter estimate (β=0.314, p=0.202) for those employed in the 'private sector' was not significant and did not differ from the reference level (public sector). Similarly, in the model for 'All groups' in relation to DV1, the residual (mean deviance=0.1756 with 303d.f.) revealed that overall the post SA model was reasonably well fit.

Table 4.41: Factors associated with reporting of exempted income (DV 2) - SW (pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		2.83	1.03	2.74	0.006			
Cut-point 1/2		4.56	1.07	4.28	<.001			
AS1	1	0.0883	0.0481	1.84	0.066^	5.439	5.44	0.020*
A9	1					3.239	3.24	0.072^
A9 2		0.536	0.291	1.84	0.066^			
TK3	1	0.1688	0.0940	1.80	0.072^	2.654	2.65	0.103
TK6	1	0.1390	0.0877	1.59	0.113	3.167	3.17	0.075^
TS3	1	0.1426	0.0925	1.54	0.123	2.263	2.26	0.132
TK2	1	-0.1041	0.0769	-1.35	0.176	1.333	1.33	0.248
TS1	1	0.0852	0.0478	1.78	0.075^	2.063	2.06	0.151
A6	3					1.997	2.00	0.112
A6 2		0.221	0.406	0.54	0.587			
A6 3		-0.012	0.354	-0.03	0.974			
A6 4		1.493	0.636	2.35	0.019*			
TK4	1	0.0948	0.0656	1.45	0.148	1.797	1.80	0.180
TK5	1	-0.146	0.115	-1.26	0.206	1.673	1.67	0.196
Residual	173					2.194		
Total	185					2.211		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A9 (Sector of Employment)	1 (Public Sector)
A6 (Levels of Education)	1 (School)

For DV2 as presented in Table 4.41, in the pre SA model, eight factors were included in the model, namely AS1, TK2, TK3, TK4, TK5, TS1, TS3 and TK6. At 0.05 and 0.10 level of significance, AS1 (χ^2=5.44 with 1d.f., p=0.020) and TK6 (χ^2=3.17 with 1d.f., p=0.075) were respectively significant determinants of compliance behaviour of the SW in relation to exempted income. The other factors, TK2, TK3, TK4, TK5, TS1 and TS3 were non-significant (p>0.010) determinants.

In the post SA model, eight factors i.e. AP2, FC1, FC2, TK3, TK5, TS1, TS2 and TS3 were included in the model as presented in Table 4.42; however only three factors revealed significant association with DV2. At the different respective levels of significance, TK3 (χ^2=6.43 with 1d.f., p=0.011), TK5 (χ^2=3.68 with 1d.f., p=0.055) and FC2 revealed significant (χ^2=4.07 with 1d.f., p=0.044) effects on the compliance behaviour of the SW, *ceteris paribus*. Likewise, for the test of individual predictor, the parameter estimates for these three factors [TK3 (β=0.0779, p=0.064); TK5 (β=-0.181, p=0.009); FC2 (β=-0.1963, p=0.040)] were found to be significant determinants.

Table 4.42: Factors associated with reporting of exempted income (DV 2) - SW (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		-0.87	1.01	-0.86	0.388			
Cut-point 1/2		0.57	1.01	0.57	0.571			
TK3	1	0.0779	0.0421	1.85	0.064^	6.429	6.43	0.011*
TK5	1	-0.1801	0.0689	-2.61	0.009**	3.676	3.68	0.055^
FC2	1	-0.1963	0.0955	-2.06	0.040*	4.066	4.07	0.044*
AP2	1	0.0337	0.0177	1.91	0.057^	2.557	2.56	0.110
TS2	1	-0.0838	0.0614	-1.37	0.172	1.442	1.44	0.230
TS1	1	0.0465	0.0369	1.26	0.208	1.242	1.24	0.265
FC1	1	-0.133	0.111	-1.20	0.229	1.257	1.26	0.262
TS3	1	0.0755	0.0658	1.15	0.251	1.322	1.32	0.250
Residual	306					2.167		
Total	314					2.182		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

It appeared that the demographic variable did not have any effect in the post SA model. In contrast, in the pre SA model, two variables (Levels of Education and Sector of Employment) showed mediating effects on the compliance behaviour of the SW. However, at 0.10 level of significance, only Sector of Employment revealed a significant (χ^2=3.24 with 1d.f., p=0.072) mediating effect on the compliance behaviour of the SW, *ceteris paribus*. As similar to the post SA model for 'All groups' in relation to DV2 as discussed previously, the residual (mean deviance=2.167 with 306d.f.) exhibited some dispersion; however it was not considered large. Hence, the model was considered to be a reasonable fit.

As for casual income (DV3), in the pre SA model, at the different respective levels of significance, all the six factors included in the model as presented in Table 4.43 showed significant effects on DV3, *ceteris paribus*. At 0.05 level of significance, AP1 (χ^2=4.05 with 1d.f., p=0.044), FC2 (χ^2=3.9 with 1d.f., p=0.048), AS2 (χ^2=4.17 with 1d.f., p=0.041), TS1 (χ^2=3.88 with 1d.f., p=0.049) and FC1 (χ^2=3.9 with 1d.f., p=0.012) revealed significant effects, on DV3. AP3 appeared to be the least significant (χ^2=2.83 with 1d.f., p=0.093) as it was only significant at 0.10 level of significance, *ceteris paribus*, on DV3.

Table 4.43: Factors associated with reporting of casual income (DV 3) - SW (pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		-0.61	1.40	-0.44	0.663			
Cut-point 1/2		1.40	1.41	0.99	0.320			
FC1	1	-0.333	0.138	-2.42	0.015*	6.353	6.35	0.012*
TS1	1	0.1008	0.0437	2.31	0.021*	3.885	3.88	0.049*
AS2	1	-0.1780	0.0711	-2.50	0.012*	4.167	4.17	0.041*
FC2	1	0.2060	0.0927	2.22	0.026*	3.901	3.90	0.048*
AP3	1	0.371	0.160	2.32	0.020*	2.825	2.83	0.093^
AP1	1	-0.0989	0.0495	-2.00	0.046*	4.047	4.05	0.044*
A9	1					1.853	1.85	0.173
A9 2		0.479	0.319	1.50	0.133			
A2	1					1.817	1.82	0.178
A2 2		-1.109	0.853	-1.30	0.194			
Residual	177					1.806		
Total	185					1.884		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A9 (Sector of Employment)	1 (Public Sector)
A2 (Language Proficiency)	1 (Malay Language & English)

In the post SA model, the seven factors included in the model as presented in Table 4.44 were FC2, TS1, TS3, AP2, AP4, TK4 and TK6. Two factors, AP2 and TK4 showed a highly significant [AP2 (χ^2=2.89 with 1d.f., p<0.001); TK4 (χ^2=12.10 with 1d.f., p<0.001)] effect on the DV3, *ceteris paribus*. TS3 was a significant (χ^2=3.17 with 1d.f., p=0.075) determinant at 0.01 level of significance, while TS1 was significant (χ^2=5.95 with 1d.f., p=0.015) at 0.05 level of significance, *ceteris paribus*. However, the effects of FC2, AP4 and TK6 on DV3 were not significant (p>0.10). Three factors that were significant in the model were also found to have significant parameter estimates [AP2 (β=-0.0697, p=0.001); TK4 (β=0.221, p=0.027); TS3 (β=0.844, p=0.060)] for the test of individual predictor.

Two common demographic variables, i.e. Language Proficiency and Sector of Employment, were also included in the pre and the post SA models. Neither variable revealed any significant (p>0.10) mediating effect on DV3. In the post SA model, it appeared that the effect of Ethnicity was highly significant (χ^2=7.83 with 3d.f., p<0.001), *ceteris paribus*, in mediating the compliance behaviour of respondents. The parameter estimate (β=-1.546, p<0.001) for the Chinese appeared to be very significantly different from the reference level (Malay) and that the former were more compliant. Likewise, the parameter estimate of Indian also showed significant

different (β=-1.522, p=0.043) from the reference level (Malay), as well as indicating that they were more compliant in comparison to the reference level (Malay), at 0.05 level of significance, *ceteris paribus*. It appeared that the residual (mean deviance=1.533 with 303d.f.) for this post SA model was lower than all other models discussed earlier, thus this model was a better fit.

Table 4.44: Factors associated with reporting of casual income (DV 3) - SW (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		-0.56	1.36	-0.41	0.680			
Cut-point ½		0.31	1.36	0.22	0.823			
AP2	1	-0.0697	0.0214	-3.26	0.001**	28.295	28.29	<.001***
A5	2					7.828	7.83	<.001***
A5 2		-1.546	0.383	-4.04	<.001***			
A5 3		-1.522	0.752	-2.02	0.043*			
TK4	1	0.221	0.100	2.21	0.027*	12.099	12.10	<.001***
TS1	1	0.0844	0.0448	1.88	0.060^	5.949	5.95	0.015*
TS3	1	-0.1155	0.0821	-1.41	0.160	3.169	3.17	0.075^
FC2	1	0.202	0.126	1.60	0.110	2.675	2.68	0.102
AP4	1	-0.1221	0.0907	-1.35	0.178	1.997	2.00	0.158
TK6	1	0.1316	0.0991	1.33	0.184	1.683	1.68	0.195
A9	1					1.201	1.20	0.273
A9 2		0.284	0.277	1.03	0.305			
A2	1					1.032	1.03	0.310
A2 2		0.712	0.676	1.05	0.292			
Residual	303					1.533		
Total	314					1.714		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A5 (Ethnicity)	1 (Malay)
A9 (Sector of Employment)	1 (Public Sector)
A2 (Language Proficiency)	1 (Malay Language & English)

As similar to the models presented for 'All groups', the three dependent variables (DV1, DV2 and DV3) in the models of post SA model for the SW were clearly affected by factors under TK, AP and TS in determining the compliance behaviour of the SW. It was noted that FC appeared to show effect on DV2 and DV3 but not on DV1 in determining the compliance behaviour of the SW. In addition, Sector of Employment was found to be the common moderating variable on DV1 and DV3.

4.1.16.3 Determinants for the SE

For the SE, in terms of taxable income (DV1) in the pre SA model, six factors were included in the model as presented in Table 4.45, namely AP2, AP3, AS1, FC2, KB1

and TK4. Only two factors, AP2 and AP3, appeared to show significant [AP2 (χ^2=3.02 with 1d.f., p=0.082); AP3 (χ^2=3.02 with 1d.f., p=0.082)] effects on DV1 at 0.10 level of significance, *ceteris paribus*. On the contrary, AS1, FC2, KB1 and TK4 were non-significant (p>0.10) determinants.

Table 4.45: Factors associated with reporting of taxable income (DV 1) - SE (pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		0.37	1.60	0.23	0.816			
Cut-point ½		2.13	1.62	1.31	0.189			
A6	3					3.098	3.10	0.026*
A6 2		-0.584	0.544	-1.07	0.283			
A6 3		0.477	0.498	0.96	0.338			
A6 4		1.766	0.778	2.27	0.023*			
AP3	1	-0.285	0.146	-1.95	0.051^	3.023	3.02	0.082^
AP2	1	0.0582	0.0310	1.88	0.061^	3.022	3.02	0.082^
AS1	1	0.1230	0.0685	1.80	0.073^	2.412	2.41	0.120
FC2	1	-0.120	0.113	-1.06	0.287	1.896	1.90	0.169
TK4	1	-0.1533	0.0793	-1.93	0.053^	1.927	1.93	0.165
KB1	1	0.0934	0.0562	1.66	0.097^	2.662	2.66	0.103
A2	1					1.401	1.40	0.237
A2 2		0.965	0.819	1.18	0.239			
Residual	103					1.902		
Total	113					1.961		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A6 (Levels of Education)	1 (School)
A2 (Language Proficiency)	1 (Malay Language & English)

In the post SA model, nine factors were included in the model as presented in Table 4.46, namely AP2, AS1, FC2, KB4, KB5, KB6, KB7, TK5 and TS1. Four factors, AS1, AP2, KB5 and TK5 did not reveal any significant (p>0.10) effect on the compliance behaviour of the SE in relation to DV1. Conversely, TS1 appeared to have highly significant (χ^2=13.51 with 1d.f., p<0.001) effect on DV1. At 0.01 level of significance, KB4 revealed significant (χ^2=2.66 with 1d.f., p=0.003) effect on DV1, whereas KB7 and FC2 showed significant [KB7 (χ^2=4.13 with 1d.f., p=0.042); FC2 (χ^2=3.97 with 1d.f., p=0.046)] effects at 0.05 level of significance. The effect of KB6 appeared to be less significant (χ^2=3.31 with 1d.f., p=0.069) as compared with that of KB4, KB7 and FC2, as it was significant at 0.10 level, *ceteris paribus*. The results further showed that of the five factors that revealed significant effects in the model, only the parameter estimate of KB7 was found to be insignificant (p=0.102). In contrast, TS1 remained a highly significant individual predictor (β=0.2453,

p<0.001). It was also noted that the parameter estimate of KB4 was found to be highly significant (β=0.437, p<0.001) as compared with the level of significance in the model. The other two factors that were significant in the parameter estimates were KB6 (β=0.449, p=0.002) and FC2 (β=-0.409, p=0.044).

Table 4.46: Factors associated with reporting of taxable income (DV 1) - SE (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		6.40	2.82	2.27	0.023			
Cut-point ½		9.73	2.93	3.32	<.001			
TS1	1	0.2453	0.0714	3.44	<.001***	13.509	13.51	<.001***
KB4	1	0.437	0.121	3.62	<.001***	8.892	8.89	0.003**
A2	1					3.420	3.42	0.064^
A2 2		1.805	0.914	1.97	0.048*			
A4	3					2.319	2.32	0.073^
A4 2		-0.902	0.569	-1.59	0.113			
A4 3		0.523	0.687	0.76	0.447			
A4 4		-2.73	1.07	-2.56	0.011*			
KB6	1	0.449	0.147	3.04	0.002**	3.308	3.31	0.069^
A11	5					2.233	2.23	0.048*
A11 2		-0.87	1.18	-0.74	0.459			
A11 3		0.836	0.860	0.97	0.331			
A11 4		-1.493	0.685	-2.18	0.029*			
A11 5		-1.446	0.821	-1.76	0.078^			
A11 6		0.621	0.567	1.10	0.273			
TK5	1	0.474	0.146	3.25	0.001**	2.381	2.38	0.123
A5	3					2.275	2.28	0.078^
A5 2		-1.010	0.561	-1.80	0.072^			
A5 3		-0.196	0.962	-0.20	0.838			
A5 4		-10.8	19.3	-0.56	0.576			
A6	3					2.533	2.53	0.055^
A6 2		-0.359	0.789	-0.45	0.650			
A6 3		-2.003	0.689	-2.91	0.004**			
A6 4		-1.73	1.07	-1.61	0.107			
FC2	1	-0.409	0.203	-2.02	0.044*	3.970	3.97	0.046*
KB7	1	0.335	0.205	1.63	0.102	4.129	4.13	0.042*
KB5	1	-0.169	0.103	-1.65	0.100	2.616	2.62	0.106
AP2	1	-0.0360	0.0303	-1.19	0.236	2.485	2.48	0.115
AS1	1	-0.1285	0.0737	-1.74	0.081^	2.103	2.10	0.147
A14	4					1.726	1.73	0.141
A14 2		-0.34	1.60	-0.21	0.832			
A14 3		1.12	1.56	0.72	0.470			
A14 4		0.68	1.60	0.42	0.674			
A14 5		2.42	2.32	1.04	0.298			
Residual	105					1.752		
Total	133					2.032		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:	
Factor	**Reference level**
A2 (Language Proficiency)	1 (Malay Language & English)
A4 (Age)	1 (21 -30 years)
A11 (Types of Business)	1 (Trading)
A5 (Ethnicity)	1 (Malay)
A6 (Levels of Education)	1 (School)
A14 (Levels of Tax Knowledge Rated)	1 (Extremely Good)

In addition to the factors mentioned, two common demographic variables i.e. Language Proficiency and Level of Education were included in the pre and the post SA models. At the different respective levels of significance, Level of Education appeared to be a significant mediating variable [pre (χ^2=3.1 with 3d.f., p=0.026); post (χ^2=2.53 with 3d.f., p=0.055)] on the respondents' compliance behaviour in both the pre and post SA models. Although Language Proficiency showed significant mediating effects (χ^2=3.42 with 1d.f., p=0.064) in the post SA model, it was not a significant (p=0.237) mediating variable in the pre SA model. Other demographic variables that were also included in the post SA model were Types of Business, Level of Tax Knowledge Rated, Age and Ethnicity. At 0.05 level of significance, Types of Business appeared to have significant (χ^2=2.23 with 5d.f., p=0.048) mediating effect on compliance behaviour. Meanwhile the effects of Age and Ethnicity appeared to be less significant as both were only significant [Age (χ^2=2.32 with 3d.f., p=0.073); Ethnicity (χ^2=2.28 with 3d.f., p=0.078)] at the 0.10 level, *ceteris paribus*. Conversely, Level of Tax Knowledge Rated did not reveal any significant (p=0.141) mediating effects on compliance behaviour of the SE in relation to the reporting of taxable income.

For the four moderating variables that showed significant effects in the post SA model, the parameter estimate for those who had indicated English as their Language Proficiency (β=1.805, p=0.048) significantly differed from the reference level (those who indicated their Language Proficiency as Malay Language & English) and also revealed that they tended to incline more towards 'unintentional non-compliance'. On the other hand, the significance of the parameter estimate (β=-273, p=0.011) for those who were within the Age group of '51 years and above' implied that they were more compliant in comparison with the reference level ('21 to 30 years'). Other Age groups appeared to be of no difference from the reference level. Similarly for Level of Education, only those who had 'University/College Degree' revealed a significant parameter estimates (β=-2.003, p=0.004) and appeared to be more compliant as

compared to the reference level ('School'); whereas those who had 'Diploma' or 'Other' qualifications were not different to the reference level. As for the Types of Business, for those who were in 'Management or Consultancy Services' (β=-1.493, p=0.029) and 'Construction' (β=-1.446, p=0.078), the parameter estimates revealed that they were significantly different from and more compliant in comparison with the reference level (i.e. those who were in 'Trading' business). Those who were in 'Other Types of Business' did not differ significantly from the reference level. Overall, the residual (mean deviance=1.752 with 105d.f.) showed that this post SA model was reasonably well fit.

Table 4.47: Factors associated with reporting of exempted Income (DV 2) - SE (Pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		5.12	2.37	2.16	0.031			
Cut-point 1/2		7.16	2.42	2.96	0.003			
+AS2	1					4.241	4.24	0.039*
A4	3					2.775	2.78	0.040*
A4 2		0.537	0.747	0.72	0.472			
A4 3		-0.179	0.756	-0.24	0.813			
A4 4		1.757	0.847	2.07	0.038*			
AP1	1	0.1793	0.0700	2.56	0.010*	2.753	2.75	0.097^
KB4	1	-0.3605	0.0995	-3.62	<.001***	2.844	2.84	0.092^
TK5	1	0.409	0.131	3.12	0.002**	5.297	5.30	0.021*
AS1	1	-0.1560	0.0681	-2.29	0.022*	4.801	4.80	0.028*
-AS2	-1					0.137	0.14	0.712
TS1	1	-0.1348	0.0614	-2.19	0.028*	4.239	4.24	0.040*
AP2	1	0.0608	0.0278	2.19	0.029*	3.372	3.37	0.066^
FC2	1	-0.170	0.123	-1.38	0.166	3.294	3.29	0.070^
KB2	1	0.1321	0.0967	1.37	0.172	1.611	1.61	0.204
TS2	1	0.189	0.149	1.27	0.204	1.393	1.39	0.238
FC1	1	0.246	0.241	1.02	0.307	1.126	1.13	0.289
Residual	100					2.090		
Total	113					2.231		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A4 (Age)	1 (21 -30 years)

In the pre SA model, the results of the stepwise ordinal logistic regression analysis as presented in Table 4.47 revealed that AS2 was a significant determinant on its own. However, when other factors were sequentially included, AS2 became insignificant. Hence, upon excluding AS2, there were ten factors included in the model. Only seven factors were found to be significant determinants. At 0.05 level of significance, three factors, namely AS1 (χ^2=4.8 with 1d.f., p=0.028), TK5 (χ^2=5.3

with 1d.f., p=0.021) and TS1 (χ^2=4.24 with 1d.f., p=0.04) revealed significant effects on compliance behaviour in relation to DV2. The other four factors, KB4 (χ^2=2.84 with 1d.f., p=0.092), AP1 (χ^2=2.75 with 1d.f., p=0.097), AP2 (χ^2=3.37 with 1d.f., p=0.066) and FC2 (χ^2=3.29 with 1d.f., p=0.07) were significant determinants at 0.10 level of significance, *ceteris paribus*, on the compliance behaviour of the respondents.

Table 4.48: Factors associated with reporting of exempted income (DV 2) - SE (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		4.71	1.98	2.38	0.018			
Cut-point 1/2		5.99	2.01	2.98	0.003			
KB2	1	0.3274	0.0955	3.43	<.001***	3.745	3.75	0.053^
+TS1	1					2.909	2.91	0.088^
AS1	1	-0.0995	0.0645	-1.54	0.123	1.871	1.87	0.171
KB6	1	0.155	0.102	1.52	0.130	1.486	1.49	0.223
TK1	1	-0.1395	0.0753	-1.85	0.064^	1.847	1.85	0.174
TK4	1	0.427	0.135	3.16	0.002**	3.880	3.88	0.049*
TK3	1	0.1371	0.0760	1.80	0.071^	1.718	1.72	0.190
FC1	1	0.380	0.185	2.06	0.040*	1.914	1.91	0.167
KB4	1	-0.312	0.111	-2.81	0.005**	1.731	1.73	0.188
-TS1	-1					0.765	0.77	0.382
KB3	1	0.327	0.155	2.11	0.035*	3.166	3.17	0.075^
TK2	1	-0.1869	0.0842	-2.22	0.026*	3.345	3.35	0.067^
TK6	1	0.242	0.127	1.90	0.057^	3.105	3.10	0.078^
TS2	1	0.135	0.111	1.22	0.221	1.487	1.49	0.223
Residual	121					2.162		
Total	133					2.203		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Similarly, for exempted income as presented in Table 4.48 for the post SA model, TS1 was a significant determinant on its own. However, when other factors were incorporated into the model, it became insignificant and thereby was dropped from the model. Hence, in the post SA model, twelve factors were included in the model, namely AS1, FC1, TS2, KB2, KB3, KB4, KB6, TK1, TK2, TK3, TK4 and TK6. At the different respective levels of significance, *ceteris paribus*, five factors i.e. KB2 (χ^2=3.75 with 1d.f., p=0.053), KB3 (χ^2=3.17 with 1d.f., p=0.075), TK2 (χ^2=3.35 with 1d.f., p=0.067), TK4 (χ^2=3.88 with 1d.f., p=0.049) and TK6 (χ^2=3.1 with 1d.f., p=0.078) were significant determinants. Seven other factors (AS1, FC1, KB4, KB6, TK1, TK3 and TS2) were non-significant (p>0.10) determinants. The results of the test of individual predictor revealed that the parameter estimates of all the five factors (KB2, KB3, TK2, TK4 and TK6 were found to be significant, particularly KB2 being a highly significant (β=0.327, p<0.001) predictor.

With regards to demographic variables, only one, Age, was found to be have a significant (χ^2=2.78 with 3d.f., p=0.04) mediating effect on the compliance behaviour of the respondents in the pre SA model. However, no moderating variables were found in the post SA model. Similar to the models for DV2 in 'All groups' and the SW, the residual (mean deviance=2.162 with 121d.f.) of the post SA model exhibited some dispersion. However, it was considered as not large, hence the model was a reasonable fit.

Table 4.49: Factors associated with reporting of casual income (DV 3) - SE (pre SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		-4.9	32.6	-0.15	0.881			
Cut-point 1/2		-1.4	32.6	-0.04	0.965			
AP1	1	-0.494	0.119	-4.14	<.001***	6.687	6.69	0.010**
KB1	1	0.3039	0.0939	3.23	0.001**	9.100	9.10	0.003**
A5	3					2.527	2.53	0.056^
A5 2		-0.259	0.619	-0.42	0.676			
A5 3		2.32	1.04	2.24	0.025*			
A5 4		-0.56	2.88	-0.19	0.846			
KB5	1	-0.221	0.170	-1.30	0.194	3.738	3.74	0.053^
A6	3					2.306	2.31	0.075^
A6 2		-1.086	0.701	-1.55	0.121			
A6 3		1.475	0.722	2.04	0.041*			
A6 4		1.253	0.947	1.32	0.186			
TK3	1	-0.170	0.135	-1.26	0.208	3.720	3.72	0.054^
TS3	1	0.385	0.177	2.17	0.030*	3.251	3.25	0.071^
KB3	1	0.234	0.108	2.16	0.031*	2.964	2.96	0.085^
TK6	1	-0.341	0.160	-2.13	0.033*	2.330	2.33	0.127
FC2	1	0.183	0.150	1.22	0.222	1.499	1.50	0.221
AS1	1	-0.1056	0.0928	-1.14	0.255	1.025	1.03	0.311
KB4	1	-0.268	0.123	-2.18	0.029*	1.620	1.62	0.203
A11	5					1.486	1.49	0.190
A11 2		-2.29	1.49	-1.53	0.125			
A11 3		0.31	1.26	0.25	0.805			
A11 4		0.820	0.813	1.01	0.313			
A11 5		0.87	1.04	0.84	0.404			
A11 6		1.536	0.680	2.26	0.024*			
A14	4					1.447	1.45	0.216
A14 2		3.0	32.5	0.09	0.926			
A14 3		4.6	32.5	0.14	0.887			
A14 4		4.9	32.5	0.15	0.881			
A14 5		4.9	32.6	0.15	0.882			
A1	1					1.479	1.48	0.224
A1 2		-0.787	0.585	-1.35	0.178			
AP3	1	0.220	0.214	1.03	0.304	1.052	1.05	0.305
Residual	86					1.605		
Total	113					1.807		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A5 (Ethnicity)	1 (Malay)
A6 (Levels of Education)	1 (School)
A11 (Types of Business)	1 (Trading)
A14 (Levels of Tax Knowledge Rated)	1 (Extremely Good)
A1 (Gender)	1 (Male)

For DV3, in the pre SA model, eleven factors were included in the model as presented in Table 4.49. They were AP1, AP3, FC2, AS1, KB1, KB3, KB4, KB5, TK3, TK6 and TS3. At 0.05 level of significance, two of these factors, AP1 (χ^2=6.69 with 1d.f., p=0.01) and KB1 (χ^2=9.1 with 1d.f., p=0.03) showed significant effects on DV3, *ceteris paribus*. Whereas four factors, KB3 (χ^2=2.96 with 1d.f., p=0.085), KB5 (χ^2=3.74 with 1d.f., p=0.053), TK3 (χ^2=3.72 with 1d.f., p=0.054), and TS3 (χ^2=3.25 with 1d.f., p=0.071), appeared to be significant determinants at 0.10 level of significance, *ceteris paribus*. The other five factors (AP3, FC2, AS1, KB4 and TK6) were non-significant determinants.

Similarly, in the post SA model, eleven factors were also included in the model as presented in Table 4.50, namely AP2, FC1, AS1, KB1, KB2, KB7, TK1, TK4, TK5, TK6 and TS2. Six factors, AP2, AS1, FC1, KB1, KB7 and TK5 revealed insignificant (p>0.10) effects on the compliance behaviour of the respondents. In contrast, three factors, TK1 (χ^2=4.84 with 1d.f., p=0.028), TK4 (χ^2=4.48 with 1d.f., p=0.034) and TK6 (χ^2=4.66 with 1d.f., p=0.031) were significant determinants at 0.05 level of significance, *ceteris paribus*. In addition, two factors, KB2 (χ^2=2.88 with 1d.f., p=0.089) and TS2 (χ^2=3.06 with 1d.f., p=0.08) were significant determinants at 0.10 level of significance, *ceteris paribus*, on the compliance behaviour of the respondents. Results of the test of individual predictor also revealed that the parameter estimates for these five factors [TK6 (β=-0.449, p=0.004); TK4 (β=0.411, p=0.007); KB2 (β=0.363, p=0.007); TS2 (β=-0.395, p=0.005); TK1 (β=-0.2343, p=0.006)] were all significant at 0.10 level, *ceteris paribus*.

Table 4.50: Factors associated with reporting of casual income (DV 3) - SE (post SA)

Estimates of parameters and accumulated analysis of deviance

Parameter	d.f.	estimate	s.e.	t	t pr.	mean deviance	deviance ratio	approx chi pr
Cut-point 0/1		1.8	15.7	0.12	0.907			
Cut-point 1/2		2.7	15.7	0.17	0.861			
TK6	1	-0.449	0.157	-2.87	0.004**	4.664	4.66	0.031*
TK4	1	0.411	0.153	2.68	0.007**	4.477	4.48	0.034*
FC1	1	-0.515	0.215	-2.39	0.017*	1.681	1.68	0.195
KB7	1	-0.650	0.221	-2.95	0.003**	2.492	2.49	0.114
KB2	1	0.363	0.135	2.68	0.007**	2.883	2.88	0.089^
TS2	1	-0.395	0.140	-2.83	0.005**	3.059	3.06	0.080^
TK1	1	-0.2343	0.0858	-2.73	0.006**	4.838	4.84	0.028*
A14	4					2.558	2.56	0.037*
A14 2		8.8	15.5	0.56	0.572			
A14 3		9.2	15.5	0.59	0.552			
A14 4		8.5	15.5	0.55	0.583			
A14 5		7.7	15.6	0.50	0.619			
TK5	1	-0.171	0.125	-1.37	0.171	2.273	2.27	0.132
KB1	1	-0.1440	0.0985	-1.46	0.144	1.763	1.76	0.184
AS1	1	0.0788	0.0722	1.09	0.275	1.267	1.27	0.260
AP2	1	-0.0355	0.0323	-1.10	0.272	1.200	1.20	0.273
Residual	118					1.750		
Total	133					1.859		

Significant level: ***p<0.001, **p<0.01, *p<0.05, ^p<0.10

Parameters for factors are differences compared with the reference level:

Factor	Reference level
A14 (Levels of Tax Knowledge Rated)	1 (Extremely Good)

It appeared that Level of Tax Knowledge Rated was the only common moderating variable included in the pre and post SA models. However, the mediating effect was only significant (χ^2=2.56 with 4d.f., p=0.037) in the post SA model but not significant (p=0.305) in the pre SA model. Other moderating variables that were included in the pre SA model were Gender, Types of Business, Ethnicity and Levels of Education. The first two did not reveal any significant (p>0.10) mediating effect as compared to the last two which showed significant [Ethnicity (χ^2=2.53 with 3d.f., p=0.056); Levels of Education (χ^2=2.31 with 3d.f., p=0.075)] mediating effects at 0.10 level of significance, *ceteris paribus*, on the compliance behaviour of the respondents in the pre SA model. In spite of being significant mediating determinants in the post SA model, all the four levels[287] that appeared under Level of Tax Knowledge Rated were not significantly different from their reference level (those rated 'extremely good'). As the residual (mean deviance=1.750, 118d.f.) of this model was not much different from the other two models (for 'All groups' and the SW) on DV3, it thus exhibited a reasonably well fit model.

[287] See Figure 4.3 for the four levels of Level of Tax Knowledge Rated.

For the three dependent variables in the post SA models of the SE, there were clear evidence that more factors under TK and KB had effects in determining the compliance behaviour of the SE. Unlike the post SA models, for 'All groups' and the SW, FC and AS1 appeared to be two of the determinants, while factors under AP somehow were not prevalent in all the dependent variables. TS1, on the other hand had significant effect in determining the compliance behaviour of the SE in relation to taxable income and casual income.

4.1.17 Correlation

Two data sets from the pre and the post SA surveys utilised for the ordinal stepwise logistic regression were then used to analyse the correlations among the causes as well as correlations between the causes and moderating variables. As each component of the five main causes comprised of different numbers[288] of factors, data to the factors within the same cause were further aggregated to provide logical views on the co-relationship among the five categories of main causes and between the main causes and the demographic variables.

In the pre SA survey, the results of correlations as presented in Table 4.51 revealed that at 0.01 levels, TS was significantly and positively correlated with AS but negatively correlated with FC. Meanwhile TK had a highly (p<0.001) significant and positive correlation with TS but was negatively correlated with AP. In addition, at the 0.05 level, TK also revealed significant negative correlation with FC.

It appeared that Language Proficiency did not have any significant correlation with any of the causes presented in Table 4.51. It is also interesting to note that Gender had a highly significant correlation only with FC. Other moderating variables i.e. Age and Category, at the different respective levels of significance, were correlated with FC. Further, Ethnicity, Level of Education, Category and Level of Tax Knowledge Rated showed significant correlations with AP. While Ethnicity was also very (p<0.001) significantly correlated with AS, Age was only significantly correlated with TK (at 0.01 level) and TS (at 0.05 level). Similarly, Level of Tax Knowledge Rated had a highly significant correlation with TK while Level of Education was significantly correlated with TS.

[288] See 4.1.14 and Table 4.31 for the numbers of factors within each cause.

Table 4.51: Correlation of causes and moderating variables (pre SA)

		AS	AP	TS	FC	TK
Assessment system	**AS**	1				
Attitudes towards tax	**AP**	-.040	1			
Tax structure features	**TS**	.146**	-.009	1		
Financial constraints	**FC**	.029	-.004	-.152**	1	
Tax knowledge	**TK**	.014	-.253***	.417***	-.139*	1
Gender	**A1**	-.019	-.049	.090	-.217***	.039
Language proficiency	**A2**	-.017	-.044	-.080	.005	-.073
Age	**A4**	.010	-.001	-.113*	.517***	-.144**
Ethnicity	**A5**	.207***	.001*	-.023	.022	.028
Level of education	**A6**	.051	.150**	.120*	-.029	.046
Category	**A8**	-.092	-166**	-.086	.170**	.012
Level of tax knowledge rated	**A14**	.102	-.320***	.081	-.087	.207***

* significant at 0.05 level ** significant at 0.01 level *** significant at 0.001 level

In the post SA survey, as presented in Table 4.52, less significant correlations among the causes were found. AP was significantly and negatively correlated with two causes i.e. FC and TK, but positively correlated with AS. In addition, TK had highly significant positive correlation with TS.

Unlike the correlations between causes and moderating variables in the pre SA survey, less significant correlations were found in the post SA survey. However, FC remained the only cause that had significant correlation with some moderating variables i.e. Ethnicity, Level of Education and Category. Meanwhile, at different levels of significance, Level of Tax Knowledge Rated was significantly correlated with AP, TS and TK.

Table 4.52: Correlation of causes and moderating variables (post SA)

		AS	AP	TS	FC	TK
Assessment system	**AS**	1				
Attitudes towards tax	**AP**	.108*	1			
Tax structure features	**TS**	.088	-.042	1		
Financial constraints	**FC**	-.086	-.121**	.004	1	
Tax knowledge	**TK**	.019	-.331***	.258***	-.079	1
Gender	**A1**	.088	.001	.046	.058	-.022
Language proficiency	**A2**	-.046	-.032	-.045	-.075	.054
Age	**A4**	.019	.066	-.013	.038	-.086
Ethnicity	**A5**	-.006	-.002	.014	-.181**	.058
Level of education	**A6**	-.051	.088	-.011	-.111*	-.043
Category	**A8**	.039	-.059	.025	-.117*	.087
Level of tax knowledge rated	**A14**	.024	-.271***	.146**	.049	.173***

* significant at 0.05 level ** significant at 0.01 level *** significant at 0.001 level

Overall, the correlation results as presented in Table 4.51 and Table 4.52 revealed the following consistent findings between pre and post SA surveys.

- Significant negative correlations between TK and AP,
- Significant positive correlations between TK and TS,
- Language Proficiency did not reveal any significant correlation with all the causes,
- Significant correlation between Category and FC,
- Level of Tax Knowledge Rated showed significant correlations with AP and TK.

To conclude, the profile of the respondents in the pre and post SA surveys were very similar in terms of gender, age, ethnic background, level of income, sector of employment, type of business and self-rated level of tax knowledge, as there were no significant differences found between respondents in the pre and post SA surveys. The descriptive statistics revealed significant differences between respondents in the pre and post SA surveys in terms of tax knowledge on joint assessment, relief and rebates, on extension of time allowed for filing of tax returns and on penalties as non-allowable deduction. Similarly, there were significant differences between the pre and post SA surveys on computation of correct tax liability, reporting of chargeability of arrears to the correct year of assessment and problems experienced in the preparation of tax returns. In contrast, between respondents in the pre and post SA surveys, no significant differences were found in terms of perceptions on the replacement of OAS with SA and the use of the services of tax agents.

The survey findings also revealed that there were significant improvements among the respondents in the post SA survey in understanding of the new assessment system and tax knowledge as compared with the respondents in the pre SA survey. The conclusion is that as the result of the introduction of self assessment, tax knowledge of individual taxpayers did have a major impact on their compliance behaviour. This conclusion is further supported by the findings presented in all the logistic regression models where more factors under tax knowledge (viz. taxpayers' reporting compliance of taxable income, exempted income and casual income) were included as significant determinants in the post SA models as compared with that in the pre SA models.

Factors under tax structure features were also significant determinants in reporting compliance of taxable income and of casual income but not of exempted income. For the post SA models, factors under attitude towards tax were significant determinants to the SW, while factors under financial constraints were significant to the SE in reporting of taxable income. Likewise, age, language proficiency and respondents' self-rated tax knowledge were found to have significant mediating effects on taxpayers' reporting compliance of taxable income. For reporting compliance of casual income, ethnic background was found to have significant mediating effect on the SW but not the SE. On the contrary, no moderating variable was found to have mediating effect on the reporting compliance of exempted income.

4.2 Experimental design

Findings from the surveys had indicated that tax knowledge played a role in determining the compliance behaviour of individual taxpayers. As mentioned in Chapter 3, an experimental design would perhaps provide evidence to support and to further enhance the results of the surveys, particularly pertaining to the influence of tax knowledge on individual taxpayers' compliance behaviour. Briefly, in the experimental design, two causes, namely tax knowledge and tax structure features were incorporated to investigate whether these two causes did influence or have interactive effects on the reporting compliance of individual taxpayers in Malaysia. Discussions on the results of the experimental design are presented hereafter.

Overall, there were highly significant differences between the SW and the SE groups, both in the pre-test score (t=5.377, p<0.01) and in the post-test score (t=-8.243, p<0.01). There were also significant improvements in scores in the post-tests for both the SW and the SE group (p<0.001). As presented in Table 4.53, the overall mean score for the SW increased from 44.39 in the pre-test to 70.74 in the post-test, while the SE's overall mean score increased from 35.50 in the pre-test to 84.16 in the post-test. The mean score for the SE was significantly higher than the SW group in the post-test even though it was much lower than the SW group in the pre-test. From the post-test scores obtained, to some extent, it implied that the tax lessons given had had some impact on the tax knowledge of participants.[289]

[289] It is pertinent to note that in spite of the increase in the scores in the post-test for both groups, the standard deviation for the SW increased while that for the SE decreased. From observations, the

Table 4.53: Pre-test and post-test mean score

	SW		SE	
Score	$\bar{x}$	s	$\bar{x}$	s
Pre-test	44.39	8.859	35.50	9.333
Post-test	70.74	12.361	84.16	3.730
Difference	26.35		48.66	

The interaction effects for the two groups differed when taking into consideration the three other tax structure features i.e. tax rate, audit rate and penalty rate. ANOVA with four factors was first carried out to ascertain the interaction of all the four factors (test score, tax rate, audit rate and penalty rate) in the SE and the SW groups. For the SW group, there was no significant interaction among the three factors (p>0.05) with tax knowledge as presented in Table 4.54.

Table 4.54: Analysis of variance with four-factor interaction for SW

Source of variation	d.f.	s.s	m.s	F	p-value
Variate: Score					
Test x audit rate x penalty rate	1	83.82	83.82	0.87	0.351*
Test x audit rate x tax rate	2	339.13	169.57	1.77	0.173*
Test x penalty rate x tax rate	2	119.83	59.92	0.63	0.536*
Audit rate x penalty rate x tax rate	2	390.16	195.08	2.04	0.133*

* all not significant at 0.05 levels

However, at 0.05 level of significance, there was evidence of interaction effects when two factors ANOVA was used. Table 4.55 revealed the factors that showed significant interaction effects, i.e. test score and penalty rate (F=4.47, 1d.f., p=0.036) and audit rate and tax rates (F=6.21, 2d.f., p=0.002).

Table 4.55: Analysis of variance with two-factor interaction for SW

Source of variation	d.f.	s.s	m.s	F	p-value
Variate: Score					
Test x audit rate	1	91.39	91.39	0.94	0.332
Test x penalty rate	1	433.16	433.16	4.47	0.036*
Audit rate x penalty rate	1	213.23	213.23	2.20	0.139
Test x tax rate	2	280.77	140.39	1.45	0.237
Audit rate x tax rate	2	1203.68	601.84	6.21	0.002*
Penalty rate x tax rate	2	190.65	95.32	0.98	0.375

*Significant at 0.05 levels

Further analysis on the means of the two factors with significant interaction effects are presented in the Table 4.56. There was a significant difference in pre-test (Test 1) for the two different penalty rates. Apparently, a higher penalty rate resulted in

factors contributing to such phenomenon are possibly the demographic variables and the different attitudes of both groups of participants.

higher reporting compliance. However, there was no significant difference in the post-test (Test 2) after tax lessons were given [see Table 4.56 (a)].

For the interactions between audit rate and tax rate with tax knowledge, there were significant differences when the audit rate was 10 per cent for the three different tax rates as presented in Table 4.56 (b). Participants with tax rate of 15 per cent appeared to be less compliant as compared to the participants with the tax rates of 5 per cent and 28 per cent. Similarly, there were significant differences among participants with the three different tax rates when the audit rate was 50 per cent. The effect of tax knowledge had significantly improved the reporting compliance for those with the tax rates of 15 per cent and 28 per cent. However, for those with the tax rate of 5 per cent, when the audit rate increased to 50 per cent, they appeared to be less compliant.

Table 4.56: Table of means - SW

a. Test x Penalty Rate	**Penalty Rate**		**l.s.d.**
	1%	**20%**	
Test			3.469
1	36.66	43.27	
2	76.83	78.17	

b. Audit Rate x Tax Rate	**Tax Rate**			**l.s.d.**
	5%	**15%**	**28%**	
Audit Rate				4.192
10%	60.76	50.92	59.90	
50%	57.95	58.91	63.17	

l.s.d. = least significant differences

For the SE group, the analysis as presented in Table 4.57 revealed that there was evidence of interaction effects between the three factors. At a 0.05 level of significance, there were significant interactions between test score, penalty rate and tax rate (F=0.63, 2d.f., p=0.004) with tax knowledge. Interactions between audit rate, penalty rate and tax rate showed highly significant interaction effects (F=12.95, 2d.f., p=<0.001) with tax knowledge.

Table 4.57: Analysis of variance with four factor interaction for the SE

Source of variation	**d.f.**	**s.s**	**m.s**	***F***	***p*-value**
Variate: Score					
Test x audit rate x penalty rate	1	9.57	9.57	0.40	0.528
Test x audit rate x tax rate	2	19.44	9.72	0.41	0.667
Test x penalty rate x tax rate	2	277.08	138.54	5.80	0.004*
Audit rate x penalty rate x tax rate	2	618.41	309.20	12.95	<0.001*

*Significant at 0.05 levels

Results of further analysis, as presented in Table 4.58 (a), revealed that there were significant differences in the pre-test (Test 1). When the penalty rate was 1 per cent, the higher the tax rate, the more compliant were the participants. In contrast, when the penalty rate was 20 per cent, participants with the lowest tax rate (of 5 per cent) showed more reporting compliance as compared to the other participants. For post-test (Test 2), there were no significant differences in all categories of penalty rates or tax rates. This implied that the effect of tax knowledge had significantly resulted in increased compliance among participants of all groups.

For the interactions between penalty rate, tax rate and audit rate with tax knowledge, as presented in Table 4.58 (b), overall there were significant differences when the penalty rate was 1 per cent across different audit rates and tax rates. The findings were quite similar to those of the SW group of which when audit rate was higher (50 per cent), participants with the lowest tax rate (5 per cent) were less compliant. For those with the penalty rate of 20 per cent, the higher audit rate did not affect participants with tax rates of 15 per cent or 28 per cent, where improvement on reporting compliance was not significant.

Table 4.58: Table of means – SE

a. Test x Penalty Rate x Tax Rate

Penalty Rate	**1%**			**20%**			**l.s.d.**
Tax Rate	**5%**	**15%**	**28%**	**5%**	**15%**	**28%**	
Test							4.235
1	27.84	26.54	43.30	40.12	36.11	39.42	
2	83.44	80.32	86.08	84.95	84.35	85.66	

b. Penalty Rate x Tax Rate x Audit Rate

Penalty Rate	**1%**			**20%**			**l.s.d.**
Tax Rate	**5%**	**15%**	**28%**	**5%**	**15%**	**28%**	
Audit Rate							4.150
10%	57.33	47.63	63.54	59.55	59.95	63.19	
50%	53.29	59.17	65.82	66.06	60.66	62.24	

l.s.d. = least significant differences

The summarised results of the outcomes of the two groups when 'stacked' together are presented in Table 4.59. At 0.01 levels of significance, audit rates (F=8.98, 1d.f., p=0.003), penalty rates (F=18.85, 1d.f., p<0.001) and tax rates (F=18.03, 2d.f., p<0.001) showed significant main effects on reporting compliance.

Table 4.59: Analysis of variance with four factor interaction – SW and SE

Source of variation	d.f.	s.s	m.s	*F*	*p*-value
Variate: Score					
Test	1	88175.65	88175.65	1699.27	<0.001**
Audit rate	1	466.22	466.22	8.98	0.003**
Penalty rate	1	977.88	977.88	18.85	<0.001**
Tax rate	2	1870.94	935.47	18.03	<0.001**
Category x test x audit rate	1	254.94	254.94	4.91	0.028*
Category x test x penalty rate	1	14.66	14.66	0.28	0.596
Category x audit rate x penalty rate	1	164.81	164.81	3.18	0.076
Test x audit rate x penalty rate	1	91.10	91.10	1.76	0.187
Category x test x tax rate	2	783.25	391.63	7.55	<0.001**
Category x audit rate x tax rate	2	567.49	283.74	5.47	0.005**
Test x audit rate x tax rate	2	315.26	157.63	3.04	0.050*
Category x penalty rate x tax rate	2	436.69	218.35	4.21	0.016*
Test x penalty rate x tax rate	2	106.04	53.02	1.02	0.362
Audit rate x penalty rate x tax rate	2	397.93	198.96	3.83	0.023*

** Significant at 0.01 levels, *Significant at 0.05 levels

However, the degree of the effects on compliance varied across different audit rates, penalty rates and tax rates as presented in Table 4.60. Those with higher audit rate (50 per cent) and higher penalty rate (20 per cent) appeared to be more compliant than those with the lower audit rate and penalty rate. Similarly, as for tax rate, those with the highest tax rate (28 per cent) were more compliant compared to those with the lower tax rates. However, it appeared that those with the middle tax rate (15 per cent) were less compliant as compared to the others.

Four interactions, namely, the 'category, test and penalty rate' (F=0.28, 1d.f., p=0.596), 'category, audit rate and penalty rate' (F=3.18, 1d.f., p=0.076), 'test, audit rate and penalty rate' (F=1.76, 1d.f., p=0.187) and 'test, penalty rate and tax rate' (F=1.02, 2d.f., p=0.362) did not reveal any significant (p>0.05) interactions.

Table 4.60: Table of means: main - effects

				l.s.d
Audit rate	**10%**	**50%**		1.796
	57.35	60.08		
Penalty rate	**1%**	**20%**		1.796
	56.73	60.69		
Tax rate	**5%**	**15%**	**28%**	2.206
	59.45	54.94	61.53	

l.s.d. = least significant differences

Results of further analysis as presented in Table 4.61 (a) and Table 4.61 (b) revealed that the SE were less compliant as compared to the SW in pre-test (Test 1). The results as presented in Table 4.61 (a) showed that there were significant

improvements in the results of the post-test (Test 2) for both categories of participants. In the pre-test (Test 1), with different audit rates, no significant differences for SW were found, while for the SE, there were significant differences. The SE appeared to be more compliant than the SW as a result of the effects of tax knowledge. The findings as presented in Table 4.61 (b) for both pre-test and post-test were similar to those as presented in Table 4.61 (a). The results of the analysis revealed that for SW, there were significant differences in the post-test (Test 2). Participants with the tax rate of 15 per cent showed very little improvement in compliance compared to participants with the tax rate of 5 per cent and 28 per cent.

Table 4.61: Table of means – SW and SE

a. Category x Test x Audit Rate

Test	**1**		**2**		**l.s.d.**
Audit Rate	**10%**	**50%**	**10%**	**50%**	
Category					3.609
SW	44.86	44.00	67.60	73.77	
SE	34.03	37.11	83.11	85.16	

b. Category x Test x Tax Rate

Test	**1**			**2**			**l.s.d.**
Tax Rate	**5%**	**15%**	**28%**	**5%**	**15%**	**28%**	
Category							4.387
SW	45.37	43.36	44.42	74.58	62.52	74.58	
SE	33.97	31.41	41.22	84.15	82.41	85.98	

l.s.d. = least significant differences

The findings as presented in Table 4.62 (a) showed that when the audit rate was higher (50 per cent), those SW with the lowest tax rate (5 per cent) seemed to be less compliant. For those SE with the highest tax rate (28 per cent), there was no significant difference in compliance when audit rates were either 10 per cent or 50 per cent. Referring to the analysis of the interactions as presented in Table 4.62 (b), there were significant differences in the pre-test (Test 1) for both audit rates and tax rates. With the same tax rate of 5 per cent, participants in the higher audit rate (50 per cent) appeared to be less compliant when compared with participants in the lower audit rate (10 per cent). In the post-test (Test 2), there were significant differences for those with different tax rates at the audit rate of 10 per cent. When the audit rate was 50 per cent, there were no significant differences for those with different tax rates in the post-test (Test 2).

Table 4.62: Table of means – SW and SE

a. Category x Audit Rate x Tax Rate

Audit Rate	10%			50%			l.s.d.
Tax Rate	5%	15%	28%	5%	15%	28%	
Category							
SW	63.43	48.08	56.73	56.08	57.90	62.20	
SE	58.66	53.90	63.29	59.63	59.79	63.84	4.300

b. Test x Audit Rate x Tax Rate

Audit Rate	10%			50%			l.s.d.
Tax Rate	5%	15%	28%	5%	15%	28%	
Test							4.342
1	41.10	32.93	43.41	37.77	41.80	42.19	
2	80.37	68.94	76.42	78.00	76.03	84.01	

l.s.d. = least significant differences

When penalty rate was 10 per cent, with three different tax rates, there were significant differences between the SW and the SE in reporting compliance. With the higher penalty rate (20 per cent) and the highest tax rate (28 per cent), it appeared that reporting compliance was lower for those SW [see Table 4.63 (a)]. This was similar to those with a higher audit rate (50 per cent) as presented in Table 4.63 (b). Nevertheless, for participants with the tax rate of 15 per cent, changes in penalty rate resulted in better reporting compliance regardless of the different audit rates imposed. Overall, the effects of tax knowledge on reporting compliance improved marginally for both SW and SE [see Table 4.63 (a)] and for those who were in the higher audit rate [see Table 4.63 (b)].

Table 4.63: Table of means – SW and SE

a. Category x Penalty Rate x Tax Rate

Penalty Rate	10%			20%			l.s.d.
Tax Rate	5%	15%	28%	5%	15%	28%	
Category							4.387
SW	58.94	50.63	57.13	60.82	55.43	62.09	
SE	55.55	53.40	64.71	62.64	60.25	62.56	

b. Audit Rate x Penalty Rate x Tax Rate

Penalty Rate	10%			20%			l.s.d.
Tax Rate	5%	15%	28%	5%	15%	28%	
Audit Rate							4.300
10%	59.12	46.12	57.20	62.31	55.72	62.58	
50%	54.68	57.84	64.26	61.08	60.00	62.14	

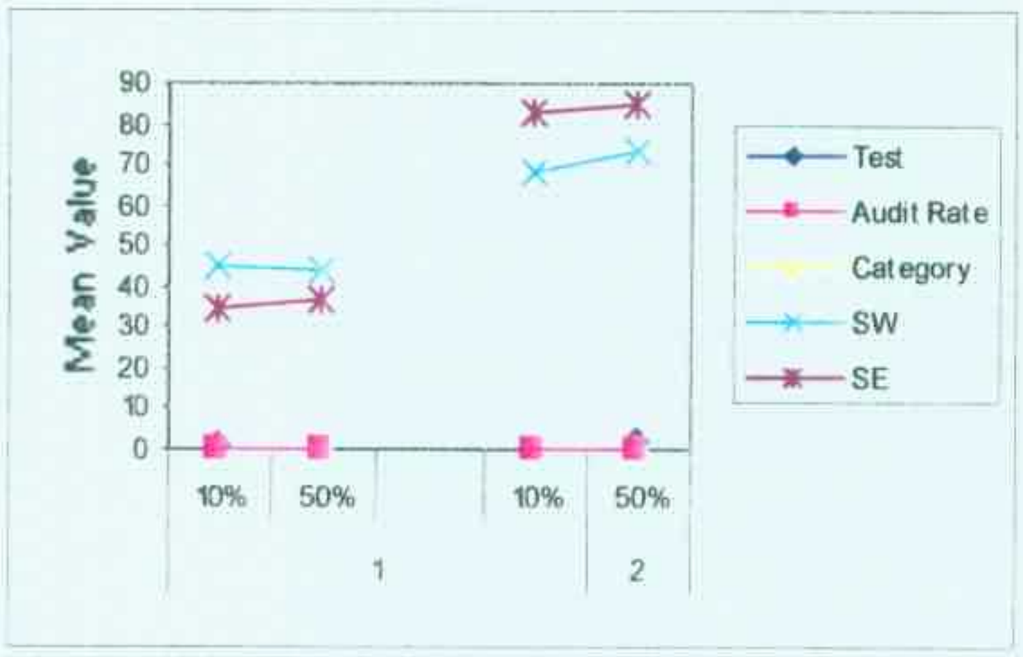
l.s.d. = least significant differences

To complement the discussion above, the mean values of the interactions are further described in graphs as presented in Figure 4.5. The differences in interaction effects of the factors for the two categories of taxpayers (i.e. SW and SE) can be seen in

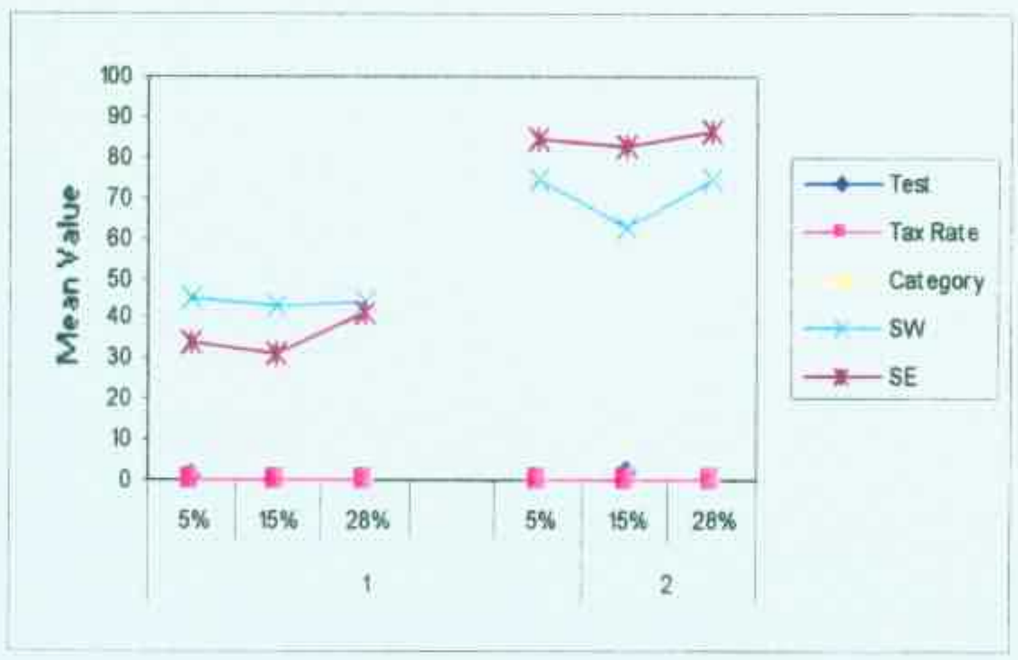
graphs a, b, c and e. The effects of tax knowledge in the post-test are presented in graph d, while the interaction of the three tax structure features is shown in graph f.

Figure 4.5: Interaction effects for SW and SE

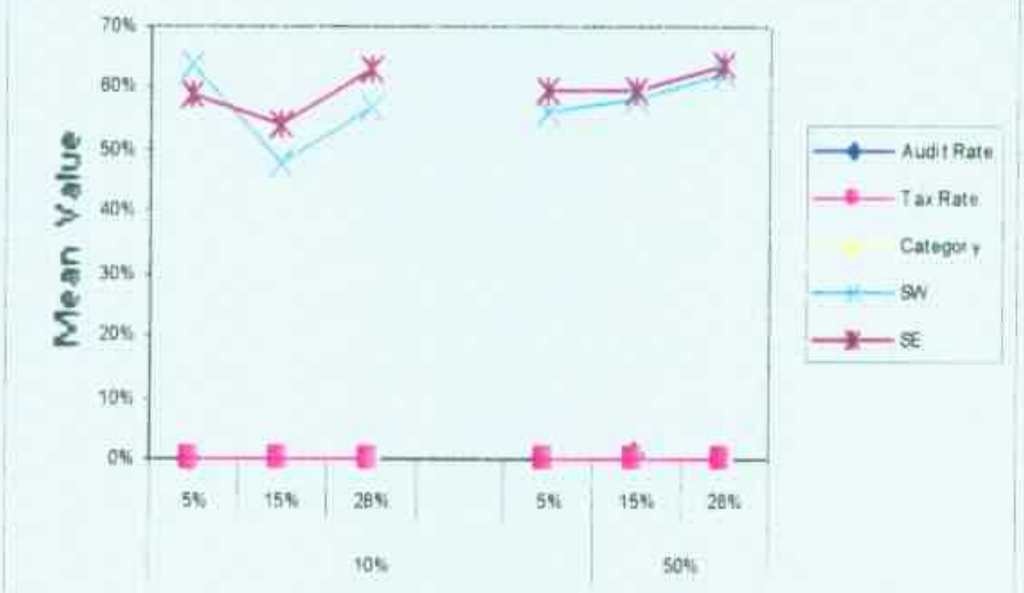
a. Category x Test x Audit Rate



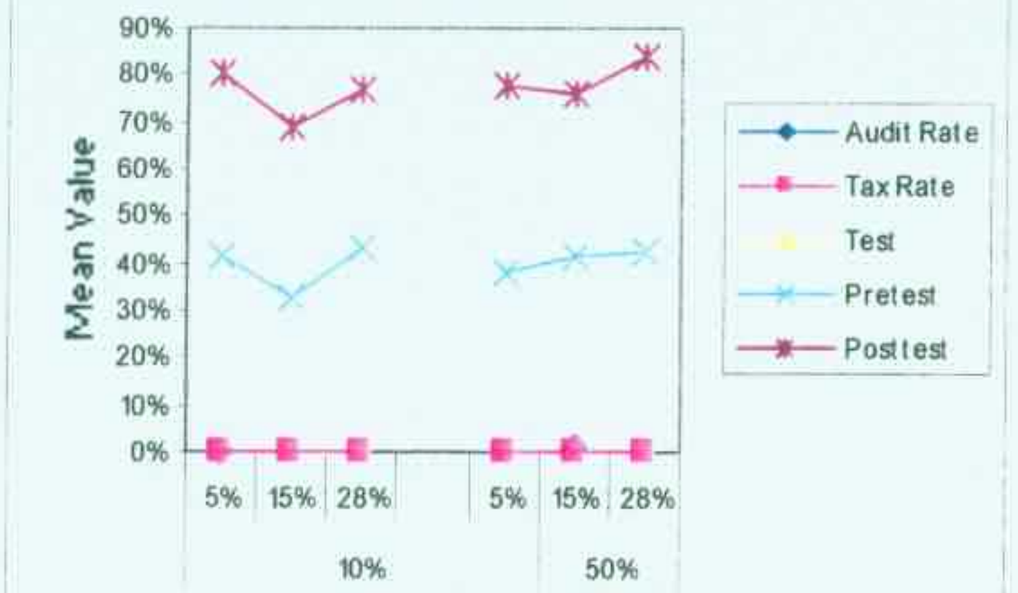
b. Category x Test x Tax Rate



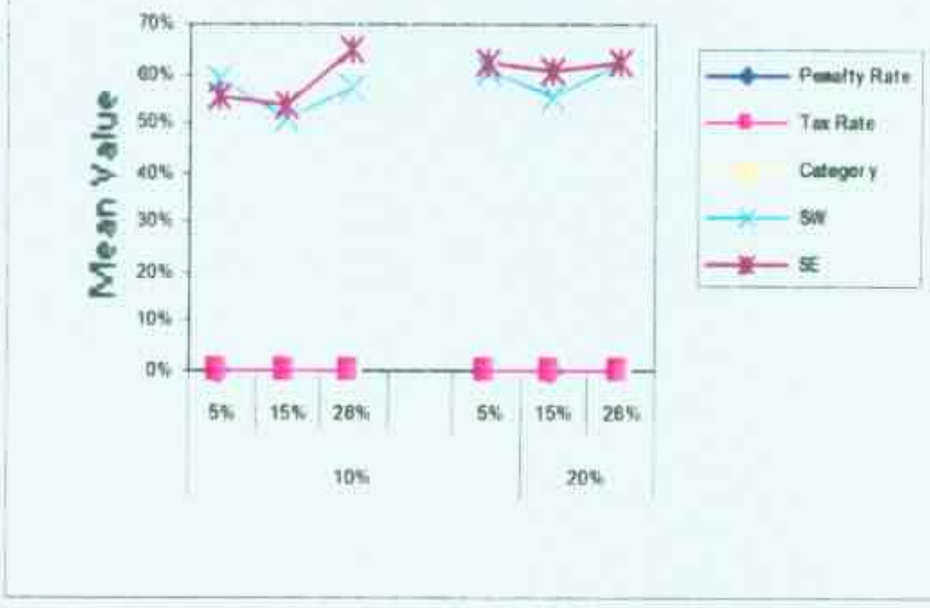
c. Category x Audit Rate x Tax Rate



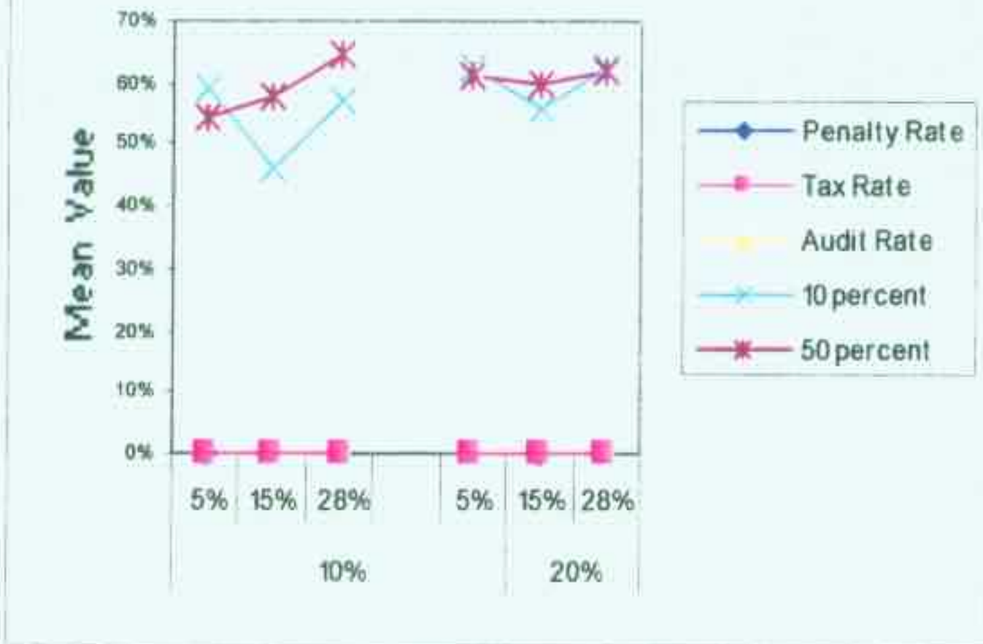
d. Test x Audit Rate x Tax Rate



e. Category x Penalty Rate x Tax Rate



f. Audit Rate x Penalty Rate x Tax Rate



Other than the exceptional cases, overall, it appeared that taxpayers' reporting compliance would improve if they had better knowledge on income tax law. Tax structure features such as tax rate, audit rate and penalty rate, to some extent had influenced the reporting compliance of taxpayers. However, when taking tax knowledge and tax structure features together, the interaction effects differed for different categories of taxpayers with different tax rates, audit rates and penalty rates.

4.3 Case study[290]

Having presented the findings of the survey and experimental design components of the research, this section presents the findings of the case study. Overall, with the exception of four subjects, all the other 70 subjects encountered problems in completing their respective tax returns.[291] The main problem encountered was similar to the findings of the survey, i.e., basically, the contents of the accompanying instruction booklet were too difficult to understand. In addition, the subjects revealed that the instructions were too brief and inadequate in providing proper and useful guidance in completing the tax returns. Other problems (such as language and computation of tax liability) appeared to be less critical. Generally, the subjects disclosed that the problems they encountered were resolved by seeking assistance from friends or colleagues, and in several cases, from family members. A few subjects had left certain relevant parts of the tax returns blank, hoping that the IRB officers would do the necessary adjustments. The four subjects who did not encounter any problems expressed that they were absolutely confident of the accuracy of their tax returns. The other 70 subjects, who had encountered problems, were not sure about the accuracy of their returns.

One particular feature of the tax returns required taxpayers to indicate whether or not they had complied with the public rulings when filing their tax returns. This seemingly simple requirement of answering 'Yes' or 'No' was one of the common problems encountered by subjects. Regardless of their level of education, the subjects appeared to be totally at a loss as they had no knowledge as to the meaning of the term 'public rulings', let alone the contents of the relevant rulings.[292]

For the conduct of the case study, the subjects were classified into two categories i.e. SW and the SE. Out of the SW subjects, 57 were employed in the public sector and were of different age groups, all had tertiary education and were able to communicate in either the Malay language or English. Three of these 57 subjects did

[290] Individuals who participated in the case study are referred to as 'subject(s)'.
[291] Under the previous OAS, a married couple would do their filings in a single tax return regardless of whether they opted for joint or separate assessment. However, under SA system, each individual, regardless of marital status would need to file a separate tax return.
[292] See above n 77.

not have any previous experience in filing their tax returns. The remaining seven of the SW subjects were from the private sector.

Of the 57 employed in the public sector, except for two subjects, all the other 55 subjects had over declared their employment income. This was due either to their lack of awareness or to their uncertainty on exemptions (such as exemptions on housing and entertainment allowances and on civil service allowances that formed part of the remunerations package for those employed in the public sector). The information pertaining to such exemptions was not incorporated in the accompanying instructions or tax guides. This information was only made available in a circular issued by the IRB to the respective finance departments in the public sector. As a result of wrongly reporting these exempted income, these subjects had exercised unintentional non-compliance and as a consequence they had overstated their tax liabilities. Based on the examination of the tax returns and inspections of the supporting document, this error alone had resulted in over payment of taxes of RM29,769.06[293] by the affected subjects, an amount to which the tax authority was not rightfully nor legally entitled. No exemption is allowed on similar allowances paid to employees in the private sector. As such, no reporting error was found in relation to similar allowances in the tax returns of the seven subjects in the private sector. Therefore, these seven subjects had fully complied with the reporting of their employment income.

Of these seven subjects from the private sector, four of them had tertiary education, two derived income only from employment while for the other five, besides employment income, three also derived rental income and two having dividend income.

In relation to the rental income, two subjects attempted to evade tax by omitting the assessable rental income as they felt that such income might not be traceable. Meanwhile, one subject had reported the gross rental income without realising that he/she could claim for allowable deductions on expenses incurred in relation to the rented property, thus the outcome of which represented an unintentional over compliance. For the two subjects having dividend income, both had correctly

[293] Figure derived from calculation based on subjects' tax bracket of between 3 per cent and 24 per cent.

reported their respective gross dividend but had unintentionally failed to claim their corresponding tax credit, (which collectively amounted to RM324.80), which again, is evidence of unintentional over compliance.

For the SE, it was apparent that the tax returns[294] were too complicated. Of the ten subjects observed and interviewed; seven were not sure of what to include in their respective tax returns, particularly the need to furnish information on specific items of income and expenses that had to be extracted from the business income statements.[295] To resolve the problems encountered, besides seeking the assistance from friends or family members, one subject had sought assistance from an IRB officer but the problems were still left unresolved as the IRB officer was not very certain as to what were really needed to be reported and thus could not offer the appropriate assistance. The other three subjects had apparently used the services of accountants to prepare their business accounts, and as such, furnishing the required information in their tax returns was not a major problem.

Common errors committed by the SE subjects included the tax treatments of salaries and remunerations drawn by the SE business proprietors, the expenses incurred partially for private purposes and the capital expenditure incurred on the acquisition of capital assets used for the purposes of their business operations. Two subjects who drew salaries or remunerations from their SE business had deducted the amount of salaries or remunerations so drawn against their business income (as disclosed in their respective income statements), wrongly believing that such drawings were allowed for deductions. Similarly, two other subjects had wrongly claimed full deductions for expenses incurred partially for private and partially for business purposes. In the cases of capital expenditure incurred on the acquisition of capital assets used in the business, instead of calculating capital allowances, two subjects had deducted the total capital expenditure incurred and one other subject had deducted depreciation on assets from their respective business income. These errors, when taken collectively and when imputed into monetary terms, the net result was an understatement of taxes amounting to RM2,300.20.

[294] The tax returns for the SW and the SE are not exactly similar.
[295] The format of the income statement required in the tax return of the SE is not similar to what is generally prepared in accounting practices.

However, four SE subjects were not aware of the capital allowances available to them in relation to capital expenditure incurred on the acquisition of capital assets. As a consequence, collectively their tax liabilities were over stated by RM796.92. One subject who was aware of the deductibility of capital allowances, but choose not to claim for such allowances, the reason being that it was 'troublesome and a hassle' to compute the allowances or charges in the event of disposals of these assets in the near future. For those subjects who had either under or over stated their tax liabilities, there emerged a pattern of unintentional non-compliance. In the case of the one SE subject who chose not to claim capital allowances he/she had actually exercised intentional non-compliance. In this latter case, it definitely would be a monetary advantage to the tax authority in terms of revenue collection. However, one other subject acknowledged that he/she had intentionally omitted an item of assessable income that could later be traceable, but expressed that he/she was not worried of the likelihood of being audited. Such non-compliant behaviour is consistent with the rationale that the perceived monetary benefit of evading is greater than the price to be paid in the event of being caught.

Analysis of the case study for both categories of taxpayers further revealed the occurrence of commission of errors in relation to claiming relief and S6A(2) rebates.[296] Relief in particular include those available on premium paid on life insurance and/or contributions to the EPF, spouse relief, premium paid on medical/education insurance, expenses incurred on purchase of books or magazines and expenses incurred for medical treatments for parents. Commission of errors in relation to premium paid on life insurance included both over and under deduction due to uncertainty on the deductibility of the types[297] of premium paid in a single insurance policy. In relation to relief for payment of life insurance premium, over claiming of deductions by subjects resulted in taxes being underpaid by RM2,828.03, while under claiming by other subjects had resulted in taxes being overpaid by RM5,014.86.

[296] See 1.2.1 and 1.2.2 for more explanation on relief and rebates.
[297] Typically, in a single life insurance policy, it includes premium on life, rider, personal accident and hospitalisation. Premium paid on life or endowment policies are deductible, while premium paid on other policies are not deductible. Premium on medical and education policy is a separate category of relief (see 1.2.1).

Two subjects incorrectly claimed the premium paid on child's life insurance policy as a deduction, collectively resulting in under payment of taxes amounting to RM630.57. Such unintentional non-compliance could have been avoided if the subjects had carefully read the accompanying instructions on the non-deductibility of child's life insurance policy. Due to the uncertainty in determining the appropriate assessment year, another subject had wrongly claimed a deduction for a life insurance premium that was paid in January 2005 against income derived in 2004, whereas this particular insurance premium payment should only be allowable against income derived in 2005. Likewise, due to the uncertainty on the deductibility of the premium paid on medical or educational insurance policies, eleven[298] subjects had under deducted such relief that were available to them. The commission of such errors amounted to unintentional non-compliance on the part of the subjects.

As for expenses incurred on the purchase of books or magazines, four subjects had deducted the total amount as printed in the respective receipts. Upon detailed inspection of the receipts, it was revealed that some items purchased were apparently stationery or newspaper, the expenses of which were non-deductible. One subject was absolutely confident of the accuracy of his/her claims for such deductions, acting on the belief that the amount so claimed was deductible simply because the receipts were issued by an established book vendor. Two other subjects intentionally deducted the maximum amount allowable as relief, even without the supporting receipts, acknowledging that they were willing to take the risk of not being audited. Although the amount of taxes underpaid as a result of this particular compliance behaviour no doubt was minimal (RM83.94), such behaviour reflected intentional non-compliance. In contrast, analysis of the case study revealed that eleven subjects had not claimed any deduction on books purchased because they did not keep the receipts. They revealed that they did not claim such deductions as they did not wish to take the risk of being caught in the event of being audited. Similarly, three subjects disclosed that they had incurred medical expenses for their parents' medical treatments but could not locate the supporting documents. For these fourteen subjects, in terms of reporting compliance, they had demonstrated reasonable commitment to compliance. However, their failure to keep proper records had also

[298] This excluded the three subjects who had made cross claims for premium paid on life insurance as medical insurance or vice versa. However, these cross claims did not affect their respective tax liabilities.

resulted in non-compliance. The need to keep records and furnish receipts is not new. Under the OAS, taxpayers were required to furnish all relevant receipts and document together with their tax returns when lodging them with IRB as evidence for claiming any of these two particular relief.

Under S6A(2) a rebate of RM350 is allowable to any individual taxpayer if his/her chargeable income does not exceed RM35,000. In the case where a husband and his wife had elected for joint assessment, a further rebate of RM350 is allowable if their joint chargeable income does not exceed RM35,000. There were ten subjects, (one of whom had elected for joint assessment) who were eligible for, but were not aware of such eligibility. Thus they did not claim for such rebates, and collectively they resulted in over paying RM3,850 in taxes. Two subjects were eligible and aware of their eligibility for such rebate, but they had earlier unintentionally overstated their employment income resulting in their chargeable income exceeding the threshold of RM35,000. As a consequence, they lost their entitlement for rebates. The chain effect for overstating income had resulted in the subjects disqualifying themselves for the S6A(2) rebates and overpayment of taxes.

Other less critical errors were in relation to rebates on the purchase of personal computers (involving two subjects), child relief and spouse relief (each involving four subjects). Two subjects (who are husband and wife) both claimed for rebate on purchase of the same personal computer, wrongly thinking that such rebate was available to each individual taxpayer, whereas in fact such rebate is available on a per household basis. Likewise, there were two married couples (i.e. four subjects) where, for each couple, both spouses had wrongly claimed full child relief in respect of the same child, whereas only either a husband or a wife may claim child relief on a particular child.[299] As for spouse relief, four subjects who had elected for separate assessment had wrongly claimed for such relief, when in fact the spouse relief is only available to an individual taxpayer who had elected for joint assessment. The confusion in relation to these erroneous claims was probably due to the ambiguity of the criteria for eligibility of such relief, arising from the information contained in the tax returns, and consequently gave rise to unintentional non-compliance among the subjects.

[299] In the case of divorce or separation, the relief is divided into 50:50 for both parents.

An individual taxpayer's income tax liability can be mitigated by way of contributions in the form of donations to any approved institution[300] or/and in the case of a Muslim, by the payment of *zakat.*[301] Two subjects revealed their intentions to pay less income tax by giving donations to approved institutions and by claiming *zakat* payments. Both donations to approved institutions and *zakat* payments are allowable deductions, but an individual may choose not to claim them, thus no pattern of compliance or non-compliance is found. Some subjects who had made donations, but did not understand the difference between approved/not approved donations, had wanted to claim for the full deduction for donations. Some had donated to approved institutions, but did not keep receipts. For *zakat* payments, most subjects were aware of the rebate available, but some had not kept the receipts.[302] The only implication is that in the event where an individual claims rebate for *zakat*, the income tax revenue would have had been channelled to other coffers. In fact, one subject who had paid *zakat,* but intentionally did not wish to report it in the tax return, thus intentionally forgoing the deduction available and hence paying more income tax. The reason for such intentional non-compliance cited by this subject was that *zakat* payment was a religious obligation.

When discussing on whether the implementation of SA had affected their compliance behaviour, the subjects indicated that they were more careful in completing their tax returns in order to avoid being penalised unnecessarily. For most subjects, they felt that it was important to ensure that their tax returns were correct and accurate. A few subjects claimed that their compliance costs would eventually increase if they had to engage the services of tax agents to file their tax returns. Several subjects agreed that the implementation of SA was a positive development as it would bring the tax system in Malaysia on par with that of other tax regimes. But they were also of the view that taxpayers should be well informed on the frequent changes to the tax law. In addition, they also felt that more tax education programmes should be conducted before implementing the change from OAS to SA.

---

[300] An approved institution is one that had applied to, and granted approval by the IRB whereby donations to such an institution are allowed as deductions by the donors, which effectively reduced the donors' chargeable income.

[301] See above n 57.

[302] Ibid. Under Section 6A(3), ITA (1967), only "...Islamic religious dues payment of which is obligatory..." are available as rebates, which effectively would reduced an individual's tax payable.

Implementing the practice of having separate tax returns for husband and wife was particularly welcomed by several subjects. Prior to 2004, the practice of joint tax returns (not joint assessment)[303] was required for married couples; where a husband would be legally required to file joint returns pertaining to the husband and wife's (or wives') income. With the current practice of having separate tax returns,[304] each individual (including a husband and a wife) legally has to file his/her own tax return, thus each individual has to take responsibility for his/her own tax affairs rather than legally relying on their respective spouse, particularly on the husband.

The subjects (with the exception of four) appeared to be very worried about being audited. However, no subject had any idea of how a tax audit would be conducted nor any clue as to the types of penalty imposed for non-compliance. Due to the ignorance of how tax audits are to be conducted, one SE subject related his/her fearful experience of personally witnessing an IRB unannounced 'raid' on a SE, wrongly believing that the 'raid' was a field audit.[305] As for the penalties for non-compliance, the subjects felt that it was unfair that they be penalised for the commission of unintentional errors. One subject mentioned that it took years for a developed country (such as US and Japan) to successfully implement the SA system. The subject felt that in a developing country like Malaysia, more tax education programmes should be conducted before any stringent enforcement policies were to be implemented. Nevertheless, most of the subjects did demonstrate the commitments to compliance.

With regards to tax rates, two subjects (who were in the top income tax bracket) and one other subject (who was in the lowest tax bracket) were particularly unhappy with the tax rates imposed on them. The reasons cited in particular were that taxes imposed did not correspond with the rising cost of living, such as the increase in fuel and electricity prices. The other subjects considered the tax rates applicable to them to be reasonable.

---

[303] A *joint assessment* is one where the income of a husband and his wife are aggregated and assessed either under his or his wife's name, the option of which is up to the couple. A *joint tax return*, as was practiced prior to 2004 is one where the income of a husband and his wife are reported in the same tax return, but the couple could still opted for either a *joint or a separate assessment.* For discussion on 'joint assessment' and 'separate assessment', see 1.2.4.

[304] Ibid.

[305] As for field audit, the IRB would give prior notice to the taxpayer.

One of the main features of other SA regimes (such as US and NZ) was the prompt refund by the respective tax authorities. This critical issue was raised by most subjects, particularly by those who were subjected to withholding tax. Under the SA regime, the tax law requires (and the IRB expects) taxpayers to assess their own tax liabilities and then to file their returns and to pay the taxes due before the stipulated due date. Similarly, on the part of the taxpayers, they expect the IRB to refund their excess tax payments within a certain stipulated time frame.[306]

Based on the analysis of this case study, other than for a few exceptional observations on the SW and SE, there was evidence to indicate that complexity, ambiguity and uncertainty of the tax law and lack of tax knowledge were the causes of either unintentional non-compliance or over compliance.

In this chapter, the results obtained through the three research methods derived from both the quantitative and qualitative paradigms had been presented independently. With reference to the independent presentations, it is pertinent to note that no conflicting outcomes were found in these findings. Nevertheless, there is a need to 'consolidate' the results of the three research methods in order to have a more comprehensive view on the overall findings; and in particular to understand the causes that drive the compliance behaviour of individual taxpayers in Malaysia. As such, a cross-method analysis to triangulate the results and in particular, to address the research questions, is set out in the following chapter.

[306] According to the tax law, there is no time frame for refund. However, a two-month period was mentioned in the IRB's Clients' Charter.

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.[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[308] between the respondents 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[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

[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.

[308] Wallschutzky (1993) indicated that education is the variable most likely to improve compliance.

[309] These past studies were carried out in Malaysia, but during the era of the OAS regime. However, since this present 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[310] found positive relationships, others found that there was either a negative relationship[311] or no relationship[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.[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[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

[310] See Song & Yarbrough 1978; Collins, Milliron & Toy 1992.
[311] See Vogel 1974.
[312] See Hasseldine, Kaplan & Fuller 1994.
[313] See above n 290.
[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,

[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, Tauhcen & 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

1995; Ali, Cecil & Knoblett 2001; Slemrod, Blumenthal & Christian 2001; Alm, Jackson & McKee 2004.

[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.

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

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[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 *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

[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.[322] 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.[323]

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[324] have suggested that human behaviour is more complex than what economists first thought. The founders of the theory of reasoned action[325] predicted that there could

[322] For example, see Clotfelter 1983; Witte & Woodbury 1985; Beron, Tauchen & Witte 1988; Klepper & Nagin 1989a, 1989b; Graetz & Wilde 1990; Ali, Cecil & Knoblett 2001.
[323] Instead of using data directly from the IRS data set provided such as those used by Clofelter (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

[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[328] (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

[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).[329] 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).[330] 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[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[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[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.[334] Further, the

[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.

[332] For example, see Eriksen & Fallan 1996; Kasipillai, Aripin & Amran 2003; Sarker 2003.

[333] See review by Jackson & Milliron 1986; Crane & Nourzard 1990; Chan, Troutman & O'Bryan 2000.

[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.[335] 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

[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,[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[339] on taxpayers' compliance behaviour need further discussion. Literature[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

[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.

[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.

[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[341] were added to the demographic variables, i.e. Language Proficiency[342] and Ethnicity.[343] Out of the demographic variables[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

[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.

[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.

[343] See above n 263.

[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.

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[345] 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[346] 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[347] 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

[345] See Vogel 1974; Jackson & Milliron 1986; Beron, Tauchen & Witte 1988.
[346] For example, see Clotfelter 1983; Porcano 1988; Collins, Milliron & Toy 1992; Smith K 1992.
[347] See above n 341, n 342 and n 343.

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[348] among the five categories of causes, there were nevertheless some relationships[349] 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

[348] A relationship is considered strong when r=.50-1.0 or -.50 to -1.0 (Cohen 1988, quoted in Pallant 2005:126).
[349] The strength of relationship as suggested by 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 & Fallan 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.

behaviour (Erard & Feinstein 1994; Chan, Troutman & O'Bryan 2000; Torgler 2002, 2003).

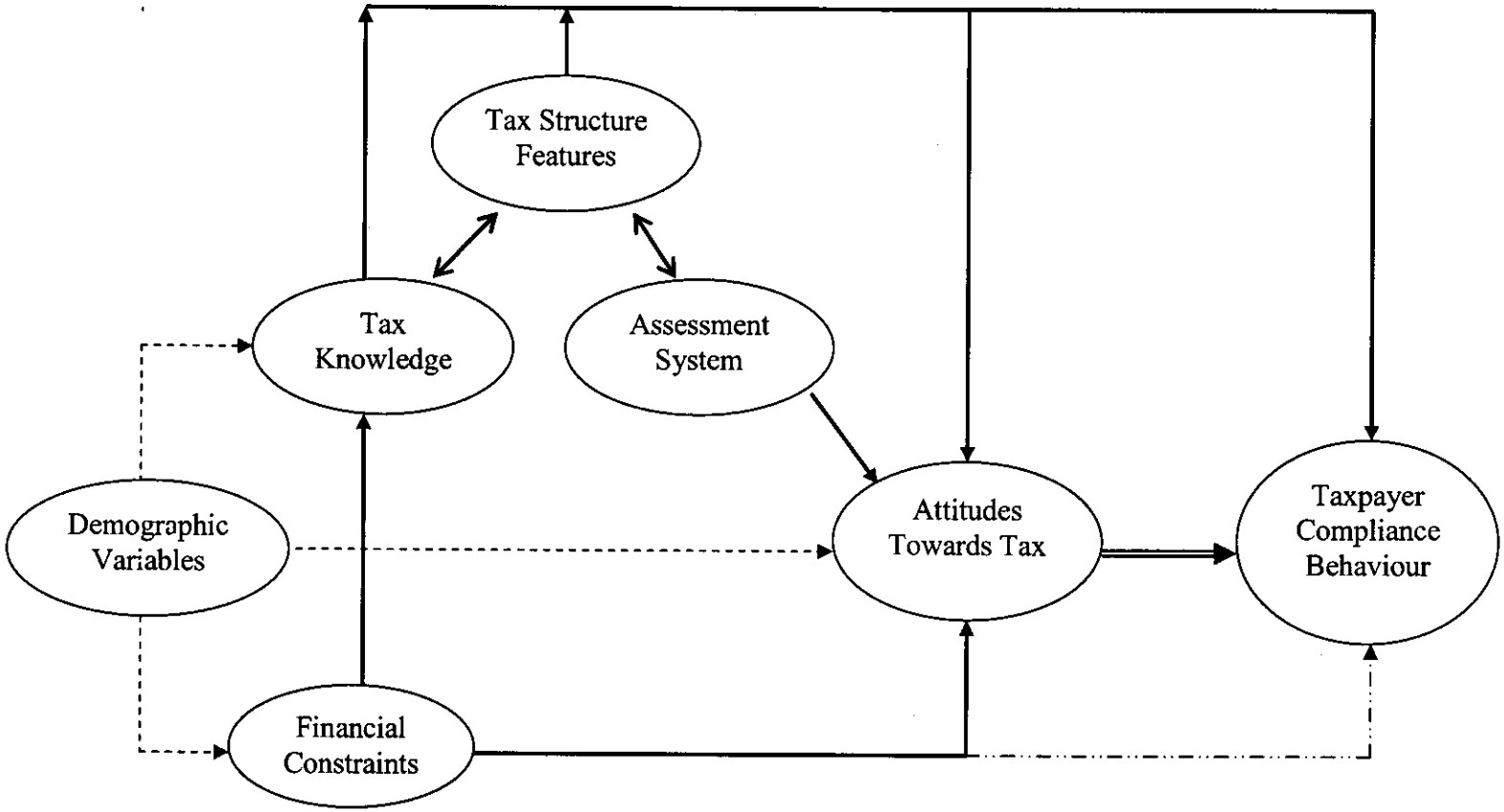
Taxpayers who encountered more financial constraints have more negative attitudes towards tax. These are linked to the close relationship with their demographic variables[354] such as Ethnicity, Level of Education, and Category of taxpayers which had significant relationships with financial constraints as presented in Table 4.52. Presumably, those with more family commitments and those who engaged the services of tax agents[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.

[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.

[355] See Cialdini 1989; Klepper & Nagin 1989d; Cialdini & Goldstein 2004.

Figure 5.1: A general model of personal income tax compliance behaviour



Note: -·-·- indicate effect/influence for the SE only
═══ indicate effect/influence for the SW only
——— indicate effect/influence for both SW and the SE
------- indicate mediating effect for both SW and the SE

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).

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.

This final chapter begins by presenting a précis of the thesis including its objectives, its research questions and its findings. The main objective of this research was to gain further insights into the influence of the introduction of self assessment and other possible causes that might have impact on the compliance behaviour of individual taxpayers in Malaysia. This thesis began with an overview of the literature, focusing on the introduction of self assessment in Malaysia and the readiness of individual taxpayers to cope with the change. It also drew on the experiences of eight other self assessment tax regimes in implementing self assessment and the lessons therein for the IRB. An overview of a range of models of compliance behaviour (such as the economic and sociological-psychological models) and the factors associated with compliance behaviour were reviewed in Chapter 2. This led to the identification of the six research questions. The rationale for the mixed method research design employed in this research was presented in Chapter 3. The design incorporated a survey, an experiment and a case study with findings being analysed both independently (Chapter 4) and across methods (Chapter 5). The processes for data collection and the techniques for each of the three methods were explained and the findings then presented in the context of the research questions posed (in Chapters 4 and 5 respectively).

Following the précis, the contributions of this research to the body of knowledge on taxpayers' compliance behaviour are identified and presented. The implications of the findings to tax administrators, policy makers and individual taxpayers in Malaysia and other tax jurisdictions are then discussed. This chapter concludes with a discussion of the strengths and limitations of this research and identifies areas where further research may be considered worthwhile.

6.1 Overview of the research and its findings

This research began with an overview of the Malaysian income tax system and its beginnings in the 1910s, during the era of British colonial rule in Malaysia. In 1967, the three then existing income tax statutes[358] were replaced with the current Income Tax Act (1967) (Act 53), which, effective from 1968 has been the statute governing the administration of income tax for the whole of Malaysia.

[358] See above n 13, n 14 and n 15.

Under the Income Tax Act (1967), the tax liabilities of individual taxpayers would depend on several factors including their marital status and the number of dependents (i.e. spouses and children). Subject to specific conditions, relief and rebates are available to any individual taxpayer pertaining to specific expenditure or payments incurred by that individual in relation to himself/herself or his/her dependents and parents. In addition, the personal income tax system allows married couples the option of joint or separate assessment, whereby the choice of either of the two options would give rise to different tax liabilities.

In Malaysia, prior to the year of assessment 2000, income tax was assessed on the preceding year basis, under the official assessment system.[359] Effective from the year of assessment 2000, the preceding year basis was replaced with the current year basis. The official assessment system was then replaced in stages with self assessment. Salary and wage earners and the self-employed in Malaysia, for the first time, were required to exercise self assessment when filing their returns in early 2005 in respect of income derived in the year 2004. With self assessment replacing the official assessment system, assessment responsibilities that were previously exercised by trained and professional tax officers are now placed on the shoulders of the generally untrained lay taxpayers. Hence, this gives rise to a very pertinent question, 'are the untrained lay taxpayers capable and ready to shoulder the responsibility of exercising self assessment?' Although one of the objectives of self assessment is to enhance voluntary compliance, this objective can only possibly be achieved if the pertinent question asked is adequately addressed and the answer is in the positive.

A review of the limited empirical evidence in Malaysia revealed that individuals were generally 'tax illiterates'. Some individuals were not aware of the implementation of self assessment, while others who were aware still preferred the official assessment system. Further, some individuals with higher educational qualifications were found to be unaware of their tax obligations. Some taxpayers were found to be able to compute their own tax liabilities but still preferred to receive instructions from the tax authority. At the same time, there had been very little investigation into the behavioural aspects of tax compliance in Malaysia.

[359] See above n 1.

Since self assessment is relatively new in Malaysia, a review of the experiences of the successes and shortcomings in some other self assessment regimes could provide valuable lessons for the Malaysian tax administrators and policy makers. In this respect, experiences of eight other self assessment regimes (viz. the United States, Canada, Japan, Pakistan, Bangladesh, New Zealand, Australia and United Kingdom) were reviewed. Generally, self assessment was introduced by these tax regimes to overcome the shortcomings of the traditional assessment system. Some countries (such as the United States, Canada, Japan, New Zealand and Australia) have been more successful than the others in the introduction and implementation of self assessment. Among the reasons for different levels of success are that different systems require different tax administrative structures and different job functions of tax officers. Likewise, under self assessment, taxpayers in different tax regimes assume different responsibilities and have different expectations.

Some apparent shortcomings of a number of self assessment regimes (such as Pakistan and Bangladesh) were their failure to reorganise their respective tax administrative structures and to re-orientate the mindset of tax officers and taxpayers to cater for the change from traditional assessment to self assessment. The authoritarian and adversary approaches and lack of public relations on the part of the tax authorities contributed to the erosion of the community's confidence in the tax authorities and this was detrimental to the enhancement of voluntary compliance. *Ad hoc* and piecemeal remedies, rather than comprehensive and well conceived solutions to apparent shortcomings further aggravated such shortcomings.

On the other hand, well planned structures and strategies, effectively and efficiently conceived and implemented to accommodate for the changing needs of self assessment had led to more successful implementations in other self assessment regimes (such as the United States, New Zealand and Australia). In addition, other than enforcement, the rendering of services, counselling and provision of tax education by the tax authorities have contributed greatly to the successful operations of self assessment systems. Other successful contributing factors are strategies directed at the enhancement of the community's confidence in the tax administration. These included the development of good public relations with taxpayers, more friendly and open approaches by the tax authorities and better liaison, consultation

and communication with taxpayers. Further, cognisance of taxpayers' compliance behaviour also contributed towards the formulation of policies and strategies that enhanced voluntary compliance.

Factors influencing tax compliance behaviour were and are being investigated using different behavioural models, among which are the economic models and the psychological-sociological models. Discussions on the literature review in Chapter 2 were drawn from across a range of disciplines and from different research paradigms and different models of compliance behaviour. Models ranging from the economic deterrence models by Allingham and Sandmo (1972); the sociological/psychological models, particularly developed by Ajzen and Fishbein (1975, 1977, 1980, 1988) as well as by Lewis (1982b); and the expanded models proposed by Fischer, Wartick and Mark (1992) and Chan, Troutman and O'Bryan (2000) were reviewed.

The economic models posit that human behaviour is influenced by rational considerations and the weighing of the perceived costs and benefits arising out of a specific behaviour or action. Should any individual perceive that a particular behaviour would result in positive net benefits, he/she would rationally behave as such to reap the reward. On the other hand, should there be any perceived negative net benefits, an individual would rationally behave accordingly so as to avoid suffering any loss. The economic models, although useful for investigating tax compliance behaviour, failed to adequately take into consideration the complexity of human behaviour. Human behaviour is influenced not only by rational economic considerations of costs and benefits, but also by a multitude of psychological and sociological factors. The psychological-sociological models also incorporate non-economic factors such as education, knowledge, awareness, income, moral, attitudes, culture/ethnic, politics, peers and institutional influence to study human behaviour.

Based on this review, it can be concluded that taxpayers' compliance behaviour is complex, diverse and multi faceted, and is influenced by a variety of factors or causes. A range of factors that have been considered as being related to taxpayers' compliance behaviour included the economic and deterrence factors, social factors, institutional variables, equity variables, ethic and moral, demographic and culture variables. The economic and deterrence factors include tax rate, tax audit, probability of detection, audit rate, prior audit, enforcement, penalties, fines, positive

inducement and rewards. The social factors are those related to attitudes, education and income level. While institutional uncertainty, tax knowledge and complexity of tax law are the institutional variables, equity variables includes fiscal policy and perception towards fairness of the tax system.

Tax compliance behaviour has been an area of research interest for over 30 years. However, the influence of the introduction of self assessment on taxpayers' compliance behaviour does not appear to have previously attracted much research interest by researchers. This might well be due to the reason that in countries[360] that had implemented self assessment decades ago, research on tax compliance conducted was focused more on the economic or sociological-psychology paradigms. Given the timing of the introduction of self assessment in Malaysia, it was a unique opportunity to research the influence of the change from official assessment system to self assessment on compliance behaviour. In the context of Malaysian taxpayers, it was expected that self assessment would affect individual taxpayers more than other category of taxpayers, such as companies and other incorporated entities.[361] As such, individual taxpayers were identified as the subjects for this research, particularly on how the introduction of self assessment, and taxpayers' knowledge on taxation had influenced their compliance behaviour.

Self assessment places the responsibility on taxpayers to correctly assess their own tax liabilities. As a result, taxpayers' tax knowledge was expected to play an important role in ensuring that they exercised appropriate compliance.[362] Under the self assessment regime, taxpayers need to understand their compliance obligations while the tax authorities need to ensure that taxpayers comply with the provisions of the tax law. Traditionally the IRB recognises penalties and probability of detection (through tax audits) as the two important variables to ensure compliance by taxpayers (Singh & Bhupalan 2001). Apparently, from the IRB's perspective, tax audit seemed to have more effect in enhancing taxpayers' compliance and penalties would act as deterrents against non-compliance. As such, to the IRB, the low compliance rate and non-compliance had influenced the frequency of its tax audit activities and its practice of imposing penalties.

[360] These are particularly western countries such as the United States, Canada, New Zealand and Australia.
[361] See above n 164.
[362] See 2.1.6 for definition of appropriate compliance.

However, based on the literature, taxpayers' compliance behaviour is not influenced only by penalties and frequency of tax audits, but also by their level of tax knowledge, financial constraints and grievances as well as by taxpayers' attitude towards and perceptions of the tax system, such as in relation to the fairness of the system and the inadequacy of the tax authority's enforcement strategies. Further, in Malaysia, among the main concerns of taxpayers are the uncertainty of the tax law and interpretations of public rulings, as currently, there are conflicting explanations and interpretations in relation to the public rulings and related judicial decisions. Given that self assessment for individual taxpayers was first introduced in Malaysia in 2004, understanding the impact of self assessment on compliance behaviour should be of great importance to the Malaysian tax administrators.

The objective of this research was to gain further insights into the influence of the introduction of self assessment and other possible causes that might have impact on the compliance behaviour of individual taxpayers in Malaysia. Against this backdrop, six research questions were developed to address the research problem statement, whereby five categories of causes, namely assessment system, tax knowledge, tax structure features, financial constraints and attitude towards tax, together with the main cause (i.e. self assessment) and one outcome (taxpayers' compliance behaviour) were investigated. The six research questions were:

(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)?

For the main cause (i.e. assessment system), this research was aimed at exploring taxpayers' understanding of the new self assessment system and to investigate

taxpayers' perceptions on the change from the official assessment system to self assessment system. To ensure successful implementation of self assessment, taxpayers need to possess adequate tax knowledge in order to comply, as any lack of tax knowledge would be expected to lead to unintentional non-compliance as well as over compliance. Thus, taxpayers' tax knowledge was expected to influence their compliance behaviour.

Tax audit and penalty are part and parcel of any self assessment system. Thus these two features were included in the tax structure features[363] for exploration with the view to investigate whether they might have affected the compliance behaviour of individual taxpayers in Malaysia. Two other categories of causes, i.e. taxpayers' financial constraints and attitudes towards tax were also expected to affect individual taxpayers' compliance behaviour. It was theorised that individuals experiencing financial distress were more likely to be engaged in tax evasion than those facing less financial difficulties. A study (Vogel 1974) revealed that respondents who experienced improved economic status were likely to admit that they evaded taxes as compared to those who suffered economic difficulties. Other evidence showed that the lack of funds was negatively correlated with the level of tax compliance (Ritsema, Thomas & Ferrier 2003). Aspects of financial constraints, such as income level and financial commitments towards one's family, have been found to be closely linked to one's financial position. Although taxpayers' income level appeared to have influenced compliance, research findings revealed mixed and inconsistent evidence (Clotfelter 1983; Witte & Woodbury 1985; Jackson & Milliron 1986; Dubin & Wilde 1988; Alm, Jackson & McKee 1992c; Young 1994).

Attitudes, in some way, do influence behaviour. Attitudes towards tax could change even though there is no change in terms of fiscal policies and tax laws. A particular behaviour may represent a multiplicity of attitudes, and attitude towards tax appears to be an important construct with more than one dimensions. Studies revealed that when taxpayers were at higher stages of reasoning, their attitudes would change accordingly (Chan, Troutman & O'Bryan 2000). Taxpayers' satisfaction with the

[363] For the discussion on the effect of tax audits, tax rates and penalties, see example Friedland, Maital & Rutenberg 1978; Clotfelter, 1983; Witte & Woodbury 1985; Dubin & Wilde 1988; Klepper & Nagin 1989a, 1989b; Hasseldine 1993; Das-Gupta, Lahiri & Mookherjee 1995; Yitzhaki 1974, quoted in Torgler 2002; Feinstein 1991, quoted in Sawkins & Dickie 2003; Ali, Cecil & Knoblett 2001; Dubin 2004.

government and experience of unfairness as well as negative experiences with the tax authority appeared to play significant roles in forming taxpayers' perceptions and attitudes towards tax and that would eventually affect their compliance behaviour. Therefore actions taken by the relevant authorities should be intended to increase taxpayers' positive attitudes and commitment towards the tax system and the payment of taxes.[364] In addition, taxpayers' demographic attributes (such as age, gender, level of education, ethnicity etc) were incorporated as variables in this research in order to establish a better understanding of their mediating effects on compliance behaviour.

Given that this research touches on taxpayers' perceptions on the change of assessment system, understanding of taxpayers' tax knowledge, taxpayers' financial constraints and their attitudes towards tax, a single research paradigm would be insufficient to gather adequate evidence to address the objectives of this research. Thus, a mixed method design using both the quantitative and qualitative paradigms was adopted and developed.

A quantitative research paradigm is an approach for developing knowledge by drawing from various literatures and evidence and to deductively form a framework for developing research questions and subsequently formulating relevant hypotheses. Generally, the methods employed in the quantitative research paradigm assumed that, in reality, a cause and effect relationship exists between variables. To test the relationships between the variables, strategies such as surveys, experiments, observations or data from secondary sources are employed. Data collected is then analysed and interpreted statistically by either accepting or not accepting a particular hypothesis. As such, the quantitative research paradigm has been criticised for its failure to incorporate a broader range of information, neglecting the essence of life and not able to capture the real meaning of social behaviour.

In contrast, the qualitative research paradigm is more inclined towards uncovering meanings and understandings of broad interrelationships. It also places more reliance on the population being studied to provide explanation of their behaviour with the objective to understand the meaning of individual experiences that are socially and historically constructed, as well as with the intent of developing a theory

[364] For example, see Smith & Stalans 1991; Smith K 1992; Feld & Tyran 2002.

or pattern. Typically, under such research paradigm, methods of inquiry to gather data include the use of narratives, phenomenologies, ethnographies, grounded theory studies or case studies. These methods of inquiry (other than case study) require a prolonged period for data gathering. Hence, a case study is considered a more appropriate[365] option for this research in that it would allow the researcher to explore in depth one or more subjects or observations. Data gathered through various procedures and case(s) are bounded by time and activity. As a case study (through an inductive approach) aims to discover theory rather than the verification of existing theories, there is no manipulation of variables and no predetermined outcomes.

Studies using the qualitative paradigm do not make general statements about large or total populations and had been criticised for being selective in reporting results because no simple data reduction method is available. Nevertheless, the purpose of this research involved the understanding of individual taxpayers' attitude and behaviour, which could be too complex just to be conjured up with quantitative methods of inquiry. The superiority of combining both paradigms in a mixed method approach is that they could complement each other in searching for comprehensive answers to the research questions.

A mixed method is also known as a triangulation of different data collection strategy involving mixing qualitative and quantitative styles of research and data (Neuman 2003:139; Creswell 2003). Triangulation should neutralise any inherent bias in a single method and a mixed method research design is the most appropriate in answering research questions for most applications of social and behavioural sciences. Mixing styles can be conducted either sequentially (Dressler 1991, quoted in Neuman 2003:139) or simultaneously.[366] The objective of using different methods is to confirm, cross-validate, or corroborate findings within a single study (Greene, Caracelli & Graham 1989; Morgan 1998; Steckler *et al* 1992, quoted in Creswell 2003:217). Hence, a mixed method strategy, comprising of both the qualitative and quantitative paradigms, combines the rigor and precision of quantitative designs and qualitative data with the in-depth understanding of qualitative methods. Data and findings from each of the methods can be complementary and used for cross-validation. As such, for this research, two quantitative methods (i.e. survey and

[365] See above n 223.
[366] See above n 224.

experiment) and one qualitative method (i.e. case study) were implemented concurrently in three phases between November 2004 and July 2005.

The first quantitative method used was a survey. Under the survey method, a repeated survey design or 'repeated cross-sectional design' was conducted before and after the filing of tax returns at the time when self assessment was first introduced. The objectives of the survey method were threefold. Firstly, evidence was to be obtained on taxpayers' perceptions regarding the change of assessment system. Secondly, evidence was to be obtained regarding the extent to which taxpayers' knowledge on personal income tax law had changed as a result of the introduction of self assessment. Thirdly, the survey sought information that would enable the investigation of the effects of three other likely causes or factors (i.e. tax structure features, taxpayers' financial constraints and attitude towards tax), that may have influenced taxpayers' compliance behaviour. These three causes were derived and adopted from the literature with some modifications to suit the Malaysian context. In addition, the survey was used to collect data pertaining to the demographic variables of respondents.

A similar survey instrument was used but targeted at different samples selected at random in the pre self assessment survey conducted between November 2004 to January 2005 (i.e. before the filing of tax returns under self assessment) and the post self assessment survey conducted from April 2005 to July 2005 (i.e. after the filing of tax returns under self assessment). Mail questionnaires (prepared in both the English and Malay languages) were distributed along with a covering letter describing the nature of the survey, stressing that complete anonymity was guaranteed and also emphasising that the survey was not conducted by or on behalf of the IRB.

Descriptive statistics such as frequency, mean and standard deviation were utilised to analyse the profile of respondents that include demographic and specific socio-economic backgrounds. To examine the association between variables, cross tabulation was used. In addition, chi square (χ^2) (goodness of fit) tests and p-value measure of statistical significance were used to test whether there were significant differences between the pre and post self assessment surveys on some relevant demographic variables, tax knowledge as well as other variables under study. To

investigate whether the five categories of causes were determinants of individual taxpayers' compliance behaviour, ordinal stepwise logistic regression was used. Prior to the regression analysis, multivariate factor analysis was carried out to identify the relevant components (variables) in the five categories of causes and to examine the correlations and eliminating variables that showed multicollinearity between variables as a way of summarising or reducing data.

Ordinal stepwise logistic regression was considered appropriate for both surveys because the dependent variables consist of polytomous[367] categories with ordinal data, and the independent variables consist of a combination of continuous and discrete data (see Table 3.2). It also determined the effects of all the five main categories of causes/factors and the moderating variables on the three separate dependent variables, i.e. reporting compliance of taxable income, of exempted income and of casual income. A correlation analysis was also conducted to examine the relationships between the five categories of causes and between the causes and the demographic variables.

The second quantitative method comprised of an experiment. A quasi-experimental research approach known as 'one group pre-test post-test' design was used for the experiment. This approach utilised a non-randomised method that could provide a prototype for multi-method investigations in which other feasible methods alone might not be able to provide compelling evidence, specifically in the testing of causal relationships. Generally, a quasi-experimental approach is divided into three categories, pre-test post-test design, time series design and single subject design. Time series design and single subject design were not appropriate for this research as both require numerous measurement periods prior to and after the introduction of interventions. No control group was used in the experiment as it was considered not possible to get a control group to participate in this research. Therefore, the only comparison available would be the pre-test and the post-test within the same group.

Two different simulations were conducted between April 2005 and May 2005 on two different groups of students representing two different categories of taxpayers, namely the salary and wage earners and the self-employed. The experiment had a number of objectives. Firstly, more conclusive evidence were required on whether

[367] See above n 237.

enhancement in tax knowledge via education could improve the reporting compliance among participants. Secondly, three tax structure features namely, tax rate, audit rate and penalty rate were manipulated across participants, aiming to see whether the interactions of tax knowledge and tax structure features had affected individual taxpayers' reporting compliance.

A total of 125 undergraduates participated in two different experiments. The pre-test experiment involved solving of a simulation package, filling in a year 2003 tax return and computing tax liabilities. Subsequent to the pre-test experiment, lessons on personal income tax knowledge (covering computation of aggregate income, computation of total income, the understanding of various relief and rebates available to personal taxpayers as well as the computation of tax liabilities) were given as treatment, followed by a post-test experiment with a similar simulation package but a year 2004 self assessment tax returns were used. T-tests were utilised to investigate the significance differences between these two categories of participants and ANOVA were used to investigate the main and interactive effects of these two causes (i.e. tax knowledge and tax structure features).

Tax compliance research in general has been based on self-reported, simulated or hypothetical behaviour, all of which have been questioned in terms of their indicativeness of actual behaviour. A case study (within the qualitative paradigm) attempts to address these shortcomings. The case study adopted for this research provided indications of the influence of self assessment based on actual behaviour as close as possible to the time of occurrence, judged objectively based on a wider range of information obtained (i.e. the examination of the actual tax returns, taxpayers' records and documents as well as the opportunities to systematically interview the taxpayers). Traditionally, case studies have been criticised as lacking rigor and allowing biases to influence the directions of the findings and conclusions but this can be minimised by using a case study protocol coupled with the expertise of the researcher (Yin 2003).

A single unit case study bounded by time and activity was conducted before the deadline for filing of actual tax returns in April 2005 for the salary and wage earners and in June 2005 for the self-employed. The case study enabled the researcher to observe the subjects' actual compliance behaviour by examining their respective

self-completed tax returns, the multitudes of relevant documents and other chains of evidence (so as to strengthen the construct validity). Documentation (a protocol) for the case study was prepared which contained a set of substantive questions reflecting the actual inquiry enabling data collection to follow a general plan with higher degree of consistency and allowing for inferences to be as unbiased as possible. Multiple replications of the case study protocol (to strengthen external validity) were conducted on subjects recruited locally in Malaysia via convenience sampling, i.e. through invitations to the faculty staff of MARA University of Technology, Malacca Campus and the Main Campus in Shah Alam, as well as to the local community.

Observations included the examination of each subject's tax return prior to the actual lodgement and inspections of any available relevant supporting documents were conducted independently without any interaction among the subjects. This examination was followed by an in-depth interview in order to arrive at a judgement on the pattern of each subject's compliance. A total of 74 subjects voluntarily participated in this study. This high response rate could probably be due to self assessment being implemented for the first time and also that individual taxpayers would like to be certain that their tax returns were properly completed and that their tax liabilities were accurately computed. Data gathered was analysed through pattern matching on the possible construct that emerged from the case study.

The detail results of each research method namely survey, experiment and case study, were respectively presented in Chapter 4. In Chapter 5, through a cross-method analysis, prominent and significant findings in relation to the effects of the five categories of causes on taxpayers' compliance behaviour were triangulated to address the six research questions. It is pertinent to note that generally, no conflicting outcomes were found from the results obtained via the two or three mixed method[368] design utilised. From the results of the cross-method analysis, six key findings emerged.

Firstly, the introduction of self assessment had influenced individual taxpayers' behaviour, particularly in terms of improvement in the understanding of the current assessment system and in their tax knowledge. These improvements are indications

[368] Three of the six research questions utilised all the three research methods, (namely survey, experiment and case study) while the other remaining three research questions only used two research methods, (namely survey and case study). (See Table 3.3 for detail descriptions).

that the change of assessment system had positively influenced the compliance behaviour of individual taxpayers. This is so as self assessment requires taxpayers to possess adequate tax knowledge in order to discharge their tax obligations. For instance, the subjects in the case study disclosed that they were more careful in filling in their tax returns to ensure accuracy and to avoid being penalised unnecessarily for unintentional errors or unintentional non-compliance. This research revealed a new finding of the impact of the introduction of self assessment in the tax compliance research, as there does not exist any comparable empirical evidence.

Secondly, it is pertinent to note that evidence adduced from this research (via all the three mixed method design) showed that out of the five categories of causes, tax knowledge had emerged to have the most effect in determining individual taxpayers' compliance behaviour. As such, the major impact of the introduction of self assessment was closely linked to the level of tax knowledge that a taxpayer acquired. As a result of self assessment, in order to discharge their tax obligations, taxpayers needed to have reasonably adequate tax knowledge at least to be able to complete 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 certain types of income as well as the deductibility of some expenses incurred. This appeared to be critical as taxpayers' tax knowledge could affect their attitude especially in terms of their confidence in handling their tax affairs and could eventually affect their compliance behaviour. Further, any lack of tax knowledge and understanding pertaining to the chargeability of any income and deductibility of any expense would eventually cause one to be unintentional non-compliant or over compliant. For instance, the findings of the experiment and the case study showed that lack of tax knowledge did cause numerous errors in the tax returns furnished respectively by participants and subjects who prepared their own tax returns. These errors resulted in unintentional non-compliance. Similarly, ignorance of certain exemptions and deductions available had resulted in over compliance that obviously favoured the tax authority. Other than for a few exceptions, generally the subjects in the case study exhibited commitments to comply with the income tax law if furnished with adequate tax knowledge. Likewise, the outcomes of this research (specifically, the experiment) also suggested

that taxpayers would have better 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 might even venture into the domain of tax evasion.

Regardless of the type of compliance behaviour, the effect of tax knowledge on individual taxpayers' compliance behaviour remained robust and prevalent. As such, the findings of this research had contributed new evidence to the existing literature[369] in revealing the existence of positive relationships between tax knowledge and tax compliance.

Thirdly, this research also revealed information concerning taxpayers' reactions to the current enforcement strategies particularly on tax audit and penalty. To a certain extent, these two enforcement strategies could be effective deterrence tools that could be used by the IRB. For instance, evidence gathered from the subjects of the case study revealed that fear of being tax audited and of being penalised had indirectly influenced the subjects' decisions to comply with the tax law. Even though there were expressions of dissatisfaction among the subjects within both the higher and the lower tax brackets, the fear of the possibility of being tax audited and of the imposition of penalty had lead some subjects to be over cautious and causing them to over comply. However, it needs to be cautiously noted that not all taxpayers were alike in terms of how tax audit or penalty affected their compliance behaviour, particularly those who were salary and wage earners. For the salary and wage earners (of whom withholding tax was imposed on their employment income), tax audit was a less effective tool, as the majority of subjects (i.e. from the salary and wage earners) confessed that they were keen to file their returns in order to get the refund of their over withheld taxes. Nevertheless, the findings of this research have added to the body of evidence that economic models do have significance in contributing to the understanding tax compliance behaviour in real world settings.

Fourthly, overall, it appeared that financial constraints had the least effect on individual taxpayers' compliance behaviour. Financial constraints are not currently a main concern among the respondents and subjects (who are salary and wage earners)

[369] For example, see Fischer, Wartick & Mark 1992; Christensen, Weihrich & Newman 1994; Kasipillai *et al* 1999; Chan, Troutman & O'Bryan 2000; Saad, Mansor & Ibrahim 2003.

under the new self assessment system in Malaysia. With the relatively low tax rates imposed on individual taxpayers as compared to some other countries (such as those in Australia and New Zealand), coupled with relief and rebates available, individual taxpayers could be paying very minimal tax (or even having zero tax liability) as revealed by one piece of robust evidence[370] gathered from the case study. For both categories of individual taxpayers, financial constraints have more direct and strong influence on the compliance behaviour of Malaysian individual taxpayers who were self-employed. This finding provided clearer evidence that financial constraints did have an effect on different categories of taxpayers. This is consistent with as well as contradicting the findings of other previous studies,[371] at least in terms of the effect of financial constraints on different categories of taxpayers rather than on all taxpayers as a whole.

Fifthly, in terms of attitudes towards tax, two findings prominently emerged from the survey and the case study. On one hand, taxpayers' attitude in terms of confidence in handling their tax affairs did have a positive impact on their behaviour; on the other hand, taxpayers' attitudes towards the tax system, the tax administration and the IRB's officers' roles had a negative impact on their decision to comply. In this context, the findings of this research are consistent with other studies[372] which found that taxpayers with more favourable attitudes towards the tax system would be more compliant. In contrast to the effect of financial constraints, these findings on attitude towards tax appeared to be affecting only one category of taxpayer (i.e. the salary and wage earners) but not individual taxpayers as a whole.

Lastly, in the multi-ethnic society of Malaysia, this research revealed evidence on the different needs of different ethnic groups in relation to tax education, how they deal with 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 on 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

[370] This subject had a chargeable income of about RM50,000, but ended up with a zero tax liability
[371] Vogel 1974; Wärneryd & Walerud 1982; Clotfelter 1983; Witte & Woodbury 1983, 1985; Alm, Jackson & McKee 1992a; Christian & Gupta 1993, quoted in Hite 1996:4; Young 1994; Roy-Chowdhury 2003.
[372] For example, see Chan, Troutman & O'Bryan 2000; Trivedi, Shehata & Mestelman 2005.

compliance on three different types of income (i.e. taxable income, exempted income and casual income).

At this juncture, the five categories of causes theorised in Chapter 1 appeared to be the causes in determining the compliance behaviour of individual taxpayers in relation to the influence of the introduction of self assessment in Malaysia. Other causes (such as taxpayers' political preferences and accounting knowledge specifically related to those self-employed in preparation of their accounting statements) did emerge from the case study as determining causes of compliance behaviour. However, they were considered to be relatively too insignificant.

This research had addressed the objectives of the study outlined in Chapter 1. The first objective was to identify the causes that might have influenced compliance behaviour associated with the introduction of self assessment in Malaysia, of which five categories of causes (namely assessment system, tax knowledge, tax structure features, financial constraints and attitude towards tax) were identified. For both categories of individual taxpayers, tax knowledge had the most impact on compliance behaviour of individual taxpayers. Tax structure features (particularly penalty) and attitude towards tax also affected individual taxpayers' compliance behaviour. The perceptions towards the change of assessment system from official assessment to self assessment and financial constraints had the comparatively least effect on taxpayers' compliance. The last objective dealing with identifying the significant differences in terms of causes that were affecting the two categories of individual taxpayers has also been addressed, whereby the findings of this research revealed that there were differences in terms of causes (particularly financial constraints and attitude towards tax) that showed different effects on these two categories of taxpayers. Tax structure features also showed marginally different effects on these two categories of taxpayers. In terms of the effect of tax knowledge and of the perceptions towards the change of assessment system, generally, no differences were found between these two categories of individual taxpayers.

6.2 Contribution of this research to the body of knowledge

This research had contributed to the tax compliance literature in at least two important dimensions. Firstly, this research investigated the impact of the

introduction of self assessment on individual taxpayers where no similar study is known to have been conducted either in Malaysia or in other tax regimes. Hence, this research has contributed new empirical evidence on tax compliance behaviour in a domain where similar evidence is rare or even non-existent. The findings of this research would also stand as special reference for any tax regime or tax authority that may be contemplating on a change from the traditional to the self assessment system, particularly in understanding taxpayers' needs and compliance behaviour in discharging their tax obligations under self assessment. In addition, the comparative analysis of self assessment in eight other tax regimes has provided deeper insights on the factors that had contributed to the success or failure of self assessment, insights that could also serve as lessons that are beneficial not only to the Malaysian tax administrators and policy makers, but also to that of other self assessment tax regimes.

Secondly, the use of the multi paradigms and mixed method design comprising of three research methods, namely, a survey, simulation experiment and case study is unique in that there is no known previous study, (either in Malaysia or elsewhere) that adopts these three methods in a single study to investigate individual taxpayers' compliance behaviour. The relevance of this mixed method design had been demonstrated by showing how one method could confirm and cross-validate or corroborate the findings within a single study. As such, the use of the mixed method design had also enhanced the level of confidence in the overall findings of this research and had made important contributions to the existing knowledge in tax compliance behaviour.

In terms of findings, this research had expanded the realm of knowledge in relation to the causes/factors and mediating effects of taxpayers' compliance behaviour, particularly in the Malaysian context. As the result of the introduction of self assessment, and evidenced by a majority of the subjects in the case study, tax knowledge (or the lack of it) was the major cause of intentional over compliance and unintentional non-compliance, which lead to a number of subjects over paying their

taxes. As such, previous studies[373] that found no direct relationship between tax knowledge and tax compliance are hereby refuted.

In terms of the model developed and adopted in this research, it comprised of features pertaining to tax compliance that are similar to those in the expanded models developed by Fischer, Wartick and Mark (1992) as well as Chan, Troutman and O'Bryan (2000). These two models stressed that many factors such as economic, social-psychology and demographic are likely to have interactive effects on how a taxpayer makes decision whether to comply or not. The general model for tax compliance behaviour developed and tested in this research is not only a well blended combination of the two models mentioned, but had also incorporated additional variables [i.e. tax knowledge, assessment system and ethnicity (but of the same nationality[374])], which provides, arguably, a more diversified and comprehensive model in understanding tax compliance behaviour.

The findings of this research had provided clear indications that the IRB should take cognisance of not only the adequacy of tax knowledge required by taxpayers for accurate computation of tax liabilities, but also of the economic, social-psychology and demographic factors that have bearings on compliance behaviour. These are not only relevant in terms of policy implications in the Malaysian context; but also probably in the context of other tax regimes.

6.3 Policy implications to tax administrators and others

Although this research was limited to the investigation of only five factors/causes, several policy implications have emerged and should be of particular relevance to the IRB. The findings demonstrate the usefulness and importance for the IRB to be aware of and understand taxpayers' compliance behaviour and the need to render tax education services to taxpayers in order to enable taxpayers to exercise appropriate compliance. Although the IRB does have some minimal general tax education programmes, focused on selected groups of taxpayers, it needs to further develop its programmes to enhance taxpayers' level of tax knowledge. These education programmes need to be extended to all categories of taxpayers residing in all geographical locations of Malaysia, instead of the current practice of concentrating in

[373] See Eriksen & Fallan 1996; Mottiakavandar *et al* 2003.
[374] Chan, Troutman & O'Bryan's model used two different nationalities, i.e. Hong Kong and US.

the vicinity of the urban areas. In addition, clear and consistent applications of the tax law and public rulings are needed so as not to confuse taxpayers.

This research has also revealed that individual taxpayers in Malaysia, in general, were willing to comply[375] and that not only tax audits, but taxpayers' attitudes towards the tax administration and experience taxpayers encountered with the tax officers were the determinants of their compliance behaviour. However tax audits only affected self-employed taxpayers' compliance behaviour and not that of the salary and wage earners. Based on this evidence, the IRB should review its public relation strategies. Perhaps, for the salary and wage earners, the IRB should de-emphasise its tax audit activities, while it should draw up strategies to enhance its public relations with all categories of taxpayers. This could be done through developing a more comprehensive taxpayers' charter which the IRB should commit itself to comply with, and implementing effective tax education and tax compliance programmes that could accommodate the different and diverse needs of the taxpayers.

Apart from tax education, the implementation of self assessment could be more effectively and efficiently administered and voluntary compliance could be further enhanced if the IRB were to take steps to further enhance taxpayers' positive attitudes towards tax and their confidence in managing self assessment. Publicity on the operations of the new self assessment system and on the enforcement strategies and the possible outcomes associated with these strategies would also be expected to improve taxpayers' perceptions towards the tax administration. Tax education programmes should not only emphasise the technical and computational aspects of filing returns and taxpayers' statutory obligations, but should also emphasise the virtue of good tax compliance ethics and moral and taxpayers' social obligations. The tax authority's enforcement strategies should be more positive in outlook, emphasising on the positive implications in the event of taxpayers paying what is due, and how the tax authority would reach out to assist these taxpayers to discharge their tax compliance obligations.

[375] This is supported by the report of a study conducted by Riahi-Belkaoui (2004:138) that Malaysia was ranked world no. 8 after Singapore, New Zealand, Australia, UK, Hong Kong, Switzerland and US in term of tax compliance with a rating of 4.34. In this study, tax compliance is measured by an assessment based on a scale from 0 to 6 where high scores indicate high compliance.

Enforcement strategies of tax audits and penalties should be reviewed by de-emphasising the punitive implications for non-compliance. Penalties should only targeted at the compulsive errant intentional non-compliant taxpayers.

Promoting tax education need not be the sole responsibility of the IRB. Other government agencies, such as the Ministry of Education should consider introducing tax education in curriculum of schools and tertiary institutions, as students are potential taxpayers when they join the workforce in the future. In addition, courses in taxation in tertiary institutions should not be offered only to students in the field of social sciences,[376] but should also be extended to other fields of study. By doing so, it does not only equip students with adequate tax knowledge, but also contributes to their awareness about their legal, moral or social obligations in relation to tax compliance.

These policy implications are not restricted to the Malaysian setting, as the findings of this research could also serve as important references for any tax jurisdiction contemplating the introduction of self assessment, particularly in countries having low literacy level among taxpaying population. These policy implications are also relevant to those countries that had introduced self assessment but are still working out strategies for more successful implementation.

6.4 Strengths, limitations and future direction for research

As with all other research, this research is not without its strengths and limitations. One of the main strengths of this research is its uniqueness in terms of the timeframe. This research was conducted during the transition from the pre to post self assessment period,[377] providing a very rare opportunity for the timing of such research. Hence, the findings represent rare, unique and important contributions of empirical evidence to the tax compliance literature as well as to the understanding of tax compliance behaviour, not only in Malaysia, but also in other self assessment tax jurisdictions.

[376] Currently, courses in taxation are offered to those students within the field of social science such as accountancy or business programmes.
[377] This was the pre to post self assessment transition period for individuals who are salary and wage earners and those who are self-employed.

The second strength is the research design. The used of multi paradigms and mixed method design comprising three research methods (namely a survey, simulation experiment and case study) in a single study on individual taxpayers' compliance behaviour is not known to have been adopted in any similar previous study. The two quantitative components were able to test and validate the relationships between the causes and variables and the results could be generalised with a series of descriptive information and some indications of their statistical significance. In terms of the qualitative component, the multiple replication of subjects provided the most significant strength in understanding the reasons behind taxpayers' unintentional non-compliance and intentional over compliance. The combination of both quantitative and qualitative methods not only allowed the researcher to cross-validate the results, but also enhanced the confidence level of the research findings. The mixed method design adopted for this research should trigger off and serve as a reference and starting point for future research.

While most research had investigated tax compliance in general, this research went a step further by investigating the different reporting compliance behaviour in respect of three different types of income, namely taxable income, exempted income and casual income.

The model developed in this research and the findings could be catalysts for future research, and the beginning of a series of engrossing explorations, investigations and discoveries to gain further insights into the complex and perhaps infinite patterns of compliance behaviour among groups of taxpayers, particularly taxpayers with different backgrounds or perhaps in different States in Malaysia using stratified sampling.

It is acknowledged that one of the limitations of this research is its focus on five categories of causes, as there could be other existing causes[378] that were not identified by the current research. Other limitations of this research are those mainly and inherently found in the use of quantitative methodology, namely survey and experiment design. Firstly, survey methodology with its self-report methods of

[378] Two such causes emerged from the case study, (viz. taxpayers' political preferences and taxpayers' accounting knowledge, particularly in relation to the preparation of financial statements by those who are self-employed). Besides these two causes, further investigations are needed to identify other existing causes.

determining attitudes and behaviour is less reliable, especially when information sought on tax is sensitive, potentially incriminating or embarrassing (Hessing, Elffers & Weigel 1988). For instance, survey respondents may have exaggerated their perceptions on the IRB's administration. Further, there may be non-response bias[379] although efforts to minimise it had been addressed.

Secondly, there are criticisms[380] that experimental designs are hypothetical and some of the experimental designs which involved artificial game situations might not be representative of actual situations and as a result, cannot be generalised. Participants in a self-contained 'game' might be framed to follow behavioural rules that are different from an actual situations. In addition, instructions[381] (such as those in Friedland, Maital & Rutenberg 1978) given in the experiment did not allow for taxpayers' moral considerations (Torgler 2002). Alm (1991) argued that it is not possible to generalise the findings beyond a laboratory experiment, while Martindale, Koch and Karlinsky (1992) pointed out that the findings are limited to the variables used in the experiments. However, Fischer, Wartick and Mark (1992) argued that if the experiments reflected the real world settings, then generalisability could be enhanced.

Thirdly, the 'one group pre-test and post-test' design chosen in the experiments did not involve a control group. As such, the outcome of the treatment (in particular tax knowledge) was not able to be compared with that of a control group as in a true experiment design. Arguably, having two different groups of participants (each respectively representing the salary and wage earners and the self-employed) had enhanced the overall findings by comparing the outcomes of these two separate experiments.

Fourthly, it could be argued that having students (who did not have any experience in filing tax returns) as participants in simulation experiments might not be satisfactory samples for studies of tax compliance behaviour (Torgler 2002). However, evidence has shown that there was no difference between the behaviour of students and other participants in similar experimental studies (Baldry 1987; Hasseldine 1993; Erisken

[379] See above n 234.
[380] For example, see Alm 1991; Martindale, Koch & Karlinsky 1992; Torgler 2002.
[381] Instruction such as '...your objective is to maximise your net income (gross income less tax and fines)...' (Friedland, Maital & Rutenberg 1978:110).

& Fallan 1996; Andreoni, Erard & Feinstein 1998). Perhaps more studies using similar experiments could be conducted, preferably on actual taxpaying participants other than students in order to establish findings that could be more conclusive and representative of the taxpaying population.

This research was conducted using a cross-sectional study. Perhaps future research could be conducted via a longitudinal study. Through a longitudinal study, researchers could investigate the causes/factors that contribute to the changes in individual taxpayers' compliance behaviour over time, with the intention to identify potential causes that are likely to influence taxpayers' compliance behaviour. For instance, studies could explore the pattern of changes in terms of taxpayers' financial commitments and how compliance cost could affect their compliance behaviour. Future research could also explore whether and how the change in level of tax knowledge affects the compliance decision of taxpayers.

There has been a call for cross-cultural studies between tax jurisdictions in western and non-western countries (Andreoni, Erard & Feinstein 1998). It would be interesting to conduct a comparative empirical study between countries, either having similar or different cultural backgrounds, particularly in the non-western tax jurisdictions, in order to identify common causes that are likely to be affecting individual taxpayers' compliance behaviour.

As human behaviour is complex and diverse, understanding tax compliance behaviour would be a challenging task both to the tax authority and future researchers. In addition, for a successful implementation of the new self assessment in Malaysia, cooperation and collaboration between the IRB and tax researchers is of paramount importance to search for avenue to further understand the causes underlying the compliance behaviour of taxpayers as well as to improve voluntary compliance.

References

Abdul M and Sheehan P 2003. Estimating the extent of income tax non-compliance in Malaysia and Australia using the gap approach (part I), *Tax Nasional*, 4th Quarter, 22-34.

_____and _____2004. Estimating the extent of income tax non-compliance in Malaysia and Australia using the gap approach (part II), *Tax Nasional*, 1st Quarter, 20-24.

Abdul Manaf NA, Hasseldine J and Hodges R 2005. The determinants of Malaysian land taxpayers' compliance attitudes, *eJournal of Tax Research*, 3(2):206-221.

Abdul Razak N and Mohd Foad H 2002. STS tingkat kutipan cukai pendapatan, *Utusan Online,* 11April, viewed 4 October 2004, <http://www.utusan.com.my>. (*Translated as SA System increased collection of income tax*).

Ahmad Mahdzan A 1997. *Kaedah Penyelidikan Socioekonomi*, edisi kedua, Kuala Lumpur, Dewan Bahasa dan Pustaka. (Translated as *Research Methods in Socioeconomics*, 2nd edition).

Ahmad W 2002. Circular No. 07 of 2002: self assessment scheme for the assessment year 2002-2003, viewed 10 May 2004, <http://www.cbr.gov.pk/budg2003/circulars/new200cir7.htm>.

Aldrich JH and Nelson FD 1984. *Linear Probability, Logit, and Probit Models*, Quantitative Applications in the Social Science, Series 45, Sage Publications.

Allison PD 2002. *Missing Data*, Series: Quantitative Applications in the Social Science, Sage Publications.

Ajzen I 1988. *Attitudes, Personality and Behaviour*, Open University Press, Milton Keynes.

_____ and Fishbein M 1977. Attitude-behaviour relations: a theoretical analysis and review of empirical research, *Psychology Bulletin*, 84(5):888-918.

_____ and _____ 1980. *Understanding Attitudes and Predicting Social Behaviour*, Prentice Hall, Inc., Englewood Cliffs, New Jersey.

_____ and Madden TJ 1986. Prediction of goal-directed behaviour: attitudes, intentions, and perceived behavioural control, *Journal of Experimental Social Psychology*, 22:453-474.

Ali MM, Cecil HW and Knoblett JA 2001. The effects of tax rate and enforcement policies on taxpayer compliance: a study of self-employed taxpayers, *American Economic Journal*, June, 29(2):186-202.

Allingham MG and Sandmo A 1972. Income tax evasion: a theoretical analysis, *Journal of Public Economic*, 1:323-338.

Alm J 1991. A Perspective on the experimental analysis of taxpayer reporting, *Accounting Review,* July, 66(3):577-593.

_____ and McKee M 1998. Extending the lessons of laboratory experiments on tax compliance to managerial and decision economics, *Managerial and Decision Economics*, June-August, 19(4/5):259-275.

_____and_____ 2004. Tax compliance as a coordination game, *Journal of Economic Behaviour and Organisation*, 54:297-312.

_____, Cronshaw MB and McKee M 1993. Tax compliance with endogenous audit selection rules, *International Review for Social Sciences*, spring, 46(1):27-45.

_____, Jackson BR and McKee M 1992a. Estimating the determinants of taxpayer compliance with experimental data, *National Tax Journal*, 45(1):107-114.

_____,_____and _____ 1992b. Institutional uncertainty and taxpayer compliance, *American Economic Review*, September, 82(4):1018-1026.

_____, _____and _____ 1992c. Deterrence and beyond: towards a kinder, gentler IRS, in Slemrod J (ed) *Why People Pay Taxes: Tax Compliance and Enforcement,* University of Michigan Press, 311-329.

_____, _____and _____ 2004. Audit information dissemination, taxpayer communication, and compliance: an experimental approach, paper presented at 2004 IRS Research Conference, Washington, June, 1-25.

_____, McClelland GH and Schulze WD 1992. Why do people pay taxes? *Journal of Public Economics*, 48:21-38.

_____, _____and _____ 1999. Changing the social norm of tax compliance by voting, *KYKLOS*, 48:141-171.

_____, Sanchez I and DeJuan A 1995. Economic and non-economic factors in tax compliance, *KYKLOS*, 48(1):3-18.

Amjad SP 2003. CBR's restructuring and reforms, *Business Magazine,* viewed 27 September 2004, <http://www.jang.com.pk>.

Andaya BW and Andaya LY 1982. *A History of Malaysia*, Macmillan Press, London.

Andreoni J, Erard B and Feinstein JS 1998. Tax compliance, *Journal of Economic Literature*, June, 36(2):818-860.

Asraf M 2004. Self assessment and audit, *Accountancy*, viewed 27 September 2004, <http://www.accountancy.com.pk>.

Australian Taxation Office (ATO) 2006. *Compliance Program 2005-2006*, viewed 15 May 2006, <http://www.ato.gov.au>.

_____ 2006. <http://www.ato.gov.au>.

Baldry JC 1987. Income tax evasion and the tax schedule: some experimental results, *Public Finance*, 42:356-383.

_____ 1999a. Self assessed taxation in Australia: definition, costs and benefits, *Chartered Secretary Malaysia*, January/February, 6-8.

_____ 1999b. Self assessed taxation in Australia: an appraisal of changes in enforcement procedures, *Chartered Secretary Malaysia*, March/April, 12-15.

Banoff SI and Lipton RM 2004. IRS causes emotional stress, must pay taxpayer, *Journal of Taxation*, ABI/INFORM Global, September, 191-192.

Banoo S 1999. Many firms not ready for self assessment tax system, says survey, *Business Times (Malaysia),* 23 October.

Barbour C 1997. Monitoring self assessment, *Taxation II*, December: 280-281.

Bardai B 1992. Tax illiteracy in Malaysia: problems and solutions, *ACCAMADIA*, December, 11(2):6-35.

Barr NA, James SR and Prest AR 1977. *Self Assessment for Income Tax*, Heinemann Educational Books, London.

Barth RT, Vertinsky P and Yang CF 1979. Some socio-behavioural and other determinants of compliance: a voluntary health service campaign, *Human Relations*, September, 32(9):781-792.

Beare ME 2002. Searching for wayward dollars: money laundering or tax evasion-which dollars are we really after? *Journal of Financial Crime*, London, February, 9(3):259-267.

Becker GS 1968. Crime and punishment: an economic approach, *Journal of Political Economy*, 76(20):169-217.

Beins BC 2004. *Research Methods a Tool for Life*, Pearson, US.

Berenson ML, Levine DM and Krehbiel TC 2006. *Basic Business Statistics, Concept and Applications*, 10th edition, Pearson Prentice Hall.

Beron KL, Tauchen HV and Witte AD 1988. A structural equation model for tax compliance and auditing, NBER working paper no 2556, National Bureau of Economic Research, April, viewed 11 October 2004, <http://www.nber.org/papers/w2556>.

_____, _____and _____ 1992. The effect of audits and social-economic variables on compliance, in Slemrod J (ed) *Why People Pay Taxes: Tax Compliance and Enforcement*, University of Michigan Press, 67-89.

Besley T, Preston I and Ridge M 1997. Fiscal anarchy in the UK: modelling poll tax non-compliance, *Journal of Public Economics*, May, 64(2):137-152.

Bickman L (ed) 2000. *Validity and Social Experimentation*, Donald Campbell's Legacy, Sage Publications.

Birch HB 1998. *Legislating for self-assessment of tax liability, a government discussion document*, Minister of Revenue, New Zealand, viewed 6 June 2004 <http://www.taxpolicy.ird.gov.nz/publications/files/selfapdf.pdf>.

Bird S 1993. Helping tax agents help taxpayers, paper presented at Taxpayer Compliance Research Conference, Australian Taxation Office, 2-3 December, Canberra.

Bloomquist KM 2003. Income inequality and tax evasion: a synthesis, *OECD Papers: Special Issue on Taxation*, 3(10).

Blumenthal M, Christian C and Slemrod J 1998. The determinants of income tax compliance: evidence from a controlled experiment in Minnesota, NBER working paper no 6575, viewed 11 October 2004, <http://ideas.repec.org/p/nbr/nberwo/6575.html>.

_____, _____ and _____ 2001. Do normative appeals affect tax compliance? Evidence from a controlled experiment in Minnesota, *National Tax Journal*, Washington, March, 54(1):125-138.

Blythe7 n.d. Self assessment, viewed 30 April 2004, <http://www.blythe7.com/accounting/>.

Boidman N and Gartner G 1986. The Canadian and U.S. tax system- similarities and differences, *Tax Management International Journal*, December, 15(12): 482-489.

Brewer J and Hunter A 1989. *Multi-method Research - A Synthesis of Styles*, Sage Library of Social Research 175, Sage Publications.

Briggs SR and Cheek JM 1986. The role of factor analysis in the development and evaluation of personality scale, *Journal of Personality*, March, 54(1):106-148.

Brodie D 1999. Self assessment: reflection from TaxAid, *British Tax Review*, 4:235-240.

Brown SR and Melamed LE 1990. *Experimental Design and Analysis*, Quantitative Applications in the Social Science, Series 74, Sage Publications.

Bryman A and Cramer D 2005. *Quantitative Data Analysis with SPSS 12 and 13, A Guide for Social Scientists*, Routledge Taylor & Francis Group.

Burns RB 1994. *Introduction to Research Methods*, 2nd edition, Longman Cheshire.

Butcher JG 1979. *The British in Malaya - 1880-1941, The Social History of a European Community in Colonial South East Asia*, Oxford University Press, Oxford.

Butler C 1993. Self assessment: the way forward, *Tax Nasional*, June, 2-3.

Byron RK 2004. NBR seeks spl bench to resolve huge pending cases, *News From Bangladesh*, 21 September 2004, viewed 24 September 2004, <http://www.Bangladesh-web.com>.

Canada Revenue Agency (CRA) 2006. viewed 27 March 2006, <http://www.cra-arc.gc.ca>.

Caplin MM 1962. New directions in tax administration, *Accounting Review*, April, 37(2):223-230.

Carnes GA and Englebrecht TD 1995. An investigation of the effect of detection risk perceptions, penalty sanctions and income visibility on tax compliance, *Journal of American Taxation Association*, spring, 17(1):26-41.

Caroll JS 1987. Compliance with the law: a decision making approach to taxpaying, *Law and Human Behaviour*, 11(4):319-335.

_____1992a. Taxation: Compliance with Federal Personal Income Tax Laws, *Handbook of Psychology and Law*, spring, 507-522.

_____1992b. How taxpayers think about their taxes: frame and values, in Slemrod J (ed) *Why People Pay Taxes: Tax Compliance and Enforcement*, University of Michigan Press, 43-63.

Casey TJ and Scholz JT 1991. Beyond deterrence: behavioural decision theory and tax compliance, *Law and Society Review*, 25(4):821-843.

Central Board of Revenue (CBR) 2002. SA scheme for the assessment year 2002-2003, viewed 10 May 2004, <http://www.cbr.gov.pk>.

_____ 2006. viewed 24 March 2006, <http://www.cbr.gov.pk>.

Certified Public Accountant (CPA) Australia - Malaysia Branch 2002a. Overview of the self assessment system of taxation in Malaysia, viewed 14 March 2004, <http://www.financialdirector.co.uk/news//>.

_____ 2002b. Self assessment system of taxation for companies in Malaysia, viewed 14 March 2004, <http://www.financialdirector.co.uk/news//>.

Chan CW, Troutman CS and O'Bryan D 2000. An expanded model of taxpayer compliance: empirical evidence from the United States and Hong Kong, *Journal of International Accounting and Taxation*, 9(2):83-103.

Chan YM and Molassiotis A 1999. The relationship between diabetes knowledge and compliance among Chinese with non-insulin dependent diabetes mellitus in Hong Kong, *Journal of Advanced Nursing*, 30(2):431-438.

Chang NW 2002. Judicial review of tax cases, *Tax Nasional*, 4th Quarter, 14-19.

Chang OH, Nichols DR and Schultz JJ 1987. Taxpayer attitudes towards tax audit risk, *Journal of Economics Psychology*, 8:299-309.

Charmaz K 2000. Constructivist and objectivist grounded theory in Denzin NK and Lincoln Y (ed), *Handbook of Qualitative Research*, 2nd edition, Sage Publications, 509-535.

Chartered Institute of Taxation (CIOT) 2002. Inland Revenue self assessment system, *CIOT*, viewed 1 November 2004, <http://www.tax.org.uk>.

Chin YK 1997. *Malaysian Taxation*, 4th edition, Butterworth Asia, Singapore.

Choong KF 2005a. *Advanced Malaysian Taxation - Principles and Practice*, 7th edition, InfoWorld, Kuala Lumpur, Malaysia.

_____ 2005b. Accessibility of rental income as a business income – an analysis, *Chartered Secretary Malaysia*, March, 10-19.

Chow CY 2004. Gearing up for the self-assessment tax regime for individuals, *Tax Nasional*, 2nd Quarter, 20-21.

Chowdhury D 2003. Our socio-political scenario and tax administration, *Daily Star*, 4(192), viewed 24 September 2004, <http://www.thedailystar.net>.

Christensen AL, Weihrich SG and Newman MDG 1994. The impact of education on perceptions of tax fairness, *Advance in Taxation*, 6:63-94.

Chung J and Trivedi VU 2003. The effect of friendly persuasion and gender on tax compliance behaviour, *Journal of Business Ethics*, October, 47(2):133-145.

Chung KK 2002. Does fairness matter in the tax reporting behaviour?, *Journal of Economic Psychology*, December, 23(6):771-785.

Cialdini RB 1989. Social motivations to comply: norms, values and principles, in Roth JA & Scholz JT (ed) *Taxpayer Compliance: Social Perspectives*, Philadelphia, 2:202-227.

_____ and Goldstein NJ 2004. Social influence: compliance and conformity, *Annual Review of Psychology*, 55:591-621.

Cicutti N 2004. Six steps to getting your tax return right, *MSN Money*, 8 September, viewed 1 November 2004, <http://www.money.msn.co.uk>.

Clemens J, Emes J and Scott R 2001. Flat tax: model for personal & business tax reform, paper presented at Fraser Institute Conference - Tax Reform in Canada: Our path to Greater Prosperity, 11 October, Toronto.

Clotfelter CT 1983. Tax evasion and tax rates: an analysis of individual returns, *Review of Economics and Statistics*, August, LXV(3):363-373.

Clutterbuck R 1984. *Conflict and Violence in Singapore and Malaysia: 1945-1983*, Graham Brash Pte Ltd, Singapore.

Cobb GW 1998. *Introduction to Design and Analysis of Experiments*, Key College Publishing.

Cohen SS 1966. To tax and to please - the greatness of the United States, speech delivered at the National Industrial Conference, Board of New York, 15 December, 268-272.

Coleman C 1999. Changing attitudes of small business owners to the ATO in a tax reform environment, paper presented at Australasian Tax Teachers' Association Conference, Pandora Archive, viewed 26 February 2004, <http://www.orange.usyd.edu.au/atta/>.

_____ and Freeman L 1997. Cultural foundation of taxpayer attitudes to voluntary compliance, *Australian Tax Forum*, 13:311-336.

Collier-Keywood R, Symons S, Arnold M and Whiting J 1998. United Kingdom, *International Tax Review*, September, 69-74.

Collins JH and Milliron VC 1988. A conceptual model and test of taxpayer non-compliance, a research report submitted to the Arthur Young Foundation, February.

_____, _____ and Toy DR 1992. Determinants of tax compliance: a contingency approach, *Journal of the American Taxation Association*, fall, 14:1-29.

Cooper GS 1993. A theoretical model of corporate tax evasion, paper presented at Taxpayer Compliance Research Conference, Australian Taxation Office, 2-3 December, Canberra.

_____ 1995. Incentives and strategic choices facing taxpayers under the tax self assessment system, *Australian Tax Forum*, summer, 12(3):99-124.

Copeland PV and Cuccia AD 2002. Multiple determinants of framing referents in tax reporting and compliance, *Organisational Behaviour and Human Decision Processes*, May, 88(1):499-526.

Cornell A 1996. Self assessment - the employer's burden, *Chartered Secretary*, ICSA, United Kingdom, July, 12-13.

Cowdroy PJ 1998. Self assessment in Australia – from adolescence to adulthood, paper presented at Seminar on Self Assessment System, Kuala Lumpur, 14 November.

Cowell FA 1992. Tax evasion and inequality, *Journal of Economic Psychology*, 13:521-543.

Crabtree BF and Miller WL 1992. *Doing Qualitative Research*, Sage Publications, California.

Crane SE and Nourzard F 1990. Tax rates and tax evasion: evidence from California amnesty data, *National Tax Journal*, 43(2):189-199.

Creswell JW 1995. *Research Design – Qualitative and Quantitative and Mixed Methods Approach*, Sage Publications.

_____ 2003. *Research Design- Qualitative, Quantitative and Mixed Methods Approach*, 2nd edition, Sage Publications.

_____ , Plano Clark VL, Gutmann ML and Hanson WE 2003. Advance mixed methods research design, chapter in Tashakkori A & Teddlie C (ed) *Handbook of Mixed Methods in Social and behavioural research,* Sage Publications, 209-240.

Cuccia AD and Carnes GA 2001. A closer look at the relation between tax complexity and tax equity perceptions, *Journal of Economic Psychology*, April, 22(2):113-140.

Cummings RG, Martinez-Vazquez and McKee M 2001. Cross cultural comparison of tax compliance behaviour, International Studies Program working paper no 01-3, March, Georgia State University, viewed 11 October 2004, <http://isp-aysps.gsu.edu/papers/irpwp0103.pdf>.

Dahlby B 2001. Restructuring the Canadian tax system by changing the direct/indirect tax mix, paper prepared for the Donner-Canadian Foundation.

Daly BA and Omer TC 1990. A comment on "A behavioural study of the meaning and influence of tax complexity", *Journal of Accounting Research*, spring, 28(1):193-197.

Dancey KJ 1982. Current compliance problems, proceedings of Corporate Management Tax Conference: Tax Enforcement, Compliance, and Administration, 218-241.

Darus NS 1996. Awareness of personal taxation among factory workers in Klang Valley, a paper submitted to the School of Accountancy, MARA Institute of Technology, Shah Alam as partial fulfilment for the Bachelor of Accountancy (Hon.).

D'Ascenzo M 2001. Tax administration into the 21st century, in Walpole M & Evans C (ed) *Tax Administration in the 21st Century*, Prospect, 1-8.

_____ and Poulakis T 2002. Self assessment: quo vadis? *Taxation in Australia*, March, 36(8):412-416.

Das-Gupta A, Lahiri R and Mookherjee D 1995. Income tax compliance in India: an empirical analysis, *World Development*, December, 23(12):2051-2064.

Demaris A 1992. *Logit Modeling - Practical Applications*, Quantitative Applications in the Social Science, Series 86, Sage Publications.

Denzin NK and lincoln YS (ed) 2000. *Handbook of Qualitative Research*, 2nd edition, Sage Publications.

_____ and _____ 2005. *The Sage Handbook of Qualitative Research*, 3rd edition, Sage Publications.

Devellis RF 2003. *Scale development: Theory and Applications*, 2nd edition, Sage Publications.

Dirkis M 2002. Australian income tax policy and income tax law development -past, present and future: a personal critique, paper presented at Australasian Tax Teachers' Association Conference, Pandora Archive, viewed 26 February 2004, <http://www.orange.usyd.edu.au/atta/>.

_____ and Payne-Mulcahy M 2002. Self assessment 14 years on: time for a change, *Taxation in Australia*, March, 36(8):417-421.

Dobson AJ 2002. *An Introduction to Generalised Linear Models*, 2nd edition, Chapman and Hall/CRC.

Dooley D 2001. *Social Research*, 4th edition, Prentice Hall Inc., New Jersey.

Dubin JA 2004. Criminal investigation enforcement activities and taxpayer non-compliance, paper presented at 2004 IRS Research Conference, Washington, June, 1-45.

_____ and Wilde LL 1988. An empirical analysis of Federal Income Tax auditing and compliance, *National Tax Journal*, 41(1):61-74.

_____, Graetz MJ and Wilde LL 1987. Are we a nation of tax cheaters? New econometric evidence on tax compliance, *American Economic Review*, May, 77(2):240-245.

_____, _____and _____ 1990. The effect of audit rates on the federal individual income tax, 1977-1986, *National Tax Journal*, 43:395-409.

Egger Jr. RL 1982. Compliance from the viewpoint of the IRS, paper presented at Corporate Management Tax Conference: Tax Enforcement, Compliance and Administration.

Elliot J 2005. *Using Narrative in Social Science, Qualitative and Quantitative Approach*, Sage Publications.

Emerson R 1964. *Malaysia - A Study in Direct and Indirect Rule*, University of Malaya Press, Kuala Lumpur.

Erard B and Feinstein JS 1994. Honesty and evasion in the tax compliance game, *Rand Journal of Economics*, spring, 25(1):1-18.

_____ and Ho CC 2001. Searching for ghosts: who are the non-filers and how much tax do they owe? *Journal of Public Economics*, 81:25-50.

Eriksen K and Fallan L 1996. Tax knowledge and attitudes towards taxation: a report on a quasi-experimental, *Journal of Economic Psychology*, June, 17(3):387-402.

Evans D & Gruba P 2002. *How to Write a Better Thesis*, 2nd edition, Melbourne University Press.

Falkinger J 1995. Tax evasion, consumption of public goods and fairness, *Journal of Economic Psychology*, 16:63-72.

Fallan L 1999. Gender, exposure to tax knowledge, and attitudes towards taxation; an experimental approach, *Journal of Business Ethics*, January, 18(2):173-184.

Feld LP and Frey BS 2003. Deterrence and tax morale; how tax administration and taxpayers interact, *OECD Papers*, 3(1).

_____ and Tyran J-R 2002. Tax evasion and voting: an experimental analysis, *KYKLOS*, 55(2):197-222.

Feltham GD and Paquette SM 2002. The interrelationship between estimated tax payments and taxpayer compliance, *Journal of American Taxation Association*, Supplementary, 24:27-45.

Ferguson MC 1978. Luncheon address: tax complexity and compliance - one view from the Department of Justice, Major Tax Planning, 30th Annual Conference of Institute on Federal Taxation, University of Southern California Law Centre, 30:871-883.

Fink A 1995a. *How to Design Surveys*, Sage Publications.

_____ 1995b. *How to Ask Survey Questions*, The Survey Kit-TSK2, Sage Publications, London.

_____ 1995c. *How to Sample In Surveys*, The Survey Kit-TSK6, Sage Publications, London.

_____ 1995d. *How to Measure Survey Reliability and Validity*, Sage Publications.

_____ 1995e. *How to Analyse Survey Data*, Sage Publications.

_____ 1995f. *How to Report Surveys*, Sage Publications.

_____ 2003. *How to Manage, Analyse, and Interpret Survey Data*, 2nd edition, Sage Publications.

Firebaugh G 1997. *Analysing Repeated Surveys*, Quantitative Applications in the Social Sciences, Series 115, Sage Publications.

Fischer CM, Wartick M and Mark MM 1992. Detection probability and taxpayer compliance: a literature review, *Journal of Accounting Literature*, 11:1-46.

Fishbein M and Ajzen I 1975. *Belief, Attitude, Intention & Behaviour: An Introduction to Theory and Research*, Addison-Wesley Publishing Co.

Fitz-Gibbon CT and Morris LL 1987. *How to Analyse Data*, Sage Publications.

Forest A and Sheffrin SM 2002. Complexity and compliance: an empirical investigation, *National Tax Journal*, March, 55(1):75-88.

Fowler FJ Jr 1993. *Survey Research Methods*, 2nd edition, Applied Social Research Methods, Series 1, Sage Publications.

Franzoni LA 1998. Tax evasion and tax compliance, Social Science Research Network Library, viewed 11 October 2004, <http://papers.ssrn.com/sol3/papers.cfm?abstrcat_id=137430>.

Frees EW 1996. *Data Analysis Using Regression Models, The Business Perspective*, Prentice Hall.

Friedland N, Maital S and Rutenberg A 1978. A simulation study of income tax evasion, *Journal of Public Economics*, 10:107-116.

Gay LR and Diehl PL 1992. *Research Methods for Business and Management*, Macmillan Publishing Company, New York.

Genstat Committee 2004. *Genstat for Windows*, 8th edition, Lawes Agricultural Trust (Rothamsted Experimental Station).

Gillham B 2000. *Case Study Research Methods*, Continuum, London.

Glen W 1998. The influence of gender and education on tax avoidance and tax evasion, in Evans C & Greenbaum A (ed) *Tax Administration: Facing the Challenges of the Future,* Prospect, 63-73.

Gliner JA and Morgan GA 2000. *Research Methods in Applied Settings: An Integrated Approach to Design and Analysis*, Lawrence Erlbaum Associates Publisher, Mahwah, New Jersey.

Graetz MJ and Wilde LL 1985. The economic of tax compliance: fact and fantasy, *National Tax Journal*, 38(3):355-363.

_____, Reinganum JF and Wilde LL 1986. The tax compliance game: towards an interactive theory of law enforcement, *Journal of Law, Economics and Organisation*, spring, 2(1):1-32.

Greene JC, Caracelli VJ and Graham WF 1989. Towards a conceptual framework for mixed method evaluation designs, *Educational Evaluation and Policy Analysis, 11:255-274.*

Greene WH 2003. *Econometric Analysis*, 5th edition, Prentice Hall.

Gujarati DN 2003. *Basic Econometrics*, 4th edition, McGraw-Hill, Inc.

Gullick J 1981. *Malaysia - Economic Expansion and National Unity*, Ernest Benn Ltd. London.

Hackbart M and Ramsey JR 2001. Estimating tax evasion losses: the road fund case, *Public Budgeting & Finance*, spring, 58-72.

Hale B and Chien N 2003. Self assessment in operation, *Tax Alert*, September, viewed 27 September 2004, <http://www.deloitte.co.nz>.

Hair JF Jr, Tatham RL, Anderson RE and Black W 1998. *Multivariate Data Analysis*, 5th edition, Prentice Hall, Upper Saddle River, NJ.

Hanno DM and Violette GR 1996. An analysis of moral and social influence on taxpayer behaviour, *Behavioural Research in Accounting*, supplement, 8:57-75.

Hansford A 1999. Self assessment: working towards best practice- a research perspective, April, viewed 30 April 2004, <http://tax.org.uk/>.

_____ and McKerchar M 2004. Developing the UK self assessment regime: is collaboration the key? *Australian Tax Forum*, 19(1):81-98.

_____ , Pilkington C and Lymer A 2004. Filing SA tax returns by internet: the impact on taxpayer compliance in the UK, paper presented at 6th International Conference on Tax administration, 15-16 April, Sydney.

Hasseldine J 1993. How do revenue audit affect taxpayer compliance?, *International Bureau of Fiscal Documentation*, July/August, 424-435.

_____ and Hansford A 2003. Tax auditing under the self assessment: survey evidence from the United Kingdom, *New Zealand Journal of Taxation Law and Policy*, March, 9:110-122.

_____ and Hite PA 2003a. Framing, gender and tax compliance, *Journal of Economic Psychology*, 24:517-533.

_____and _____ 2003b. The effects of attribute framing and political party affiliation on taxpayer preferences, *eJournal of Tax Research*, 1(1):5-18.

_____, Kaplan SE and Fuller LR 1994. Characteristics of New Zealand tax evaders: a note, *Accounting and Finance*, 34:79-93.

_____ and Li Z 1999. More tax evasion research required in new millennium, *Crime, Law & Social Change*, 31(2):91-104.

Hatta T 1992. The Nakasone-Takeshita tax reform: a critical evaluation, *American Economic Review*, 82(2):231-236, viewed 3 June 2004, <http://www.jstor.org>.

Henderson BC and Kaplan SE 2005. An examination of the role of ethics in tax compliance decision, *Journal of the American Taxation Association*, spring, 27(1):39-72.

Hessing DJ, Elffers H and Weigel RH 1988. Exploring the limits of self-reported and reasoned action: an investigation of the psychology of tax evasion behaviour, *Journal of Personality and Social Psychology*, 54:405-413.

Hinks G 2000. Self assessment complexity set to increase penalties, *Accountancy Age*, 11 April, viewed 14 March 2004, <http://www.financialdirector.co.uk/news//>.

Hinton PR 2001. *Statistics Explained, A Guide For Social Science Students*, Routledge Taylor & Francis Group.

_____, Brownlow IM and Cozens B 2004. *SPSS Explained*, Routledge Taylor & Francis Group.

Hite PA 1989. A positive approach to taxpayer compliance, Public Finance, 44(2):249-267.

_____ 1996. Identifying and mitigating taxpayer non-compliance, paper presented at Conference on Current Issues in Tax Administration, Sydney, 11-12 April.

_____ and Spicer MW 1990. Effect of multi-year versus single-year audit rates and increased penalties for repeat offenders, paper presented at IRS Annual Tax Compliance Research Conference, November.

Horn AL 1995. IRS indefinitely postpones TCMP audits, *Tax Adviser*, 11 January, viewed 21 October 2004, <http://www.highbeam.com/library>.

Hussain A 2004. Senate body calls for steps to develop tax culture, *Daily Mail*, viewed 24 September 2004, <http://www.dailymail.news.com>.

Hussain SI 1999. Circular No 18 of 1999: Universal self assessment scheme (USAS) for the assessment year 1999-2000, CBR Pakistan, viewed 27 September 2004, <http://www.taxonlin.com.pk>.

Inglis M 2002a. Taxing times: is self assessment working? *Policy*, spring, 18(3): 3-9.

_____ 2002b. Is self assessment working? The decline and fall of the Australian tax system, *Australian Tax Review*, June, 31:64-78.

Inland Revenue Board Malaysia (IRB) 2002. *Annual Report*, viewed 2 January 2006, <http://www.hasilnet.org.my>.

_____ 2006. Self assessment system, viewed 30 April 2006, <http://www.hasilnet.org.my/english/>.

Inland Revenue Department New Zealand (IRDNZ) 2001. Taxation (annual rates, taxpayer assessment and miscellaneous provisions) Bill, 1-7, viewed 14 March 2004, <http://www.taxpolicy.ird.govt.nz>.

_____ 2006. viewed 26 March 2006, <http://www.ird.govt.nz>.

Inland Revenue Service (IRS) 2002. *Mission, IRS Accountability Report 2001 fiscal year*, publication 3385, viewed 21 March 2006, <http://www.irs.gov>.

_____ 2004. IRS Strengthens employee tax compliance program, *IRS news*, 2 January 2004, viewed 21 March 2005, <http://www.irs.ustreas.gov/newsroom/article>.

_____ 2006. viewed 21 March 2006, <http://www.irs.gov>.

Inland Revenue United Kingdom (IR) 2006. viewed 27 March 2006, <http://www.hrmc.gov.uk>.

Institute of Economic Affairs (IEA) 2003. IEA authors argue for simplification of UK tax system, 31 March, viewed 1 November 2004, <http://www.iea.org.uk>.

Institute of Financial Accountants (IFA) 2004. Review of self assessment, Institute of Financial Accountant, viewed 1 November 2004, <http://www.ifa.org.uk/news_self.htm>.

Ishi H 2001. *The Japanese Tax System,* 3rd edition, Oxford.

Jaccard J 1998. *Interaction Effects in Factorial Analysis of Variance*, Quantitative Applications in the Social Science, Series 118, Sage Publications.

Jackson BR and Jaouen PR 1989. Influencing taxpayer compliance through sanction threat or appeals to conscience, *Advances in Taxation*, 2:131-147.

_____ and Jones SM 1985. Salience of tax evasion penalties versus detection risk, *Journal of American Taxation Association*, spring, 7-17.

_____ and Milliron VC 1986. Tax compliance research: findings, problems, and prospects, *Journal of Accounting Literature*, 5:125-165.

James S 1996. Self assessment and UK tax system, paper presented at Conference on Current Issues in Tax Administration, Sydney, 11-12 April.

_____ and Nobes C 2000. *The Economic of Taxation*, 7th edition, Prentice Hall.

James GA 1998. *Tax literacy Among School Teachers in Lawas, Sarawak*, a paper submitted to the School of Accountancy, MARA Institute of Technology, Shah Alam as partial fulfilment for the Bachelor of Accountancy (Hon.).

Johnson S 2003. The 1998 Act and the resources link between tax compliance and tax simplification, *Kansas Law Review*, 51:1013-1063.

Josef V 2005. and that's ENTERTAINMENT, *Tax Nasional*, 2nd Quarter, 36-38.

Kaizuka K 1992. The Shoup tax system and the post-war development of the Japanese economy, *American Economic Review*, 82(2):221-225.

Kasipillai J 1997. Aspect of the hidden economy and tax non-compliance in Malaysia, Doctoral Dissertation, University of New England, Australia.

_____ 1998a.Overview of Malaysian tax system: an examination of deliberate non-compliance, *Tax Nasional*, March, 2-7.

_____ 1998b. Malaysia - a self assessment system? *Asia-Pacific Tax Bulletin*, June, 216-220.

_____ 1998c. Hidden economy and tax investigation: a Malaysian perspective, *Tax Nasional*, September, 12-17.

_____ 2002. Investigation and tax audit under the self assessment system, *Chartered Secretary Malaysia*, January, 16-22.

_____ and Baldry J 1998. What do Malaysian taxpayers know? *Malaysian Accountant*, February, 2-7.

_____, Aripin N and Amran NA 2003. The influence of education on tax avoidance and tax evasion, *eJournal of Tax Research*, 1(2):134-146.

_____, Mat Udin N and Ariffin ZZ 2003. How do moral values influence tax compliance? Findings from a survey, *Chartered Secretary Malaysia*, June, 10-15.

_____, Mohd Hanefah M, Mat Din N and Marimuthu M 1999. Are Malaysian Taxpayers prepared for the self assessment system?, *Tax Nasional*, September, 9-17.

Kinsey KA 1992.Deterrence and alienation effects of IRS enforcement: an analysis of survey data, in Slemrod J (ed) *Why People Pay Taxes: Tax Compliance and Enforcement*, University of Michigan Press, 259-285.

_____, Grasmick H and Smith K 1991. Framing justice: taxpayer evaluations of personal tax burden, *Law and Society Review*, 25(4):845-873.

_____ and Smith KW 1986. Income tax cheating: opportunities, preferences and sanctions, working paper no 8718, American Bar Foundation.

Kirk RE 1995. *Experimental Design: Procedures for the Behavioural Science*, 3rd edition, Brooks/Code Publishing Co.

Klepper S and Nagin D 1989a. The anatomy of tax evasion, *Journal of Law, Economic and Organisation*, spring, 5(1):1-24.

_____ and _____1989b. Tax compliance and perceptions of the risks of detection and criminal prosecution, *Law and Society Review*, 23(3):209-238.

_____ and _____1989c. The criminal deterrence literature: implications for research on taxpayer compliance, in Roth JA & Scholz JT (ed) *Taxpayer Compliance, Social Science Perspective*, 2:126-155.

_____ and _____ 1989d. The role of tax preparers in tax compliance, *Public Service*, 22:167-194.

Kohlberg L 1969. Stage and sequence: the cognitive development approach to socialisation in Goslin D (ed) *Handbook of Socialisation Theory and Research*, Chicago: Rand McNally, 345-480.

_____ 1981. *The Philosophy of Moral Development: Moral Stages and the Idea of Justice*, 1st edition, Harper and Row.

_____ and Candee D 1984. The relationship of moral judgment to moral action, in Kurtines WM and Gerwitz JL(ed), *Morality, Moral Behaviour and Moral Development*, New York, 52-73.

KPMG 2004. Dispute rules: dispute resolution process, *Taxmail Attachment*, March, 6:1-5.

Kyngäs H 1999. A theoretical model of compliance in young diabetics, *Journal of Clinical Nursing*, 8:73-80.

Lee C, Yang F and Ran B 2004. Developing a driver compliance model for ATIS, proceedings of the 7th International IEEE Conference, 459-464, viewed 11 November 2004, <http://ieeeexplore.ieee.org/xpl/RecentCon.jsp?punumber=9625>.

Lee FH 1972a. *Taxation legislation developments in Malaysia and Singapore*, in A Collection of Taxation Articles, Industrial and Commercial Training and Consultancy Organisation, Singapore, 7-16. / also published in *International Accountants*, Association of International Accountants, January/March, 38(230).

_____ 1972b. *The History of Income Tax Legislation in Singapore and Malaysia*, in A Collection of Taxation Articles, Industrial and Commercial Training and Consultancy organisation, Singapore, 57-86. / also published in *International Accountant*, Association of International Accountants, October/December, 40(241).

Lee K 1998. Tax evasion, monopoly, and non-neutral profit taxes, *National Tax Journal*, Washington, June, 51(2):333-338.

Lent GE 1942. Collection of personal income tax at the source, *Journal of Political Economy*, October, 50(5):719-737, viewed 6 June 2004, <http://www.jstor.org>.

Lewins F 1993. *Writing A Thesis, A Guide to its Nature and Organisation*, ANUTECH Pty Ltd, Canberra.

Lewis A 1982a. The social psychology of taxation, *British Journal of Social Psychology*, 21:151-158.

_____ 1982b. *The Psychology of Taxation*, St. Martin's Press, New York.

Liamputtong P and Ezzy D 2005. *Qualitative Research Methods*, 2nd edition, Oxford University Press.

Liao TF 1994. *Interpreting Probability Models, Logit, Probit and Other Generalized Linear Models*, Quantitative Applications in the Social Science, Series 101, Sage Publications.

Lim KF and Chang LS 1999. Unveiling the self-assessment tax system, *Business Times* (Malaysia), 1 November.

Lim T 2002. Preparing for self assessment system, viewed 30 April 2004, <http://www.pwc.com>.

Litwin MS 1995. *How to Measure Survey Reliability and Validity*, The Survey Kit-7, Sage Publications Ltd, London.

Loh A, Ariff M, Ismail Z, Shamser M and Ali M 1997. Compliance costs of corporate income taxation in Malaysia, *Pacific Accounting Review*, 9(1):27-41.

Long SB and Burnham D 1990. Solving the nation's budget deficit with a bigger, tougher IRS: what are the realities? *Tax Notes*, 6 August, 741-757.

Loo EC and Ho JK 2004. Self-assessment for salaried taxpayers: taxpayers' land mine, tax agents' gold mine and IRB's 'not mine', paper presented at National Conference on Accounting and Finance, 23-24 August.

_____ and _____ 2005. Competency of Malaysian salaried individuals in relation to tax compliance under self assessment, *eJournal of Tax Research*, 3(1):47-64.

Lopez M 1999. The self assessment system - are taxpayers prepared for tax audits, *Tax Nasional*, December,12-13.

Ludin M 1978. Act A428 - Supplementary Income Tax (Amendment) Act 1978, *Malaysian Tax Journal*, 8:24-27.

Madi N 1999. *Tax Literacy Among Sole Proprietors and Partners at Tabuan Jaya and King Centre Kuching, Sarawak,* Dissertation submitted in partial fulfilment for the Master of Accounting, Curtin University of Technology.

_____ and Kamaluddin A 2003. Are salaried individuals in Sarawak prepared for SA System?, SEMAAC 2003 research proceedings: Issues and Challenges Confronting the Accounting Profession Today, 8-10 December , Kangar, Malaysia.

_____, Hall J, Shaw M and Oppenheim P 2002. *Marketing Research, An Applied Orientation*, 2nd edition, Prentice-Hall Ltd, Australia.

Manly BFJ 2005. *Multivariate Statistical Methods, A Premier*, 3rd edition, Chapman & Hall/CRC.

Marshall R, Smith M and Armstrong RW 1997. Self assessment and the tax audit lottery: the Australian experience, *Managerial Auditing Journal*, 12(1):9-15.

Martindale BC, Koch BS and Karlinsky SS 1992. Tax law complexity: the impact of style, *Journal of Business Communication*, fall, 29(4):383-400.

Mason R 1990. Impact of mass media fear messages on tax compliance: a theoretical perspective, paper presented at the IRS Research Conference, Washington, 15-16 December.

Maxim PS 1999. *Quantitative Research Methods in the Social Sciences*, Oxford University Press, New York.

McCullagh P and Nelder JA FRS 1989. *Generalised Linear Models*, 2nd edition, Chapman and Hall.

McGraw K and Scholz J 1991. Appeals to civic virtue versus attention to self interest: effects on tax compliance, *Law and Society Review*, 25(3):471-498.

McKerchar M 2002. The effects of complexity on unintentional non-compliance for personal taxpayers in Australia, *Australian Tax Forum*, 17(1):3-26.

_____ 2003. Understanding and predicting taxpayers' behavioural responses to actions by tax administration, *OECD Papers: Special Issue on Taxation*, 3(10).

Menard S 1995. *Applied Logistic Regression Analysis*, Quantitative Applications in the Social Science, Series 106, Sage Publications.

Meredith T 2002. The rulings system, *Taxation Australia*, December-January, 36(6):320-323.

Merriam SB 1990. *Case Study Research in Education - A Qualitative Approach*, Jossey-Bass Inc, California.

_____ 1998. *Qualitative Research and Case Study Application in Education*, Jossey-Bass Publishers, San Francisco.

Mete M 2002. Bureaucratic behaviour in strategic environments: politicians, taxpayers and the IRS, *Journal of Politics*, May, 64(2):384-407.

Miller AC 1895. National finance and the income tax, *Journal of Political Economy*, Jun, 3(3):255-288, viewed 6 June 2004, <http:/www.jstor.org>.

Milliron VC 1985. A behavioural study of the meaning and influence of tax complexity, *Journal of Accounting Research*, autumn, 23(2):794-816.

_____ and Toy DR 1988. Tax compliance: an investigation of key features, *Journal of American Taxation Association*, spring, 9(2):84-104.

Mills PC 2004. New IRS audit compliance initiative to launch, *Bulletin Board*, viewed 21 October 2004, <http://www.mpccpa.com/new-irs-audit.htm>.

Minarik JJ 1988. Individual income tax issues as revised by tax reform, *National Tax Journal*, September, XLI(3):291-301, viewed 6 June 2004, <http://www.library.usyd.edu.au>.

Mohd Nor F 1996. *Tax literacy among ITM lecturer in Shah Alam*, a paper submitted to the School of Accountancy, MARA Institute of Technology, Shah Alam as partial fulfilment for the Bachelor of Accountancy (Hon.).

Moneyextra 2004. Glossary: self assessment, 1 November, viewed 1 November 2004, <http://www.moneyworld.co.uk/glossary>.

Morse JM (ed) 1994. *Critical Issues in Qualitative Research Methods*, Sage Publications.

Morgan D 1998. Practical strategies for combining qualitative and quantitative methods: applications to health research, *Qualitative Health Research*, 8:362-376.

Mottiakavandar R, Ramayah T, Haron H and Ang J 2003. Factors influencing compliance behaviour of small business entrepreneurs, *Tax Nasional*, 1st Quarter, 20-26.

Mughal A 2004. World Bank officials briefed on tax reform, viewed 24 September 2004, <http://paknews.com>.

Nasir S 2001. Reforming the taxation system and tax collecting machinery, *Globe*, April, viewed 24 September 2004, <http://www.parksearch.com>.

National Audit Office (NAO) 2001. Inland Revenue- Income tax self assessment, London, viewed 1 November 2004, <http://www.nao.org.uk>.

National Board of Revenue (NBR) 2006. viewed 27 March 2006, <http://www.nbr-bd.org>.

National Tax Agency (NTA) 2006. Introduction to the Japanese tax system, viewed 24 January 2006, <http://www.nta.go.jp>.

Nesbitt WA 1971, *Simulation Games for the Social Studies Classroom*, 2nd edition, Foreign Policy Association.

Neuman WL 2003. *Social Research Methods, Qualitative and Quantitative Approaches*, 5th edition, Pearson Education.

Newman I, Ridenour CS, Newman C and Paul DeMarco GM Jr 2003. A typology of research purposes and its relationship to mixed methods, chapter in Tashakkori A & Teddlie C (ed) *Handbook of Mixed Methods in Social and behavioural research,* Sage Publications, 167-188.

Nicol G 1982. *Malaysia and Singapore*, B.T. Batsford Ltd, London, 1977, reprinted 1982.

Niemirowski P, Baldwin S and Wearing A 2001. Thirty years of tax compliance research: of what value is it to the ATO, in Walpole M & Evans C (ed) *Tax Administration in the 21st Century*, Prospect, 199-213.

Nik Ahmad NN and Sulaiman M 2005. Environmental reporting: what the accountants in Malaysia say, *Journal of the Asia Pacific Centre for Environmental Accountability*, December, 11(4):4-13.

Ong GY 2001. Current issues on tax filling programme under the self assessment system, paper presented at National Tax Seminar: Forging Towards k-Economy and The Globalisation Era, PWTC, Kuala Lumpur, 8 September.

Paddock A and Oates C 2003. Corporate tax self assessment lessons from down under, *International Tax Review*, November, 14(10):28-31.

Page C and Meyer D 2000. *Applied Research Design for Business and Management*, McGraw-Hill.

Pallant J 2005. *SPSS Survival Manual, A Step by Step Guide to Data Analysis Using SPSS*, 2nd edition, Allen & Unwin.

Pallot M 2006. Core concepts in the design of a tax disputes resolution system, proceedings of 7th International Tax Administration Conference, 20-21 April 2006, Sydney, Australia.

Pampel FC 2000. *Logistic Regression - A Premier,* Quantitative Applications in the Social Science, Series 132, Sage Publications.

Payne G and Payne J 2005. *Key Concepts in Social Research*, Sage Publications.

Pechman JA 1990. The future of the income tax, *American Economic Review*, March, 80(1):1-20, viewed 3 June 2004, <http://www.Jstor.org>.

Perry DB 1996. Fiscal figures, the evolution of federal personal income taxes in Canada, *Canadian Tax Journal*, 44(1):260-266.

Plamondon RE and Zussman D 1998. The compliance costs of Canada's major tax systems and the impact of single administration, *Canadian Tax Journal*, 46(4): 761-785.

Porcano TM 1988. Correlate of tax evasion, *Journal of Economic Psychology*, 9(1):47-67.

Posner EA 2000. Law and social norms: the case of tax compliance, *Virginia Law Review*, November, 86(1781): 1781-1819.

Punch KF 2000. *Developing Effective Research Proposals*, Sage Publications Ltd., London.

Rady M 1989. Complexity and compliance issues in the US tax system, *Akron Tax Journal*, 6:135-145.

Rana PI 2002. Tax experts find fault with the Universal Self Assessment Schme, *Dawn Interest Edition*, viewed 27 September 2004, <http://www.dawn.com>.

Raza A 2003. PM announces Rs 10.5 billion grant for Hyderabad, *Daily Times*, viewed 27 September 2004, <http://www.dailytimes.com.pk>.

Reed LE 1998. Performing a literature review, paper presented at 1998 Frontier in Education Conference, 4-7 November, viewed 4 May 2004, <http://www.pie.engrng.pitt.edu>.

Rehan HN 1998. Self assessment system in Pakistan, paper presented at Seminar on Self Assessment System, Kuala Lumpur, 14 November.

Reinganum JF and Wilde LL 1985. Income tax compliance in a principal-agent framework, *Journal of Public Economics*, 26(1):1-18.

_____ and _____1986. Equilibrium verification and reporting policies in a model of tax compliance, *International Economic Review*, October, 27(3):739-760.

_____ and _____1988. A note on enforcement uncertainty and taxpayer compliance, *Quarterly Journal of Economic*, November, 103:793-798.

Rhoades SC 1999. The impact of multiple components reporting on tax compliance and audit strategies, *Accounting Review*, January, 74(1):63-85.

Riahi-Belkaoui A 2004. Relationship between tax compliance internationally and selected determinants of tax morale, *Journal of Accounting, Auditing and Taxation*, 13:135-143.

Richards L 2005. *Handling Qualitative Data, A Practical Guide*, Sage Publications.

Richardson G 2005. An exploratory cross cultural study of tax fairness perceptions and tax compliance behaviour in Australia and Hong Kong, *International Tax Journal*, winter, 35(1):11-24, 66-67.

Richupan S 1984. Measuring tax evasion, *Finance and Development*, December, 21(4):38-40.

Ridzuan MS 2003. Self assessment for companies: review of progress, paper presented at the National Tax Conference 2003, August, Kuala Lumpur.

Riley M, Wood RC, Clark MA, Wilkie B and Sziras E 2000. *Researching and Writing Dissertations in Business and Management*, 1st edition, Thomson Learning.

Ritsema CM, Thomas DW & Ferrier GD 2003. Economic and behavioural determinants of tax compliance: evidence form the 1997 Arkansas tax penalty amnesty program, paper presented at the IRS Research Conference, June, viewed 11 October 2004, <http://www.irs.gov/pub/irs-soi/ritsema.pdf>.

Rizvi 2001. Income tax ordinance 2001, *Pakistan Economist*, viewed 27 September 2004, <http://www.pakistaneconomist.com>.

Robben HSJ, Webley P, Weigel RH, Warneryd K-E, Kinsey KA, Hessing DJ, Wahlund R, Langenhove LV, Long SB and Scholz JT 1990. Decision frame and opportunity as determinants of tax cheating - an international experiment study, *Journal of Economic Psychology*, September, 11(3):341-364.

Roberts ML, Hite PA and Bradley CF 1994. Understanding attitudes toward progressive taxation, *Public Opinion Quarterly*, summer, 58(2):165-190.

Robson C 2002. *Real World Research: A Resource for Social Scientists and Practitioner- Researchers,* 2nd edition, Blackwell Publishing.

Romano CA n.d. Research strategies for small business: a case study approach, *International Small Business Journal*, 7(4):35-43.

Rosage LR 1996. Non-filer profiles, fiscal year 1993: a focus on repeaters, *SOI Bulletin*, summer, 1-11, viewed 21 October 2004, <http://www.irs.gov/pub/irs-soi/93nfo1rp.pdf>.

Roth JA, Scholz JT and Witte AD 1989. *Taxpayers Compliance, 1: An Agenda for Research*, Philadelphia, PA: University of Pennsylvania Press.

Roy-Chowdhury C 2003. Is the tax system too complex? *BBC News*, viewed 1 November 2004, <http://www.newsvote.bbc.co.uk>.

Russell D 2000. Implication of self assessment tax for the tax professional, *Akauntan Nasional*, October, 14-16.

Saad N, Mansor M and Ibrahim I 2003. The self-assessment and its compliance costs, *SEMAAC 2003 Research Proceeding: Issues and Challenges Confronting the Accounting Profession Today*, 8-10 December, Kangar, Malaysia.

Sadka E 1970. *The Protected Malay State: 1874 -1895*, University of Malaya Press, Kuala Lumpur.

Sandford C 1994. Self assessment for income tax - another view, *British Tax Review*, 6:647-680.

_____ (ed) 1995. *Tax Compliance Costs: Measurement and Policy*, Fiscal Publication.

_____ and Wallschutzky IG 1994a. Self-assessment and all that-UK proposals in the light of Australian experience, *Management Accounting*, July/August, 34, 57.

_____ and _____ 1994b. Self assessment for income tax: lessons from Australia, *British Tax Review*, 3:213-220.

Sansing RC 1993. Information acquisition in a tax compliance game, *Accounting Review*, October, 68(4):874-884.

_____ 2002. Discussion of the interrelationship between estimated tax payments and taxpayer compliance, *Journal of American Taxation Association*, Supplementary, 24:46-48.

Sapsford R 1999. *Survey Research*, Sage Publications.

_____ and Jupp V (ed) 1996. *Data Collection and Analysis*, Sage in association with Open University, London

Sarantakos S 1999. *Social Research,* 2nd edition, Macmillan Publishers Australia Pty Ltd.

Sarker TK 2003. Improving tax compliance in developing countries via self assessment systems - what could Bangladesh learn from Japan? *Asia-Pacific Tax Bulletin*, June, 9(6):1-34, viewed 14 March 2004, <http://unpan1.un.org/intradoc/groups/public/documents/UNPAN/UNPAN014413.pdf>.

_____ 2004. Incidence of income taxation in Bangladesh, viewed 24 September 2004, <http://unpan1.un.org/intradoc/groups/public/documents/UNPAN/UNPAN014405.pdf>.

Sawkins JW and Dickie VA 2003. Modelling council tax non-payment in Scotland and Wales: Preliminary results, Report prepared for University of Stirling, viewed 11 October 2004, <http://www.cotecon.net>.

Schmölders G 1959. Fiscal psychology: a new branch of public finance, *National Tax Journal,* 12:340-345.

_____ 1970. Survey research in public finance-a behavioural approach to fiscal theory, *Public Finance*, 25:300-306.

Schwartz RD and Orleans S 1967. On legal sanctions, *University of Chicago Law Review*, 34:274-300.

Scotchmer S and Slemrod J 1989. Randomness in tax enforcement, *Journal of Public Economic*, 38:17-32.

Sekaran U 2000. *Research Methods for Business, A Skill Building Approach*, John Wiley and Sons, Inc.

_____ 2003. *Research Methods for Business, A Skill Building Approach*, 4th edition, John Wiley and Sons, Inc.

Selvendran M 1982. Petroleum Income Tax in Malaysia, proceedings of the 1st National Tax Seminar, National University of Malaysia, Bangi, 22-24 February, 1-26.

Shadish WR 2000. The empirical program of quasi-experimentation, chapter in Bickman L (ed) *Research Design – Donald Campbell Legacy*, 2:13-35.

Shaikha Z 1986. The legal literature of Malaysia, in Hooker MB (ed) Malaysian Legal Essay, *Malayan Law Journal*, Kuala Lumpur, 335-378.

Shanmugam S 1996. Strategic planning - a conceptual model for Inland Revenue Department, Malaysia, *Tax Nasional,* March, 8-12.

_____ 2003. Managing self assessment - an appraisal, *Tax Nasional*, 1st Quarter, 30-32.

_____ 2004. Enforcing tax compliance - relevant issues for criminal prosecution, *Tax Nasional*, 1st Quarter, 17-19.

Sheikh Obid SN 1996. Some problems of income taxation encountered by the Malaysian self-employed business taxpayers, *Akauntan Nasional*, November /December, 34-40.

Silvani C and Baer K 1997. Designing a tax administration reform strategy: experiences and guidelines, *Tax Note International*, August, 375-395.

Singh A 1982. *Malaysian income tax*, 4th edition, Quinn Pte Ltd, Singapore.

Singh V 1993a. Tax reforms in Malaysia: future trends, *Accounting Journal*, 10-25.

_____ 1993b. Issues with regard to self assessment, *Tax Nasional*, June, 3-6.

_____ 2003a. *Malaysian Taxation - Administrative and Technical Aspects*, 6th edition, Longman, Petaling Jaya.

_____ 2003b. *Tax Compliance and Ethical Decision-Making – A Malaysian Perspective*, Longman, Petaling Jaya.

_____ and Bhupalan R 2001. The Malaysian self-assessment system of taxation, issues and challenges, *Tax Nasional*, 3rd quarter, 12-17.

Slemrod J 1989. Complexity, compliance costs, and tax evasion, in Roth JA & Scholz JT (ed) Taxpayer Compliance: Social Perspectives, Philadelphia, 2:156-181.

_____ 1992. Why people pay taxes: introduction, in Slemrod J (ed) *Why People Pay Taxes: Tax Compliance and Enforcement*, University of Michigan Press, 1-8.

_____ 1998. On voluntary compliance, voluntary taxes, and social capital, *National Tax Journal*, September, 51(30):485-491.

_____ 2001. A general model of the behavioural response to taxation, *International Tax and Public Finance*, 8(2):119-128.

_____ 2005. The etiology of tax complexity: evidence from U.S. state income tax systems, *Public Finance Review*, May, 33(3):279-299.

_____, Blumenthal M and Christian C 2001. Taxpayer response to an increased probability of audit: evidence from a controlled experiment in Minnesota, *Journal of Public Economics*, 79:455-483.

Smith D 1999. Self assessment: an Inland Revenue perspective, *British Tax Review*, 4:241-243.

Smith KW 1992. Reciprocity and fairness: positive incentives for tax compliance, in Slemrod (ed.) *Why People Pay Taxes, Tax Compliance and Enforcement*, University of Michigan Press, 223-249.

_____ and Kinsey KA 1985. Cooperation and control: strategies and tactics for tax examination, *Tax Administration Review*, December, 13-29.

_____ and _____ 1987. Understanding taxpaying behaviour: a conceptual framework with implications for research, *Law and Society Review*, 21(4):639-663.

_____ and Stalans LJ 1991. Encouraging tax compliance with positive incentives: a conceptual framework and research directions, *Law & Policy*, January, 13(1):35-53.

Smith WH 1970. The IRS - meeting the challenges of tax administration, speech delivered at the University of Miami Tax Conference, 12 May, viewed 6 June 2004, <http://www.ebsco.com>.

Snow A and Warren Jr RS 2005. Ambiguity about audit probability, tax compliance, and taxpayer welfare, *Economic Inquiry*, October, 43(4):865-871.

Somasundram NR 2002. Reasonable care under self assessment, *Tax Nasional*, 4th Quarter, 24-27.

_____ 2003. Tax evasion and tax investigation - a study on tax compliance management, *Chartered Secretary Malaysia*, July, 20-24.

_____ 2005a. Entertainment Expenditure, *Chartered Secretary Malaysia*, March, 20-23.

_____ 2005b. Taxing the roof, *Chartered Secretary Malaysia*, November, 12-15.

Song Y and Yarbrough TE 1978. Tax ethics and taxpayers attitude: a survey, *Public Administration Review*, 38:435-443.

Speirs R 1999. Tax surprise: most of us pay less than Americans in Canada, it's only the better off who fork out more, 6 November, viewed 6 June 2004, <http://www.canadiansocialresearch.net/taxes.htm>.

Spicer MW and Becker LA 1980. Fiscal inequity and tax evasion: an experimental approach, *National Tax Journal*, 33(2):171-175.

_____ and Thomas JE 1982. Audit probabilities and the tax evasion decision: an experimental approach, *Journal of Economic Psychology*, September, 2(3):241-245.

Stephens RJ 1993. Radical tax reform in New Zealand, *Fiscal Studies*, 14(3):45-63. .

Stensen H 2002. Design of experiment, Chapter in *SYSTAT 10.1*, SYSTAT Software Inc, Richmond CA, <http://www.systat.com>.

Stylianou J 1997. Taxation-learning to like self assessment, *Accountancy Age*, 6 September, viewed 14 March 2004, <http://www.financialdirector.co.uk//>.

Subramaniam A 1982. *Introduction to Real Property Gains Tax in Malaysia*, Malayan Law Journal, Kuala Lumpur.

_____ and Teo KS 1989. *Principles of Malaysian Revenue Law*, 1, Malayan Law Journal, Singapore.

Tabachnick BG and Fidell LS 2001. *Using Multivariate Statistics*, 4th edition, Pearson Education Company.

Tan LM and Chan CF 2000. The impact of tax knowledge on the perceptions of tax fairness and attitudes towards compliance, *Asian Review of Accounting*, 8(1):44-58.

Tashakkori A and Teddlie C 1998. *Mixed Methodology, Combining Qualitative and Quantitative Approaches*, Applied Social Research Methods, Series 46, Sage Publications.

Tate DJM 1979. *The Making of Modern South East Asia*, 2, Economic and Social Change, Oxford University Press, Oxford.

Tauchen H and Witte SD 1985. Economic models of how audit policies affect voluntary tax compliance, proceedings of the 78th Annual Conference, National Tax Association - Tax Institute of America, 40-45.

_____, _____ and Beron KJ 1989. Tax compliance: an investigation using individual TCMP Data, working paper No 3078, National Bureau of Economic Research, August.

The Age 2003. Another look at the tax regime, November 27, viewed 30 April 2004, <http://www.theage.com.au/articles/>.

The Treasury 2004. *Review of Aspect of Income Tax Self Assessment – Discussion Paper*, Commonwealth of Australia, March.

Thompson S and Teviotdale W 1999. Self assessment: revenue authorities v. taxpayers, a state of conflicts? *British Tax Review*, 4:272-283.

Ticehurst GW & Veal AJ 2000. *Business Research Methods- A Managerial Approach*, Pearson Education Australia.

Torgler B 2002. Speaking to theorist and searching for facts: tax morale and tax compliance in experiments, *Journal of Economic Surveys*, 16(5): 657-683.

_____ 2003. Tax morale, rule-governed and behaviour trust, *Constitutional Political Economy*, 14(2): 119-140.

Trivedi VU, Shehata M and Mestelman S 2005. Attitudes, incentives and tax compliance, Canadian Tax Journal, 53(1):29-61.

Turnier WJ & Little SL 2004. Is it time for an American PAYE? *Tax Notes*, May 3:559-575.

Turnbull CM 1989. *A History of Malaysia, Singapore and Brunei*, Allen & Unwin, Sydney.

Verschuren PJM 2003. Case Study as a research strategy: some ambiguities and opportunities, *International Journal of Social Research Methodology*, 6(2):121-139.

Vogel J 1974. Taxation and public opinion in Sweden: an interpretation of recent survey data, *National Tax Journal*, 27:499-513.

Wallschutzky IG 1990. Taxpayer decision making: to comply or not to comply that is the question, paper presented at Australasian Tax Teachers' Association Conference.

_____ 1992. Achieving compliance, *APTIRC Bulletin*, April, 143-149.

_____ 1993. Achieving compliance, paper presented at Australasian Tax Teachers' Association Conference, New Zealand, 17-19 January.

Wärneryd K-E and Walerud B 1982. Taxes and economic behaviour: some interview data on tax evasion in Sweden, *Journal of Economic Psychology*, 2:187-211.

Weigel RH, Hessing DJ and Elffers H 1987. Tax evasion research: a critical appraisal and theoretical model, *Journal of Economic Psychology*, 8:215-235.

Weires RM 2005. *Introduction to Business Statistics*, 5th edition, Thompson Brooks/Cole.

Wenzel M 2004. An analysis of norm processes in tax compliance, *Journal of Economic Psychology*, 25:213-228.

White JR 2000. Report to congressional requesters - tax administration of the Restructuring Act's personnel flexibility provision, FDCH Government Account Reports, April, viewed 24 September 2004, <http://www.library.usyd.edu.au/>

_____ 2001. Report to Congressional Committee - tax administration status of IRS' efforts to develop measures of voluntary compliance, Government Accounting Office, 1 June, viewed 24 September 2004, <http://www.irs.gov>.

White RA, Harrison PD & Harrell A 1993. The impact of income tax witholding on taxpayer compliance: further empirical evidence, *Journal of American Taxation Association*, fall, 15(2):63-78.

Whiting J 2004. Self assessment maze explained, *BBC News*, viewed 1 November 2004, <http://www.newsvote.bbc.co.uk>.

Wickerson J 1993. Measuring taxpayer compliance: issues and challenges facing tax administrations, paper presented at Australian Tax Office Research Conference, 2-3 December.

William DE 1999. Self assessment: a practitioner's view, *British Tax Review*, 4:229-234.

Witte AD 1989. What factors affect voluntary compliance? The impact of tax laws, tax administration and taxpayer attitudes on taxpayer behaviour, paper presented at Tax Compliance Intensive Weekend Workshops, Bowral, 25-27 August.

_____ and Woodbury DF 1983. What we know about the factors affecting compliance with the tax laws, Income Tax Compliance: A Report of the ABA Section of Taxation Invitational Conference on Income Tax Compliance proceedings, Virginia, March, 133-148.

_____ and _____1985. The effect of tax law and tax administration on tax compliance: the case of the U.S. individual income tax, *National Tax Journal*, 38(1):7-1-13.

Wong A and Tan K 2003. Tax Controversies in Malaysia, *Tax Nasional*, 1st Quarter, 14-19.

Yaniv G 1999. Tax compliance and advance tax payments: a prospect theory analysis, *National Tax Journal*, LII(4):753-764.

Yin RK 1989. *Case Study Research-Design and Methods*, Applied Social Research Methods, Series 5, Sage Publications.

_____ 1994. *Case Study Research-Design and Methods*, 2nd edition, Applied Social Research Methods Series 5, Sage Publications.

_____ 2003. *Case Study Research-Design and Methods*, 3rd edition, Applied Social Research Methods Series 5, Sage Publications.

Yong K 2005. Malaysia's first self assessment year for individual taxpayers, *Tax Nasional*, 2nd Quarter, 22-24.

Yong PC 1983. Malaysia tax reform, proceedings of Seminar Kebangsaan Kedua, National University of Malaysia, 21-23 February, 134-159.

Young JC 1994. Factors associated with non-compliance: evidence from the Michigan tax amnesty program, *Journal of American Taxation Association*, fall, 16(2):82-105.

Appendices

Appendix I: Federation of Malaysia: chronology from British influence and rule to independence

1786 - 1942[382]	
Straits Settlements	Singapore Penang Malacca
Federated Malay States	Perak Selangor Pahang Negri Sembilan
Unfederated Malay States	Kedah Perlis Kelantan Terengganu Johore
British Protectorates	Sabah Sarawak

1946 – 1962 / 1963[383]	
British Colony	Singapore
Malayan Union[385] (and later) Federation Of Malaya[387]	Penang Malacca Perak Selangor Pahang Negri Sembilan Kedah Perlis Kelantan Terangganu Johore
British Colonies	Sabah Sarawak

1963 – 1965	
	Singapore[384]
Federation Of Malaysia[386]	Penang Malacca Perak Selangor Pahang Negri Sembilan Kedah Perlis Kelantan Terangganu Johore
	Sabah
	Sarawak

1965 - now	
Federation Of Malaysia	Penang Malacca Perak Selangor Pahang Negri Sembilan Kedah Perlis Kelantan Terengganu Johore Sabah Sarawak

[382] Perlis was then part of Kedah.
[383] Japanese Occupation (1942 – 1945).
[384] Singapore was separated from the Federation of Malaysia on 9 August 1965
[385] The British proposal for a Malayan Union was rejected by the Malay community. The Federation of Malaya was formed.
[386] The Federation of Malaysia was formed on 16 September 1963.
[387] The Federation of Malaya gained independence from Britain on 31 August 1957.

Appendix II: Exemption in relation to income derived from Malaysia

For individuals who are salary or wage earners or who are self-employed[388]

1. Employment

	Categories	Amount exempted, criteria for exemptions	References
1.1	Merchant Sailors	Full amount, derived by any individual from exercising employment on board a Malaysian merchant ship registered under the Merchant Shipping Ordinance 1952	Para 34, Schedule 6, ITA (1967)
1.2	Short Term Employment	Full amount, derived by any non resident individual whose duration of employment in Malaysian does not exceed 60 days in a year or if the duration of employment overlaps 2 consecutive years, the duration of such employment does not exceed 60 days	Para 21 and 22, Schedule 6, ITA(1967)
1.3	Compensation[389]	Compensation received by any employee from his / her employer Full amount exempted from tax if the loss of employment is due to ill health If the loss of employment is not due ill health, an amount equivalent to RM4,000 for every completed year of service shall be exempted. (For a director of a controlled company,[390] no exemption is allowed)	Para 15, Schedule 6, ITA (1967)
1.4	Gratuity on Retirement	Gratuities received upon retirement from an employment Full amount exempted from tax if retirement is due to ill health If retirement is not due to ill health, exemption is only allowed if the retirement takes place on or after the age of 55; or upon reaching the compulsory retirement age (under any written law); and in either case from an employment of at least 10 years with the same employer	Para 25, Schedule 6, ITA (1967)

[388] With effect from the year 2004, under Paragraph 28, Schedule 6 ITA (1967) (as amended), income received in Malaysia from outside Malaysia shall be fully exempted from tax. Thus, the exemptions presented in this appendix would therefore refer only to exemptions on income derived from Malaysia.

[389] Compensation: 2005 Budget Proposal: exemption is RM6,000 for each completed year of service.

[390] Controlled Company is a company with not more than 50 shareholders, and controlled by not more than 5 shareholders [Section 2 and Section 139, ITA (1967)].

1. **Employment (cont.)**

	Categories	Amount exempted, criteria for exemptions	References
1.5	Gratuity in Lieu of Leave[391]	Any sum received, upon retirement from an employment, by way of gratuity in lieu of leave pay that is paid out of public funds	Para 25A, Schedule 6, ITA (1967)
1.6	Gratuity on Termination of Contract of Employment[392]	Any sum received, upon the termination of a contract of employment, by way of gratuity that is paid out of public funds	Para 25B, Schedule 6, ITA (1967)
1.7	Benefits In Kind[393]	Monetary value of benefit in kind, consisting of medical or dental treatment or a benefit for childcare	Section 13(1)(b)(i), ITA (1967)
		Monetary value of benefit in kind, consisting of leave passages for travel within Malaysia not exceeding three times in any calendar year; or one passage for travel between Malaysia and any place outside Malaysia in any calendar year, limited to a maximum of RM3,000	Section 13(1)(b)(ii), ITA (1967)
		A benefit used by an employee solely in connection with the performance of his / her duties	Section 13(1)(b)(iii), ITA (1967)
1.8	Computer	Amount equal to the value of the benefit in the form of one new computer received by any employee from his/her employer	Income Tax (Exemption) No.56 Order 2000

2. Pension

	Categories	Amount exempted, criteria for exemptions	References
2.1	Upon Retirement	Pension received upon retirement from an employment that was exercised in Malaysia, where the retirement is:- (a) due to ill health; or (b) on reaching the age of 55; or (c) on reaching the compulsory age of retirement (under any written law); and the pension is paid out by an approved pension fund[394]	Para 30, Schedule 6, ITA (1967)

[391] Such payments are commonly referred to as the 'golden handshakes', and the exemptions are applicable to sums received upon retirement for the Civil Services (reason, paid out of public funds).
[392] The exemptions are applicable to sums received upon termination of contract of employment with the Civil Services (reason, paid out of public funds).
[393] Generally, the monetary value of the use or enjoyment by an employee of any benefit in kind provided for the employee by his/her employer would be deemed as forming part of the employee's income from employment. The monetary value is imputed based on guidelines issued by the Inland Revenue Board. However, the monetary value of some of these benefits are exempted from tax.
[394] Approved funds refer to funds approved for the purposes of income tax.

3. Interest

	Categories	Amount exempted, criteria for exemptions	References
3.1	Received by Non Resident Persons[395]	Interest received by any non-resident person from any bank or finance company in Malaysia. However, such interest, if paid to a place of business in Malaysia is not exempted	Para 33, Schedule 6, ITA (1967)
3.2	Interest Received by Individuals On Deposits	(a) Interest received on money deposited in any savings account or under the 'Save As You Earn' with the BSN;[396] (b) Interest up to an amount on deposit of RM100,000 in any savings accounts or fixed deposit account, received from any bank or institution approved by the Minister of Finance	Income Tax (Exemption) (No. 12) Order 1996 (P.U.(A) 64)
3.3	Interest on Savings Certificates, etc.	(a) Interest received by any person in respect of any saving certificate issued by the Government; (b) Interest received by any individual in respect of securities or bonds issued by the Government or guaranteed by the Government (c) Interest received by any individual on bonds (other than convertible loan stock) issued by companies listed on the KLSE, or issued by Rating Agency Malaysia Bhd or Malaysian Rating Corporation Bhd (d) Interest received by any individual in respect of Malaysian Savings Bonds issued by the Central Bank of Malaysia	Para 19, 35 & 35A, Schedule 6 ITA (1967)
3.4	Offshore Company	Interest received from any offshore company by a non-resident	Income Tax (Exemption) (No. 16) Order 1991

[395] 'Person' includes an individual, a company and any other entity that is chargeable to tax.
[396] BSN or '*Bank Simpanan Bank*' (i.e. National Saving Bank).

4. Bonus, gains or profits (Islamic banking)[397]

	Categories	Amount exempted, criteria for exemptions	References
4.1	Gains or Profits received by Individuals on Deposits	Gains or profits up to an amount on deposit of RM100,000 in any savings accounts or investment account (under the Islamic Banking System) received from any bank or institution approved by the Minister of Finance	Income Tax (Exemption) No.13) Order 1996 Income Tax (Exemption) (No.41) Order 1997 Income Tax (Exemption) (No. 6 Order 1998
4.2	Bonus received by Individuals on Deposits	Bonus received by any individual on deposits in any savings account with *Lembaga Tabung Haji*[398]	Income Tax (Exemption) No.12) Order 1996

5. Royalties

	Categories	Amount exempted, criteria for exemptions	References
5.1	Artistic Works	Royalty of up to RM6,000 a year, received by any individual resident in respect of publication of, or the use, or the right to use any artistic work, and royalty in respect of recording discs or tapes	Para 32, Schedule 6, ITA (1967)
5.2	Translation Works	Royalty of up to RM12,000 a year, received by any individual resident in respect translation of books or literary works requested by any agency of the Minister of Education or the Attorney General's Chamber	Para 32A, Schedule 6, ITA (1967)
5.3	Literary Works	Royalty of up to RM20,000 a year, received by any individual resident in respect of publication of, or the use, or the right to use any literary work or any original painting (exclude that mentioned in 5.1)	Para 32 B, Schedule 6, ITA (1967)
5.4	Offshore Company	Royalty received from any offshore company by a non-resident	Income Tax (Exemption) (No. 16) Order 1991

[397] In Islam, interest is forbidden. Thus in Malaysia, several financial products are offered under the Islamic Banking System where bonus, gains or profits are earned by investors or depositors.

[398] *Lembaga Tabung Haji* (or Pilgrimage Board). Muslims in Malaysia may deposit funds in savings accounts managed by the Pilgrimage Board.

6 Dividend

	Categories	Amount exempted, criteria for exemptions	References
6.1	Co-operative Societies	Dividend received by any member from any co-operative society registered in Malaysia	Para 12A, Schedule 6, ITA (1967)
6.2	Shipping Companies	Dividend (paid out of exempted income) received by any shareholder from any Malaysian resident company carrying on shipping operations	Section 54A(3)(d), ITA (1967) Income Tax (Exemption) (No. 29) Order 1998
6.3	Approved Unit Trusts	Dividend received by any individual resident from any approved unit trust[399]	Income Tax (Exemption) (No. 48) Order 1997
6.4	Income derived from outside Malaysia	Dividend distributed by a resident company out of any income arising from sources outside Malaysia	Income Tax (Exemption) (No. 31) Order 1995 (P.U. (A) 450)
6.5	Exempted Income[400]	Dividends distributed out of exempt income of any company	See 7 below

[399] Approved unit trusts are those approved by the Government for the purpose of exemption on dividend.

[400] Under the ITA (1967) and the Promotion of Investments Act, 1986, certain incomes of business enterprises are either fully or partially exempted from income tax. Dividends distributed out of such exempted income shall also be exempted from income tax in the hands of the shareholders.

7. Distribution of dividends out of exempt income

	Categories	Criteria for income that are partially or fully exempted from tax and available for distribution of tax exempted dividends that are exempted in the hands of shareholders	References
(a)	Overseas Construction Projects	Income of any resident company, derived from any construction project carried on outside Malaysia.	Income Tax (Exemption) (No. 5) Order 1989
(b)	Offshore Company	Dividend received from any offshore company.	Income Tax (Exemption) (No. 16) Order 1991
(c)	Research Company	Dividend received from any approved research company, resident in Malaysia	Income Tax (Exemption) (No. 24) Order 1993
(d)	Reinvestment Allowance	Dividend received from any resident company enjoying tax exemption incentives in the form of reinvestment allowance	Schedule 7A, ITA (1967)
(e)	Approved Service Project	Dividend received from any resident company enjoying tax exemption incentives in the form of investment allowance for service sector	Schedule 7B, ITA (1967)
(f)	Pioneer Status	Dividend received from any resident company enjoying tax exemption incentives under pioneer status	Section 23(2), Promotion of Investments Act, 1986
(g)	Investment Tax Allowance.	Dividend received from any resident company enjoying tax exemption incentives in the form of investment tax allowance	Sections 29A to 29F, Promotion of Investments Act, 1986
(h)	Industrial Adjustment Allowance	Dividend received from any resident company enjoying tax exemption incentives in the form of industrial adjustment allowance	Section 31E(5), Promotion of Investments Act, 1986
(i)	Abatement of Income from Exports	Dividend received from any resident company enjoying tax exemption incentives in the form of abatement of income from exports	Section 37(3), Promotion of Investments Act, 1986
(j)	Infrastructure Allowance	Dividend received from any resident company enjoying tax exemption incentives in the form of infrastructure allowance	Section 41B(5), Promotion of Investments Act, 1986

Appendix III: List of public rulings as at 31 March 2006

	Ruling No.	Name of ruling	Issued/ Updated
1	1/2000	Basis period for non-business source	1 March 2000
2	2/2000	Basis period for a business source (companies and co-operatives)	1 March 2000
3	3/2000	Basis period for a business source (individuals and persons other than companies/co-operatives)	1 March 2000
4	4/2000	Keeping sufficient records (companies and co-operatives)	1 March 2000
5	4/2000	Keeping sufficient records (companies and co-operatives) – revised	30 June 2001
6	5/2000	Keeping sufficient records (individuals and partnerships)	1 March 2000
7	5/2000	Keeping sufficient records (individuals and partnerships) – revised	30 June 2001
8	6/2000	Keeping sufficient records (persons other than companies and co-operatives)	1 March 2000
9	6/2000	Keeping sufficient records (persons other than companies and co-operatives) – revised	30 June 2001
10	7/2000	Providing reasonable facilities and assistance	1 March 2000
11	8/2000	Wilful evasion of tax and related offences	30 December 2000
12	1/2001	Ownership of plant and machinery for the purpose of claiming capital allowances	18 January 2001
13	2/2001	Computation of initial and annual allowances in respect of plant and machinery	18 January 2001
14	3/2001	Appeal against an assessment	18 January 2001
15	4/2001	Basis period for a non-business source (individuals and persons other than companies)	30 April 2001
16	5/2001	Basis period for a business source (co-operatives)	30 April 2001
17	6/2001	Basis period for a business source (individuals and persons other than companies/co-operatives)	30April 2001
18	7/2001	Basis period for business and non-business source (companies)	30 April 2001

List of public rulings as at 31 March 2006 (cont.)

19	1/2002	Deduction for bad and doubtful debts and treatment of recoveries	2 April 2002
20	2/2002	Allowable pre-operational & pre-commencement of business expenses for companies	8 July 2002
21	1/2003	Tax treatment of leave passage	5 August 2003
22	2/2003	'Key-man' insurance	30 December 2003
23	1/2004	Income From Letting of Real Property	30 June 2004
24	2/2004	Benefits-in-kind	8 November 2004
25	3/2004	Entertainment Expense	8 November 2004
26	4/2004	Employee Share Option Scheme Benefits	9 December 2004
27	5/2004	Double Deduction Incentive on Research Expenditure	30 December 2004
28	1/2005	Computation of Total Income for Individual	5 February 2005
29	2/2005	Computation of Income Tax Payable by a Resident Individual	6 June 2005
30	3/2005	Living Accommodation Benefit Provided for the Employee by The Employer	11 August 2005
31	4/2005	Withholding Tax on Special Classes of Income	12 September 2005
32	5/2005	Deduction For Loss of Cash and Treatment of Recoveries	14 November 2005
33	6/2005	Trade Association	8 December 2005
34	1/2006	Perquisites from Employment	17 January 2006
35	2/2006	Tax Borne by employers	17 January 2006
36	3/2006	Property Development and Construction Contracts	13 March 2006

Appendix IV: Summary of offences and penalties

Applicable to individual taxpayers

Section(s)	Offences	Penalties
77(1) 77(2) 77(3)	Failure to furnish return as called upon by the DG. Failure to give notice of chargeability to tax.	On conviction: Fine of between RM200 and RM2,000 or maximum of six months imprisonment or both. [Section 112(1)] No prosecution: Penalty of three times the amount of tax. [Section 112(3)]
78 79 80(3) 81 84(1) 85 87	**Failure to comply with notice:-** (a) to produce books or document and to personally present the books or document to the DG. (b) to produce particulars pertaining to bank accounts, assets, sources of income and chargeability to tax. (c) to translate document into the National language. (d) to provide any information as called upon by the DG. (e) to file returns by any agent (who is in receipt of income or having control of assets) of another person as called upon by the DG. (f) to furnish returns by occupiers of premises (g) to file any further return as called upon by the DG.	On conviction: Fine of between RM200 and RM2,000 or maximum of six months imprisonment or both. [Section 120(1)(a)]
83(1)	Failure by an employer to submit returns providing the names, addresses and employment income of employees	On conviction: Fine of between RM200 and RM2,000 or maximum of six months imprisonment or both. [Section 120(1)(b)]
83(2) 83(3) 83(4)	**Failure by an employer to give notice:-** (a) of commencement of employment of an employee. (b) of cessation of employment of an employee. (c) of an employee's intention to leave or about to leave Malaysia.	On conviction: Fine of between RM200 and RM2,000 or maximum of six months imprisonment or both. [Section 120(1)(c)]

Section(s)	Offences	Penalties
84(2) 86(1) 89	**Failure by:-** (a) a sales agent of a non resident to file quarterly returns. (b) a precedent partner to file specific returns for the partnership as called upon by the DG. (c) a person to give notice of change of address.	On conviction: Fine of between RM200 and RM2,000 or maximum of six months imprisonment or both. [Section 120(1)(d)]
153(1)	Holding oneself out as a tax agent without satisfying the relevant provision of the ITA.	On conviction: Fine of between RM200 and RM2,000 or maximum of six months imprisonment or both. [Section 120(1)(d)]
83(5) 107	Failure by an employer to comply with directives to deduct tax:- (a) from the remuneration of any employee who is about to cease employment, or about to leave Malaysia. (b) from the employment income of any employee, or from a pension payable to any individual.	On conviction: Fine of between RM200 and RM2,000 or maximum six months imprisonment or both. [Section 120(1)(e)]
82(3) 82(5)	**Failure to comply with notice:-** (a) to maintain records and to issue receipts in the manner as directed by the DG. (b) to produce audited accounts.	On conviction: Fine of between RM300 and RM10,000 or maximum of one year imprisonment or both. [Section 119A]
113	Making incorrect returns or giving incorrect information relating to tax of oneself or on behalf of any other person.	On conviction: Fine of between RM1,000 and RM10,000 plus penalty of twice the amount of tax undercharged. [Section 113(1)]. No prosecution: Penalty equal to the amount of tax undercharged. [Section 113(2)]
114(1)	Wilful evasion of tax.	On conviction: Fine of between RM1,000 and RM20,000 or maximum of three years imprisonment or both, plus three times the amount of tax evaded. [Section 114(1)

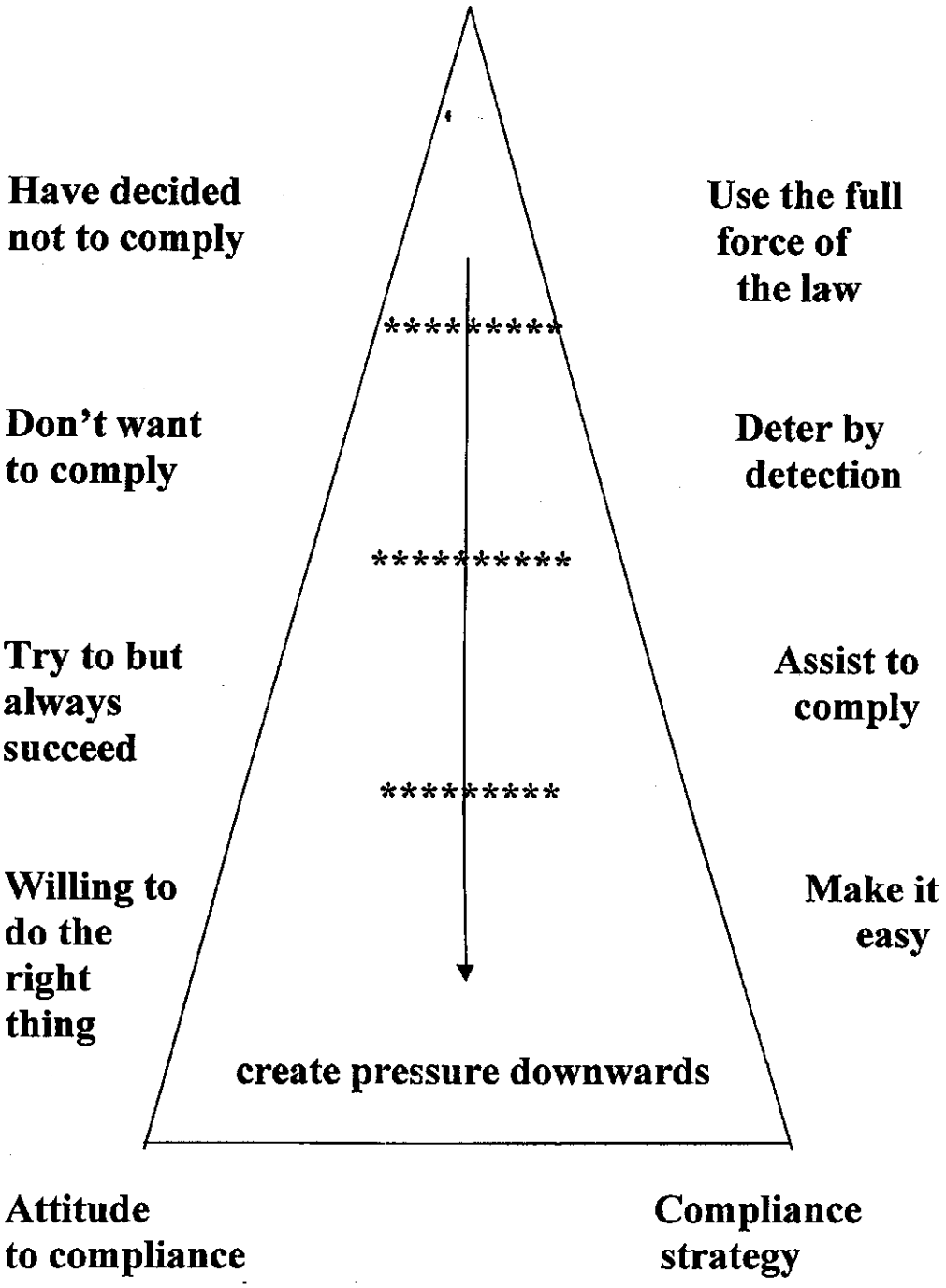
Section(s)	Offences	Penalties
114(1A)	Gives assistance or advice in preparation of any return resulting in understatement of tax liability.	On conviction: Fine of between RM2,000 and RM20,000 or maximum of three years imprisonment or both. [Section 114(1A)]
115(1)	Leaving Malaysia without payment of tax.	On conviction: Fine of between RM200 and RM2,000 or maximum six months or both.[Section 115(1)]
116	Obstruction of tax officers in the course of carrying out their duties.	On conviction: Fine of between RM1,000 and RM10,000 or maximum of one year imprisonment or both. [Section 116]
117(1)	Breach of confidence by a classified person.	On conviction: Maximum fine of RM4,000 or maximum one year imprisonment or both. [Section 117(1)]
82(1) 82(1A) 82(6)	Failure by a person to:- (a) keep business records and to issue receipts. (b) to keep or to retain records for seven years. (c) to make appropriate entries of transactions within 60 days in proper books or records.	On conviction: Fine of between RM300 and RM10,000 or maximum of one year imprisonment or both. [Section 119A]
82(7)(a) 82(7)(b) 82(8)	Any person who keeps records electronically, but fails to enable the records to be readily accessible and convertible into writing. Any person who has originally kept record in a manual form and subsequently converts those records into an electronic form, but fails to retain those records prior to the conversion in their original form. Failure to keep and retain in Malaysia all records that relate to any business in Malaysia.	On conviction: Fine of between RM300 and RM10,000 or maximum of one year imprisonment or both. [Section 119A]

The following are not applicable to salary individuals or the self-employed

Section(s)	Offences	Penalties
	Offences by Officials	
118	Any person having an official function:-	On conviction: Maximum fine of RM20,000 or maximum three year imprisonments or both. [Section 118]
	(a) demands from any person any amount of tax or penalty not due under the tax law.	
	(b) withholds for his own use any portion of tax or penalty received by him.	
	(c) makes false reports	
119	(d) defraud the DG or any person	
	Unauthorised collection of tax by any person.	
107C(2) 107C(3)	Failure by a company to furnish the DG with the estimated tax payable not later than 30 days before the beginning of a basis period.	On conviction: Fine of between RM200 and RM2,000 or maximum six months imprisonment or both. [Section 120(1)(f)]
107C(4)	Failure by a company (that had first commenced operations) to furnish the DG with the estimated tax payable within 3 months from the date of commencement.	
108(5)	Failure by a company to furnish the DG with a statement pertaining to dividend distributions and withholding tax on such dividend.	On conviction: Fine of between RM200 and RM2,000 or maximum six months imprisonment or both. [Section 120(1)(g)]

Appendix V: Compliance model used in Australia and New Zealand

Figure 1 Compliance Model used in Australia and New Zealand



Source: Adapted from New Zealand (2003: 6)

Appendix VI: Questionnaire

TAXATION SURVEY

Part I: Personal and demographic information
Part I consists of Section A only. Please indicate your responses with a tick [✓] in the appropriate box.

Section A

A1. Gender

- ☐ Male
- ☐ Female

A2. Language Proficiency (sufficient to deal with the IRB and income tax matters)

- ☐ Bahasa Malaysia & English
- ☐ English only

A3. Marital Status

- ☐ Single
- ☐ Married

A4. Your Age

- ☐ < 21 years, please ignore the rest of this questionnaire
- ☐ 21 to 30 years
- ☐ 31 to 40 years
- ☐ 41 to 50 years
- ☐ 51 years & above

A5. Your ethnic background

- ☐ Malay
- ☐ Chinese
- ☐ Indian
- ☐ Other, please specify_____

A6. Highest Level Of Education completed

- ☐ School (SPM / STPM)
- ☐ University / College (Diploma)
- ☐ University / College (Degree)
- ☐ Other, please specify_____

A7. Have you ever paid any income tax before?

- ☐ Yes
- ☐ No

If your answer is NO, please ignore the rest of the questionnaire. Thank you.
If your answer is YES, please continue with this questionnaire. Thank You.

A8. You are

- ☐ An employee → **go to A9**
- ☐ Self-employed → **go to A11**

A9. Indicate sector of employment.

- ☐ Public sector
- ☐ Private sector

A10. What is your occupation?

- ☐ Professional
- ☐ Managerial
- ☐ Supervisory
- ☐ Technical
- ☐ Other, please specify _____

→ **go to A12**

A11. What type of business are you in?

- ☐ Trading
- ☐ Agriculture or similar business
- ☐ Manufacturing
- ☐ Management or consultancy services
- ☐ Construction
- ☐ Other, please specify _____

A12. What is your annual gross income?

- ☐ RM 30,000 to 40,000
- ☐ RM 40,001 to 50,000
- ☐ RM 50,001 to 60,000
- ☐ RM 60,001 to 70,000
- ☐ RM 70,001 to 80,000
- ☐ RM 80,001 and above

A13. Where did you gain your knowledge on tax laws? (You may tick more than one)

- ☐ Instructions accompanying tax forms
- ☐ Friends
- ☐ Family members
- ☐ IRB officers' advice and instructions
- ☐ Formal education (college, university etc)
- ☐ Books on taxation
- ☐ Other, please specify _____

A14. How do you rate your knowledge on Malaysia income tax law?

☐	Extremely good
☐	Good
☐	Satisfactory
☐	Poor
☐	Extremely poor

A15. Do you have any children?

☐	Yes	➔ **go to A16**
☐	No	➔ **go to Part II**

A16. About your child / children

		Yes	No
a)	Do you have any children under the age of 18 years?		
b)	Do you have any children, age 18 years and above and still in school?		
c)	Do you have any children, age 18 years and above, still in college / university in Malaysia?		
d)	Do you have any children age of 18 years and above still in college / university outside Malaysia?		

Part II: Tax knowledge

Part II consists of Section B to Section H. For the following sections, please read each statement carefully then fill in the one response which represents your appropriate responses

KEY	
1	= Definitely Yes
2	= Probably Yes
3	= Not Sure
4	= Probably Not
5	= Definitely Not

Section B

B1.	An individual earned income outside Malaysia and remitted that income to Malaysia in the year 2003. **Is the income remitted to Malaysia taxable**?	1	2	3	4	5
B2.	An individual earned income from letting out his / her house / property in the year 2003. **Is the rental received from letting out his / her house / property taxable?**	1	2	3	4	5
B3.	An individual earns interest on his / her saving (of say less than RM100,000) in any savings / fixed deposit account in the BSN, any bank or finance company. **Is the interest earned subject to tax?**	1	2	3	4	5
B4.	A cooperative society in Malaysia paid dividend to its members in the year 2003. **Is the dividend received by members from a cooperative society in Malaysia exempted from tax**?	1	2	3	4	5
B5.	A government sponsored unit trust (e.g. ASN, ASM) pays dividend to its unit holders. **Is the dividend received by the unit holders exempted from tax?**	1	2	3	4	5
B6.	**A bank / finance company (listed on the KLSE) pays dividend to its shareholders.** Is the dividend received by the shareholders taxable?	1	2	3	4	5
B7.	When a company in Malaysia pays dividend (that is taxable) to its shareholders, **do you know that the company had already deducted tax from the dividend?**	1	2	3	4	5

*If No or Not Sure, Please go to **question B9 and continue.***

B8.	Referring to question B7, **do you know that the amount of tax deducted by the company is available to the shareholders as tax credits?**	1	2	3	4	5
B9.	An individual gives a donation to an approved institution (eg. Malaysian Red Crescent Society). **Is the donation deductible from his/her income?**	1	2	3	4	5

KEY	
1	= Definitely Yes
2	= Probably Yes
3	= Not Sure
4	= Probably Not
5	= Definitely Not

Section C

C1.	Have you heard of joint assessment?	1	2	3	4	5

*If No or Not Sure, please go to **Section D and continue.***

C2. If both a husband and his wife earned income that is taxable, can the

	a) wife request for joint assessment?	1	2	3	4	5
	b) husband request for joint assessment?	1	2	3	4	5

C3. Under joint assessment, will the **husband** be entitled to:

	a) a deduction ("wife allowance") of RM3,000 from that joint taxable income?	1	2	3	4	5
	b) a further deduction of RM2,500 from that joint taxable income if the wife is a disabled person?	1	2	3	4	5

C4. Under joint assessment, will the **wife** be entitled to:

	a) a deduction of RM3,000 ("husband allowance") from that joint taxable income?	1	2	3	4	5
	b) a further deduction of RM2,500 from that joint taxable income if the husband is a disabled person?	1	2	3	4	5

Section D

D1. **If an individual has taxable income, when computing his / her chargeable income, can he / she deduct the following from his / her income? ...**

	a) RM1,000 (for each child) who is under 18 years old	1	2	3	4	5
	b) RM1,000 (for each child) whose age is 18 years or more, but still a full time student in school	1	2	3	4	5
	c) RM4,000 (for each child) whose age is 18 years or more, but still a full time university / college student in Malaysia	1	2	3	4	5
	d) RM2,000 (for each child) whose age is 18 years or more, but still a full time university / college student **outside** Malaysia	1	2	3	4	5
	e) RM5,000 (for each child) if that child is a disabled child	1	2	3	4	5
D2.	Is it true that any deduction for a child will only be allowed if that child is unmarried?	1	2	3	4	5

D3. **If an individual has taxable income, when computing his / her chargeable income, can he / she deduct the following from his / her income? ...**

	a) A personal relief of RM8,000	1	2	3	4	5
	b) A sum amounting to RM5,000 if he / she is a disabled person	1	2	3	4	5
	c) Payment of medical expenses (for his / her parents) up to a maximum of RM5,000	1	2	3	4	5
	d) Expenses up to a maximum of RM5,000 iucurred on the purchase of supporting equipment for use of himself / herself (if he / she is disabled) or for the use of his / her disabled children	1	2	3	4	5
	f) Medical examination fees up to a maximum of RM500 incurred on his / her medical examination	1	2	3	4	5
	g) Education fees up to a maximum of RM5,000 incurred on himself / herself for his/her education / training	1	2	3	4	5
	h) Expenses up to a maximum of RM500 incurred on the purchase of books and / or journals	1	2	3	4	5
	i) A maximum of RM5,000 in relation to an individual's EPF contributions and his / her (or spouses') life insurance premium paid	1	2	3	4	5

KEY	
1	= Definitely Yes
2	= Probably Yes
3	= Not Sure
4	= Probably Not
5	= Definitely Not

Section D (Cont.)

D3. If an individual has taxable income, when computing his / her chargeable income, can he / she deduct the following from his / her income? ...

j) A maximum of RM3,000 in relation to medical and educational insurance premium paid	1	2	3	4	5
k) A maximum of RM1,000 in relation to payment to the EPF for annuity insurance scheme	1	2	3	4	5

Section E

E1. **If an individual has taxable income, in computing his / her tax payable, can he / she deduct the following from his / her tax chargeable? ...**

a) A rebate of RM350, if his / her chargeable income is not more than RM35,000	1	2	3	4	5
b) RM400 for purchase of computer for personal use	1	2	3	4	5
c) The amount of fees paid to the Immigration Department to obtain work permit for a foreign worker (e.g. domestic maid).	1	2	3	4	5
d) In the case of a Muslim individual, the amount of *zakat* paid by that individual.	1	2	3	4	5

Section F

F1.	Taxpayers (other than share dealers) who sell their shares at a loss may deduct the loss.	1	2	3	4	5

F2. If a taxpayer does not file any tax return that results in no chargeable income being declared, he/she may:-

a) have to pay a penalty on the tax not assessed	1	2	3	4	5
b) have to pay a penalty for not filling the tax return	1	2	3	4	5
c) even face possible imprisonment	1	2	3	4	5

F3. If a person files a fraudulent return, he/she may:-

a) have to pay a penalty on the tax not assessed	1	2	3	4	5
b) have to pay a penalty for not filling the tax return	1	2	3	4	5
c) even face possible imprisonment	1	2	3	4	5

F4.	If a taxpayer cannot file his/her return on time, an automatic extension may be given.	1	2	3	4	5
F5.	Income tax penalties paid are allowed as deduction against taxpayer's taxable income.	1	2	3	4	5
F6.	For an individual, the tax chargeable is computed based on a scale rate (0% to 28%), using a Tax Table provided. If an individual has a chargeable income of RM65,000, do you know how to use the Tax Table to compute his tax chargeable ?	1	2	3	4	5

If your answer to question F6 is **YES**, what is the tax chargeable? RM

Section G

G1. Please read the statement below, then state the **year which you think is correct** in the box for 'YEAR'. If you are not sure, please indicate with a tick [✓] in the box for 'NOT SURE'.

	Year	Not Sure
In the year 2003, an individual received an income (e.g. bonus), being arrear for the year 2001. **State the year in which the bonus should be chargeable to tax.**		

NOTE: If you are self –employed, please answer the questions in Section H
If you are only an employee, please ignore Section H and go to Part III

For Section H, please read each statement carefully then fill in the one response which represents your appropriate responses

KEY	
1	= Definitely Yes
2	= Probably Yes
3	= Not Sure
4	= Probably Not
5	= Definitely Not

Section H

H1. **The following is an allowable deduction for business purposes:**

a) Medical expenses for employees	1	2	3	4	5
b) Interest on loan taken to purchase computer for business used	1	2	3	4	5
c) Interest on loan to finance the purchase of a proprietor's residential house	1	2	3	4	5
d) Payment of business *zakat*	1	2	3	4	5
e) Depreciation on plant and machinery used in a business	1	2	3	4	5
f) Donation of RM10,000 to University Hospital	1	2	3	4	5
g) Donation of RM 20,000 to public library	1	2	3	4	5
h) Bad debts on loan to ex-workers written off	1	2	3	4	5
i) Fire insurance premiums on shop premises	1	2	3	4	5
j) Expenses incurred for the entertainment of clients	1	2	3	4	5
k) Festive gatherings for staff (e.g. *Hari Raya* /Chinese New Year gathering)	1	2	3	4	5

H3. **The following is <u>not</u> an allowable deduction for business purposes:**

a) Expenses on work clothing that can only be worn on the job (e.g. uniform)	1	2	3	4	5
b) Entrance fees paid to trade associations	1	2	3	4	5
c) Expenses incurred on goods / products that do not bear any logo of the business and given as free gifts to customer	1	2	3	4	5
H4. A business operator can claim capital allowances on plant and machinery used for business purposes	1	2	3	4	5
H5. When expenses incurred for business purposes were paid for by using credit card, interest charged on such expenses are **allowed** as deductions	1	2	3	4	5
H6. When a business operator rented a two-storey building and uses it partly for his/her business operations and partly for residential purposes, the total rental is **deductible**	1	2	3	4	5

H7. **The following is considered as taxable income:**

a) Receipts from disposal of an asset used in the business.	1	2	3	4	5
b) Compensation received from insurance for goods lost/destroyed	1	2	3	4	5
c) Compensation received for damages to an asset used in the business	1	2	3	4	5
d) Receipts from the disposal of goods /provision of services	1	2	3	4	5

Part III: General Questions and Comments

Part III consists of Section J and Section K. For Section J, please indicate your responses with a tick [✓] in the appropriate box.

Section J

J1. Who used to prepare (i.e. filling up) your income tax return forms (officially known as Tax Return) before sending the form to the IRB (commonly known as the Income Tax Department)

- [ ] I used to prepare my income tax returns by myself
- [ ] My wife / husband used to prepare my income tax returns for me
- [ ] My wife / husband and I used to prepare our income tax returns together
- [ ] I used to get help from others (e.g. colleague, friends)
- [ ] Qualified tax agent or accountant
- [ ] Unlicensed accountant
- [ ] Others, please specify _____

J2. Do you have problems in completing your latest tax return?

- [ ] Lots of problems
- [ ] Quite a few problems
- [ ] A few problems
- [ ] No problems → **go to Section K**

J3. Listed below are some problems, which you may or may not have experienced while preparing your tax returns. Please tick those that are applicable to you. (You may tick more than one)

- [ ] a) The accompanying instructions (attached together with the tax return forms) were difficult to understand
- [ ] b) The tax computations were too difficult
- [ ] c) The tax return form itself was difficult to follow
- [ ] d) I don't understand the language used
- [ ] e) I don't understand some of the terms used
- [ ] f) It took too much time
- [ ] g) This is my first time filling in the form
- [ ] h) Other, please describe

_____

_____

J4. Please refer to the problems listed in question J3. Then please rank the three most difficult problems which you may have experienced (using the alphabet a,b,c, etc...) in the following order:-

- [ ] The most difficult problem
- [ ] The second most difficult problem
- [ ] The third most difficult problem

J5. Over the last five years, do you think it is getting harder or easier to complete your income tax returns?

- [ ] Much easier
- [ ] A little easier
- [ ] About the same
- [ ] A little harder
- [ ] Much harder

For Section K, please indicate your appropriate responses with a tick [✓] in the appropriate boxes [either Yes, No or Not sure].

Section K		Yes	No	Not Sure
K1.	Have you heard of the Official Assessment System (OAS)?			
K2.	If yes, do you understand what an OAS is about?			
K3.	Have you heard of the Self Assessment System (SAS)?			
K4.	If yes, do you understand what an SAS is about?			

For this section (other than question K6), please read each statement carefully then fill in the one response which represents the extent to which you disagree/agree with that statement. If the statement is not relevant to you, please fill in the not applicable response.

KEY	
SD	= Strongly Disagree
D	= Disagree
N	= Neither Agree Nor Disagree
A	= Agree
SA	= Strongly Agree
NA	= Not applicable

K5. By replacing the Official Assessment System (OAS) with the Self Assessment System (SAS):

a) The IRB's burden will be reduced.	SD	D	N	A	SA	NA
b) The IRB will not be responsible for your tax affairs.	SD	D	N	A	SA	NA
c) The IRB is able to reduce their administrative cost.	SD	D	N	A	SA	NA
d) The rate of tax returns to be received by the IRB is likely to improve.	SD	D	N	A	SA	NA
e) SAS will increase taxpayers' burden	SD	D	N	A	SA	NA
f) Taxpayers will be responsible for their own tax affairs.	SD	D	N	A	SA	NA
g) Taxpayers will incur more expenses in order to file tax returns.	SD	D	N	A	SA	NA

K6. Are you already using the services of any tax agent to file your tax returns?

☐	Yes	→ go to K7 and K8
☐	No	→ go to K9

K7. My reasons for using the services of tax agents:-

a) I want to make sure that the correct amount of tax is computed	SD	D	N	A	SA	NA
b) I do not want to break the law unintentionally	SD	D	N	A	SA	NA
c) I am not able to understand tax law	SD	D	N	A	SA	NA
d) I do not have the time to handle my tax affairs	SD	D	N	A	SA	NA
e) I better leave things to the experts.	SD	D	N	A	SA	NA
f) The cost of using out weight the consequences for wrong computation.	SD	D	N	A	SA	NA

g) Any other reasons, please specify..

K8.

I would continue to use the services of tax agents.	SD	D	N	A	SA	NA

KEY	
SD	= Strongly Disagree
D	= Disagree
N	= Neither Agree Nor Disagree
A	= Agree
SA	= Strongly Agree
NA	= Not applicable

K9. My reasons for not using the service of tax agents:

a) I am sure that I can do a correct tax computation.	SD	D	N	A	SA	NA
b) If I cannot understand how to do a tax computation, it cannot be an offence.	SD	D	N	A	SA	NA
c) I know and understand the tax law	SD	D	N	A	SA	NA
d) I am able to handle tax affairs on time	SD	D	N	A	SA	NA
e) Tax computation is not that difficult to warrant the services of tax agents.	SD	D	N	A	SA	NA
f) The cost saved for not using the services of tax agents outweighed the consequences for wrong computation.	SD	D	N	A	SA	NA
g) I am not prepared to spend money on the services of tax agents	SD	D	N	A	SA	NA

K10. A taxpayer is more likely to file an honest return and on time if:-

a) penalties for non compliance are strictly enforced	SD	D	N	A	SA	NA
b) penalties for non compliance are heavy	SD	D	N	A	SA	NA
c) the taxpayer understand more about the tax laws and rules	SD	D	N	A	SA	NA
d) taxpayer is more aware of his / her legal obligations in relation to tax	SD	D	N	A	SA	NA
e) taxpayer is more aware of his / her moral & ethical obligations in relation to tax	SD	D	N	A	SA	NA
f) taxpayer is more aware of his / her social obligations in relation to tax	SD	D	N	A	SA	NA
g) the tax administration is seen to be transparent	SD	D	N	A	SA	NA
h) the tax administration is seen to be efficient	SD	D	N	A	SA	NA
i) the tax administration is seen to be friendly (to the problems of taxpayers)	SD	D	N	A	SA	NA
j) IRB officers are seen to be easy to approach when taxpayers have problems.	SD	D	N	A	SA	NA
k) tax revenue is seen to be properly administered	SD	D	N	A	SA	NA
l) taxpayer feels he / she is paying his fair share.	SD	D	N	A	SA	NA
m) others are seen to be paying their fair share	SD	D	N	A	SA	NA
n) tax revenue are seen to be equitably distributed	SD	D	N	A	SA	NA
o) tax revenue are seen to have been wasted	SD	D	N	A	SA	NA
p) the chances of being 'tax audited' is high	SD	D	N	A	SA	NA
q) taxpayer is not being unfairly 'tax audited'	SD	D	N	A	SA	NA
r) taxpayer should be advised and not penalized for honest errors	SD	D	N	A	SA	NA
s) IRB is seen to help taxpayer, not just to collect.	SD	D	N	A	SA	NA

K11. A taxpayer feels that he /she is getting a share of the benefits, services and amenities funded by taxpayers' money.	SD	D	N	A	SA	NA
K12. A taxpayer feels that others are getting more than their fair share of the benefits, services and amenities funded by taxpayers' money.	SD	D	N	A	SA	NA

For this section, please read each statement carefully then fill in the one response which represents your level of confidence with that statement provided.

KEY

Your level of confidence	0 %	10 %	20 %	30 %	40 %	50 %	60 %	70 %	80 %	90 %	100 %
	1	2	3	4	5	6	7	8	9	10	11

		Your level of confidence
K13.	How confident are you that you can do correct assessment (0 – 100%)	
K14.	How confident are you that you can file return on time (0 – 100%)	
K15.	How confident are you that IRB will take your computation as correct (0 – 100%)	
K16.	How confident are you that you are able to keep up to date with changes in tax law.	

K17. If an individual earns some casual income (income from part time job, like giving private tuition, part time insurance sales, Amway sales, etc,) will that income be taxable?

- ☐ Yes
- ☐ No
- ☐ Not sure

K18. Assuming that casual income is taxable, will a penalty be imposed for not reporting or under reporting?

- ☐ Yes
- ☐ No
- ☐ Not sure

K19. Assuming that a penalty will be imposed for not reporting or under reporting of casual income, how much of the casual income should be disclosed?

- ☐ All
- ☐ Most of it
- ☐ Some of it
- ☐ None
- ☐ Not sure

If you have any comments regarding your understanding of the issues about income tax law, please provide them below.

_____

_____

_____

_____

Thank you for completing this confidential survey questionnaire. No.....

Please return your completed survey to the researcher in the enclosed reply paid envelope.

THE TAX RATES APPLICABLE WITH EFFECT FROM YA 2002 ONWARDS

Chargeable Income	RM	Rate (%)	Tax payable (RM)
On the first	2,500	0	0
On the next	2,500	1	25
On the first	5,000		25
On the next	15,000	3	450
On the first	20,000		475
On the next	15,000	7	1,050
On the first	35,000		1,525
On the next	15,000	13	1,950
On the first	50,000		3,475
On the next	20,000	19	3,800
On the first	70,000		7,275
On the next	30,000	24	7,200
On the first	100,000		14,475
On the next	150,000	27	40,500
On the first	250,000		54,975
In excess of	250,000	28	

Appendix VII (a): Covering letter for pre SA survey

Faculty of Rural Management
PO Box 883
ORANGE NSW Australia 2800

32 Jalan Murni 9, Taman Malim Jaya
75250 Melaka.
Tel: +60 (0) 6 3367195
Fax: +60 (0) 6 2842128
E-Mail: eloo@orange.usyd.edu.au

The University of Sydney

Orange

Ms Ern Chen Loo
PhD Student

TAXATION SURVEY

This survey is being conducted by Ms Loo Ern Chen and will form the basis for the degree of Doctor of Philosophy at the University of Sydney, Australia under the supervision of Dr. Margaret McKerchar, Program Leader, Master of Sustainable Management, Faculty of Rural Management.

The research **is not** being undertaken on behalf of the IRB Malaysia.

The purpose of this survey is to find out about your tax knowledge prior to the implementation of self assessment system.

You have been chosen at random. Your participation is voluntary and you do not have to answer all the questions asked of you if you don't wish to, though it would be greatly appreciated if you do. The survey responses are confidential. They will only be presented in aggregate form and no individual responses will be identified.

If you have any queries about any aspect of the study please direct them to the researcher. Her contact details appear at the top of this page.

The survey itself is divided into three parts. The first part asks some personal questions about you, but only those that are considered relevant to this study. The second part asks questions on knowledge on tax issue pertaining to employment, non-business income, relief and rebates. The final part has some general questions and allows you to make any additional comment. The survey should not take more than 15 minutes to complete. The instructions are included on the top of the survey form. Enclosed is a reply paid envelope for you to return your completed survey. It would be appreciated if you could do this by **15 January 2005**.

Again, thank you for your help.

Yours sincerely,

Ern Chen Loo
Researcher

Any person with concerns or complaints about the conduct of a research study can contact the Manager for Ethics and Biosafety Administration, University of Sydney, Australia on +61 2 9351 4811 or e-mail gbriody@mail.usyd.edu.au.

Appendix VII (b): Covering letter for post SA survey

Faculty of Rural Management

PO Box 883
ORANGE NSW Australia 2800

32 Jalan Murni 9, Taman Malim Jaya
75250 Melaka.
Tel: +60 (0) 6 3367195
Fax: +60 (0) 6 2842128
E-Mail: eloo@orange.usyd.edu.au

The University of Sydney

Orange

Ms Ern Chen Loo
PhD Student

TAXATION SURVEY

This survey is being conducted by Ms Loo Ern Chen and will form the basis for the degree of Doctor of Philosophy at the University of Sydney, Australia under the supervision of Dr. Margaret McKerchar, Program Leader, Master of Sustainable Management, Faculty of Rural Management.

The research **is not** being undertaken on behalf of the IRB Malaysia.

The purpose of this survey is to find out about your tax knowledge and how the introduction of self assessment system (SAS) influenced you.

You have been chosen at random. Your participation is voluntary and you do not have to answer all the questions asked of you if you don't wish to, though it would be greatly appreciated if you do. The survey responses are confidential. They will only be presented in aggregate form and no individual responses will be identified.

If you have any queries about any aspect of the study please direct them to the researcher. Her contact details appear at the top of this page.

The survey itself is divided into three parts. The first part asks some personal questions about you, but only those that are considered relevant to this study. The second part asks questions on knowledge on tax issue pertaining to employment, non-business income, relief and rebates. The final part has some general questions and allows you to make any additional comment. The survey should not take more than 15 minutes to complete. The instructions are included on the top of the survey form. Enclosed is a reply paid envelope for you to return your completed survey. It would be appreciated if you could do this by **30 April 2005**.

Again, thank you for your help.

Yours sincerely,

Ern Chen Loo
Researcher

Any person with concerns or complaints about the conduct of a research study can contact the Manager for Ethics and Biosafety Administration, University of Sydney, Australia on +61 2 9351 4811 or e-mail gbriody@mail.usyd.edu.au.

Simulation for the Salary and Wage Earners

Overview

Prior to the year 2001, the official assessment system (OAS) was practised. Effective from the year 2001, the OAS was replaced in stages with the self assessment system (SAS).

Under the OAS, a taxpayer was only required to file tax returns with the IRB. The IRB would then raise an assessment and issue notice of assessment to the taxpayer. Tax liability would be based on the amount so raised in the notice of assessment.

Under the SAS, a taxpayer is now required to file a return and to calculate the resulting tax liability. No notice of assessment will be issued by the IRB. Upon filing his / her tax return, a taxpayer is deemed to have been issued a notice of assessment by the IRB, and tax is payable upon the deemed receipt of such notice.

The SAS does not result in any 'new' tax being raised. This is only a change to the system of assessment.

Introduction:

Please go through the scenario below and imagine that you are Mr. Salleh and you are required to file your tax return (Appendix A) and calculate the tax payable by 31 March 2004.

Scenario

In 2003, Mr. Salleh was a tax resident in Selangor. He was employed as a manager in a trading company, earning a monthly gross salary and allowance of RM4,500.

Every month, from January to December 2003 Mr. Salleh received the same remunerations with the same deductions, and for each month he received a similar pay slip.

Below is a copy of his monthly pay slip, for the month of December 2003.

Wantoku Trading Sdn Bhd (c 99884) ***345, Jalan Malim 6, Taman Asean, 40450 Selangor***		
Salary Statement For The Month Of December 2003		
Name of Employee: Salleh Bin Abas:	Employee Number: 007	
	RM	RM
Monthly Salary		3,900
Allowances		600
Total		**4,500**
Deductions:		
Employee's Provident Fund	495	
Schedular Tax Deduction	450	
Contributions to Tabung Haji Fund	100	1,045
Net Monthly Salary & Allowance		**3,455**

In March 2003 Mr. Salleh was paid RM3.080, being arrears for year 2002, as shown in the additional pay slip below:-

Wantoku Trading Sdn Bhd (c 99884) ***345, Jalan Malim 6, Taman Asean, 40450 Selangor***		
Statement of Arrears Paid In March 2003		
Name of Employee: Salleh Bin Abas:	Employee Number: 007	
	RM	RM
Arrears of salary for 2002		2,900
Arrears of allowances for 2002		600
Total		**3,500**
Deductions:		
Employee's Provident Fund	320	
Schedular Tax Deduction	100	420
Net Arrears of Salary & Allowance		**3,080**

Mr. Salleh also worked as a part time insurance agent. In 2003, he received RM4,500 being commission earned.

Mr. Salleh also received a dividend voucher and a cheque from Telekom Malaysia Berhad, the photocopy of which are shown below:-

Telekom Malaysia Berhad (C44558) ***Menara Telekom*** ***345, Jalan Dang Wangi*** ***40000 Kuala Lumpur***			**Serial No. 006**
DIVIDEND VOUCHER			
Unit hold	**Gross dividend (in RM)**	**Tax 28% (RM)**	**Net Dividend (RM)**
25,000	**10,000**	**2,800**	**7,200**
			For the Board of Directors .....
A/C Payee Only	**Maybank Bhd (C45098)** *Menara Maybank, Jalan Kuching, K.L.*		15 April 2003
Pay to: Mr. Salleh Bin Abas (NRIC 541102075720)			
Ringgit: Seven Thousand Two Hundred Only.			**RM 7,200/=**
"34005" 02 "55678"			

Mr. Salleh took a loan to purchase the shares in Telekom Malaysia Berhad. He repaid the loan by monthly instalments. In 2003 the total instalment payments was R1,800, as follows:-

RM1,080 being repayment of capital sum
RM720 being interest payment.

Mr. Salleh owns a house in Kuala Lumpur which was rented out. In 2003, the receipts and payments in relation to the house are as follows:-

	RM
Receipts:-	
Rental	18,000
Payments:-	
Quit rent	350
Assessment	1,500
Repair to kitchen sink	200
Renovation to car porch	8,000
Interest on bank loan to acquire the house	4,500

In 2003, Mr. Salleh also earned income from fixed deposit and savings account, as follows:-

Type of Account	Deposit / Savings In	Amount of Deposit / Savings	Interest Earned
Fixed Deposit	Maybank Bhd.	RM60,000	RM1,800
Savings Account	Public Bank Bhd	RM40,000	RM1,600

Mr. Salleh also derived income from outside Malaysia, all of which were remitted to Malaysia in 2003, as follows:-

Type Of Income	Country Income Derived From	Amount
Rental	Singapore	RM18,000
Dividend	Brunei	RM26,000
Royalty (from composing songs)	Indonesia	RM8,000

Donations made by Mr. Salleh in 2003:-

Donations Made To:-	Amount
The Malaysian Government	RM20,000
The Indonesian Government	RM10,000
Association For The Blind – an approved institution	RM200

Mr. Salleh's wife is an Indonesian. In 2003 she was a tax resident in Malaysia, but did not have any income.

Mr. Salleh and his wife have four children, the particulars (for the year 2003) are as follows:-

Name of Children	Age	Marital Status	Education, etc.	Amount incurred by Mr. Salleh on the maintenance of the child
Azmi	25 years	Not Married	Full time student; University of Malaya	RM4,500
Basir	23 years	Married in 2001	Full time student: University of London	RM12,000
Darus	19 years	Not Married	Not schooling and unemployed	RM3,000
Elias	15 years	Not married	Not schooling; a disabled child	RM7,000

Payment of insurance premium by Mr. Salleh in 2003:-

Type of insurance, etc.	Amount of premium, etc.
Life Insurance. Insured on life of Mr. Salleh.	Premium paid was RM1,500.
Life Insurance. Insured on life of Mr. Salleh's wife.	Premium paid was only RM2,300. Actual premium that should have to be paid was RM3,500.
Education insurance. For Azmi (the eldest child)	Premium paid was RM3,000.
Medical / Health Insurance. For the whole family	First premium of RM1,800 was due in December 2003, but was only paid on 3 January 2004.

Salleh's mother (Puan Kalsom) was hospitalized in June 2003, and all medical expenses were paid by Mr. Salleh, as evidenced by the copy of the receipt below.

Pantai Hospital, Kuala Lumpur (C 56789) Receipt No. 998
Date: 05/06/03

Official Receipts

Received from: Mr. Salleh Bin Abas on behalf of Puan Kalsom

Ringgit: Three Thousand Four Hundred Fifty only RM3,450.00

Being medical fees paid.

Issued by

For the management

As a Muslim, in 2003 Mr. Salleh paid zakat amounting to RM800.

End of Simulation

Thank you for participating in this simulation

Appendix VIII (b): 2003 Tax return

g ini dimuat turun dari laman web

Borang yang ditetapkan di bawah Seksyen 152 Akta Cukai Pendapatan 1967

(C.P 4 - Pin. 2003/STTS)

ORANG

B

SALINAN

CUKAI PENDAPATAN MALAYSIA

PENYATA PENDAPATAN

ORANG PERSEORANGAN

BAGI PENDAPATAN TAHUN 2003

TAHUN TAKSIRAN

2003

English translation is available on the website http://www.hasilnet.org.my

No. Fail

No. Kad Pengenalan

Kembalikan kepada:

LEMBAGA HASIL DALAM NEGERI MALAYSIA

pastikan nama yang dicetak adalah seperti di kad pengenalan. Jika ada kesilapan, sila buat pembetulan dengan motong dan tuliskan butiran yang betul. Juga, sertakan salinan kad pengenalan tuan/puan. (Rujuk Nota BAHAGIAN A)

an adalah dikehendaki melaporkan segala punca pendapatan yang diperolehi dalam tahun 2003. Borang Nyata ini mestilah dilengkapkan, ditandatangani dan serahkan kepada Lembaga Hasil Dalam Negeri yang beralamat seperti di atas dalam TEMPOH TIGA PULUH HARI dari tarikh notis ini. Sekiranya tuan gagal mengembalikan borang ini dalam masa yang ditetapkan atau mengemukakan penyata palsu atau gagal memberitahu pertukaran alamat, tuan boleh didakwa atau dikenakan penalti. Penyata ini boleh dihantar secara percuma jika diposkan dalam Malaysia dengan menggunakan sampul surat bertanda "Cukai Pendapatan".

TERIMA KASIH ATAS KERJASAMA ANDA
"BERSAMA MENYUMBANG UNTUK PEMBANGUNAN NEGARA"

Tarikh:

TAN SRI DATO' ZAINOL ABIDIN BIN ABD. RASHID
Ketua Pengarah Hasil Dalam Negeri

BAHAGIAN A KETERANGAN DIRI PEMBAYAR CUKAI (RUJUK NOTA)

SENDIRI

1. Kad Pengenalan (baru)
2. Kad Pengenalan (lama)
3. No. Pasport
4. Tarikh Lahir (Hari / Bulan / Tahun)
5. Tarikh Perkahwinan (Jika Berkenaan) (Hari / Bulan / Tahun)
6. Warganegara
7. No. Telefon Rumah
8. Jantina *(Tandakan (✓) di petak berkenaan)* Lelaki ☐ Perempuan ☐

Jika anda seorang perempuan yang berkahwin dan menerima borang ini, nyatakan butiran suami dan kembalikan borang ini tanpa diisi. (Rujuk nota seterusnya)

1. Nama Suami
2. Kad Pengenalan (baru)
3. Kad Pengenalan (lama)
4. No. Pasport
5. Tarikh Perkahwinan (Jika Berkenaan) *(Hari / Bulan / Tahun)*
6. No. Fail Cukai Pendapatan
7. No. Fail Cukai Pendapatan Majikan
8. Cawangan LHDN

Alamat surat menyurat sekarang

Poskod

Alamat kediaman sekarang

Poskod

UNTUK KEGUNAAN PEJABAT

DITERIMA PADA	BAHAGIAN KAWALAN	KETUA KUMPULAN (UNTUK ISIHAN)	DISELESAIKAN OLEH
		Tandakan (✓) di petak berkenaan ☐ Perniagaan Bercukai ☐ Penggajian Bercukai ☐ Dividen ☐ Bukan Pemastautin ☐ Bukan Warganegara	

ini dimuat turun dari laman web

BAHAGIAN B — PENDAPATAN DAN POTONGAN BAGI TAHUN BERAKHIR 31 DISEMBER 2003

PENDAPATAN	KOD	SENDIRI RM	ISTERI RM
PERNIAGAAN, PERDAGANGAN, PROFESION ATAU PENCARIAN Keuntungan / kerugian yang dilaraskan bagi tempoh_____ bulan. Sertakan salinan Akaun Untung Rugi. Kunci kira-kira yang ditandatangani dan Pengiraan Cukai Pendapatan			
ELAUN MODAL Kemukakan Jadual Elaun Modal — RM			
Campur **KENAAN IMBANGAN**			
Tolak (i) Elaun Imbangan dalam tempoh asas 2003			
(ii) Jumlah elaun modal yang dibawa dari tahun lepas			
(iii) Jumlah elaun modal dalam tempoh asas 2003			
(Gunakan kertas lain jika melebihi satu perniagaan)			
JUMLAH KECIL PENDAPATAN PERNIAGAAN (selepas ditolak elaun modal)	(a) ▶		
PEMBAHAGIAN PENDAPATAN/KERUGIAN PERKONGSIAN No. Fail Perkongsian: D — Cawangan LHDN			
JUMLAH PENDAPATAN PERNIAGAAN (ITEM 1 DAN 2)			
Tolak: RUGI DIBAWA DARI TAHUN TERDAHULU	012		
JUMLAH PENDAPATAN BERSIH PERNIAGAAN ((a) campur item 2 tolak item 3)	(b) ▶		
PENGGAJIAN (Lampirkan salinan penyata gaji dari majikan, borang C.P 8A / 8C)			
- Gaji, bonus, yuran pengarah, komisen dll.			
- Ganjaran			
- Pampasan			
- Nilai manfaat atau kemudahan berupa barangan	103-106		
- Nilai tempat kediaman yang disediakan oleh majikan	003		
- Bayaran balik daripada skim pencen yang tidak diluluskan	107		
Tolak - Yuran kepada badan profesional			
- Perbelanjaan keraian			
- Perbelanjaan perjalanan			
PENGGAJIAN BERSIH	001		
LAIN-LAIN PENDAPATAN			
DIVIDEN (Kasar) - Sertakan baucar dividen asal (Rujuk Item 19)	004		
BUNGA ATAU DISKAUN	005		
SEWA, ROYALTI ATAU PREMIUM (Rujuk Item 20)	006		
PENCEN, ANUITI ATAU BAYARAN BERKALA YANG LAIN	007&010		
APA-APA PEROLEHAN ATAU KEUNTUNGAN YANG LAIN	009		
BAYARAN YANG DITERIMA DARI LUAR MALAYSIA	009		
PENDAPATAN AGREGAT ((b) campur item 4 hingga 10)	▶		

TOLAK: POTONGAN (SERTAKAN RESIT ASAL)*

KERUGIAN PERNIAGAAN TAHUN SEMASA	013		
PERBELANJAAN CARIGALI (JADUAL 4) DAN/ATAU PERBELANJAAN MODAL KE ATAS PROJEK-PROJEK PERTANIAN YANG TELAH DILULUSKAN (JADUAL 4A)	014 & 014A		
HADIAH WANG KEPADA KERAJAAN / KERAJAAN TEMPATAN ATAU KEPADA INSTITUSI YANG DILULUSKAN*	016		
HADIAH WANG KEPADA PERPUSTAKAAN*	017		
HADIAH ARTIFAK, MANUSKRIP ATAU LUKISAN KEPADA KERAJAAN	018		
HADIAH WANG ATAU SUMBANGAN MANFAAT BAGI MENYEDIAKAN KEMUDAHAN DI TEMPAT AWAM UNTUK ORANG YANG TIDAK BERUPAYA*	018A		
HADIAH WANG ATAU PERALATAN PERUBATAN KEPADA MANA-MANA KEMUDAHAN RAWATAN KESIHATAN*	018B		
HADIAH LUKISAN KEPADA BALAI SENI LUKIS NEGARA / NEGERI	018C		
JUMLAH PENDAPATAN	▶		

g ini dimuat turun dari laman web

PENYATA DIVIDEN MALAYSIA YANG DITERIMA DALAM TAHUN 2003 (Sertakan baucar dividen asal)

an kertas lain jika perlu

ARIKH VIDEN BAYAR	NAMA SYARIKAT	DIVIDEN BERSIH SEPERTI DI BAUCAR RM	SENDIRI		ISTERI	
			DIVIDEN KASAR RM	CUKAI YANG DIPOTONG RM	DIVIDEN KASAR RM	CUKAI YANG DIPOTONG RM
		JUMLAH				

Masukkan jumlah ini dalam Item 39, BAHAGIAN M di muka surat 8.

Masukkan jumlah ini dalam Item 5, BAHAGIAN B di muka surat 2.

PENYATA SEWA, ROYALTI ATAU PREMIUM YANG DITERIMA DALAM TAHUN 2003*

an kertas lain jika perlu

an (✓) dalam petak yang berkenaan ☐ SEWA ☐ ROYALTI ☐ PREMIUM		SENDIRI RM	ISTERI RM
CA SEWA (ALAMAT), ROYALTI ATAU PREMIUM	KADAR SEWA BULANAN		
	KASAR [a] ▶		

K : PERBELANJAAN (Jika ada)	JUMLAH (RM)	
	SENDIRI	ISTERI
JUMLAH KECIL PERBELANJAAN [b]		
JUMLAH BERSIH [a] - [b]		

Masukkan jumlah ini dalam Item 7, BAHAGIAN B di muka surat 2.

HAGIAN C RUMAH KEDIAMAN YANG DISEDIAKAN OLEH MAJIKAN BAGI TAHUN 2003

	SENDIRI	ISTERI
at rumah kediaman		
ooh diduduki		
ah sewa kena dibayar oleh tuan bagi tempoh ini		
akan jika perabot, peti sejuk, penyaman udara, dapur disediakan		
berkongsi, beri butir-butir		

AHAGIAN D PENDAPATAN YANG DITERIMA DALAM TEMPOH ASAS 2003 BERKENAAN DENGAN SESUATU TAHUN TERDAHULU YANG BELUM LAGI DILAPORKAN

AYARAN TAHUN	JENIS PENDAPATAN	SENDIRI		ISTERI	
		JUMLAH (RM)	CARUMAN KUMPULAN WANG (RM)	JUMLAH (RM)	CARUMAN KUMPULAN WANG (RM)

ng ini dimuat turun dari laman web

BAHAGIAN E TUNTUTAN PELEPASAN CUKAI DUA KALI

APATAN NEGARA ASING DIKIRIM KE MALAYSIA DALAM TAHUN 2003
untutan bagi pelepasan cukai dua kali dibuat, sertakan bukti cukai negara asing yang dikenakan)

	SENDIRI		ISTERI		JUMLAH (RM)	
	1	2	1	2	SENDIRI	ISTERI
AA ASAL						
PENDAPATAN						
H DITERIMA						
APATAN KASAR						
NEGARA ASING YANG DIPOTONG						
APATAN BERSIH						
APATAN BERSIH DALAM RINGGIT MALAYSIA						

BAHAGIAN F TUNTUTAN FAEDAH PEMBELIAN PREMIS KEDIAMAN DI BAWAH SEKSYEN 46A

NTUTAN INI ADALAH BERHUBUNG DENGAN PAKEJ RANGSANGAN EKONOMI UNTUK RUMAH KEDIAMAN PERTAMA YANG DIBELI DARIPADA PEMAJU UMAHAN / BADAN BERKANUN ATAU KOPERASI YANG BERHARGA TIDAK KURANG DARI RM100,000 DAN TIDAK MELEBIHI RM180,000

	SENDIRI	ISTERI
ALAMAT KEDIAMAN		
TARIKH DIBELI		
HARGA BELIAN	RM	RM
MILIK SEPENUH / BERKONGSI		
BAHAGIAN KONGSI		
FAEDAH DIBAYAR DALAM TAHUN SEMASA	RM	RM
FAEDAH DITUNTUT DALAM TAHUN SEMASA	RM	RM

BAHAGIAN G CUKAI KEUNTUNGAN HARTA TANAH

ADAKAH TUAN ATAU ISTERI TUAN MELUPUSKAN APA-APA TANAH ATAU BANGUNAN, ATAU APA-APA KEPENTINGAN, OPSYEN ATAU LAIN-LAIN HAK TERMASUK SYER DALAM SYARIKAT HARTA TANAH DALAM MALAYSIA DALAM TAHUN 2003?

SENDIRI	ISTERI
☐ YA ☐ TIDAK	☐ YA ☐ TIDAK

Tandakan (✓) di petak berkenaan

BAHAGIAN H TUNTUTAN PELEPASAN

ERTAKAN RESIT ASAL BAGI ITEM 3 HINGGA 7

		SENDIRI	ISTERI (untuk taksiran berasingan)
1	INDIVIDU DAN SAUDARA TANGGUNGAN (PELEPASAN SECARA AUTOMATIK)	RM 8,000	RM 8,000
2	INDIVIDU YANG HILANG UPAYA (PELEPASAN BERJUMLAH RM 5,000)	☐ RM 5,000	☐ RM 5,000
		Tandakan (✓) di petak berkenaan	
3	PERBELANJAAN PERUBATAN IBU BAPA (PERBELANJAAN SEBENAR TERHAD KEPADA RM 5,000)*	RM	RM
4	PERBELANJAAN ALAT SOKONGAN ASAS UNTUK KEGUNAAN SENDIRI, SUAMI, ISTERI, ANAK ATAU IBU BAPA YANG HILANG UPAYA (PERBELANJAAN SEBENAR TERHAD KEPADA RM 5,000)*	RM	RM
5	YURAN PENDIDIKAN (PERBELANJAAN SEBENAR TERHAD KEPADA RM 5,000)*	RM	RM
6	(i) PERBELANJAAN PERUBATAN BAGI PENYAKIT YANG SUKAR DIUBATI (ii) PEMERIKSAAN PERUBATAN PENUH (PERBELANJAAN SEBENAR TERHAD KEPADA RM 500)* (KEDUA-DUA PERBELANJAAN TERHAD KEPADA RM5,000)*	RM	RM
7	PEMBELIAN BUKU/MAJALAH (PERBELANJAAN SEBENAR TERHAD KEPADA RM 500)*	RM	RM
8	FAEDAH KE ATAS PINJAMAN PERUMAHAN (DARI BAHAGIAN F - TERHAD KEPADA RM 5,000)	RM	RM

9 ISTERI

NAMA ISTERI/ISTERI-ISTERI YANG TINGGAL BERSAMA TUAN DALAM TAHUN 2003	NOMBOR KAD PENGENALAN		WARGANEGARA	JIKA BERKAHWIN DALAM TAHUN 2003 NYATAKAN TARIKH PERKAHWINAN	JIKA BERPISAH MENGIKUT UNDANG-UNDANG/KEMATIAN DALAM TAHUN 2003, NYATAKAN TARIKH DAN KEMUKAKAN DOKUMEN
	BARU	LAMA			

I. POTONGAN TAMBAHAN BAGI SUAMI /ISTERI YANG HILANG UPAYA (SEKIRANYA SUAMI /ISTERI TIDAK DITAKSIR BERASINGAN)

NAMA	NO. KAD PENGENALAN (BARU)	NO. KAD PENGENALAN (LAMA)	Tandakan (✓) di petak berkenaan
			☐ RM 2,500
			☐ RM 2,500

K. BEKAS ISTERI YANG DIBERI NAFKAH DALAM TAHUN 2003

NAMA	NO. KAD PENGENALAN (BARU)	NO. KAD PENGENALAN (LAMA)	JUMLAH DIBAYAR (RM)

ini dimuat turun dari laman web

ANAK-ANAK TANGGUNGAN YANG BELUM BERKAHWIN *

kertas lain jika perlu

Nama Anak { } Tandakan (✓) jika dan memilih tuntutan pelepasan anak	Tarikh Lahir			Nama Sekolah / Kolej Universiti / Institusi Pendidikan Tinggi	Anak yang berumur di bawah 18 tahun (Tandakan (✓) di petak berkenaan)	Tarikh mula belajar di Institusi Pengajian Tinggi di luar dan di dalam Malaysia			Anak yang berumur lebih daripada 18 tahun dalam tahun 2003		Amaun yang dibelanjakan untuk pendidikan atau saraan anak	Jumlah pendapatan anak di mana jua diperolehi dalam tahun 2003
									Di luar Malaysia Sebelum/pada 31.12.93 ☐ RM3,200 Pada/selepas 1.1.94 ☐ RM1,600 Pada/selepas 17.10.97 ☐ RM800	Di dalam Malaysia ☐ RM 3,200		
									Nyatakan amaun yang berkenaan			
	Hari	Bulan	Tahun			Hari	Bulan	Tahun	RM	RM	RM	RM
{ }					☐ RM800							
{ }					☐ RM800							
{ }					☐ RM800							
{ }					☐ RM800							
{ }					☐ RM800							
{ }					☐ RM800							
{ }					☐ RM800							
yang hilang upaya { }					☐ RM5,000							
{ }					☐ RM5,000							
UK KEGUNAAN PEJABAT				JUMLAH →								

UK DIISI OLEH ISTERI JIKA MEMILIH TUNTUTAN PELEPASAN ANAK

dan isteri berhak untuk membuat pilihan (mengikut keadaan masing-masing) siapa yang akan menuntut pelepasan anak.

		dengan ini memilih menuntut pelepasan anak sepenuhnya
Nama Penuh	No. Kad Pengenalan	

nak / anak-anak seperti yang bertanda (✓) di atas.

Tandatangan Isteri

CARUMAN KEPADA KUMPULAN WANG SIMPANAN DAN PENCEN YANG DILULUSKAN DAN PREMIUM INSURANS NYAWA, PENDIDIKAN DAN PERUBATAN *

kertas lain jika perlu

KUMPULAN WANG SIMPANAN DAN PENCEN DAN INSURANS NYAWA * (Sertakan resit asal)

NAMA KUMPULAN WANG DAN PENCEN/SYARIKAT INSURANS	NO. KUMPULAN WANG / NO. POLISI	ATAS NYAWA SENDIRI ATAU ISTERI	CARUMAN/PREMIUM DIBAYAR DALAM TAHUN 2003 (RM)	
			SENDIRI	ISTERI
		JUMLAH		

INSURANS PENDIDIKAN DAN PERUBATAN * (Sertakan resit asal)

NAMA SYARIKAT INSURANS	NO. POLISI	ATAS NAMA SENDIRI/ISTERI ATAU ANAK	PREMIUM DIBAYAR DALAM TAHUN 2003 (RM)	
			SENDIRI	ISTERI
		JUMLAH		

PREMIUM ANUITI KWSP *

NAMA SYARIKAT INSURANS	NO. POLISI	ATAS NAMA SENDIRI/ISTERI	PREMIUM DIBAYAR DALAM TAHUN 2003 (RM)	
			SENDIRI	ISTERI
		JUMLAH		

AHAGIAN I TUNTUTAN REBAT

RTAKAN RESIT ASAL BAGI ITEM 1 HINGGA 3

	SENDIRI RM	ISTERI RM
ZAKAT ATAU FITRAH		
PEMBELIAN KOMPUTER PERIBADI (BUKAN BAGI MAKSUD PERNIAGAAN)		
FI YANG DIBAYAR OLEH PEMEGANG PAS PENGGAJIAN, PAS LAWATAN (KERJA SEMENTARA) ATAU PAS KERJA		

ng ini dimuat turun dari laman web

BAHAGIAN J MAKLUMAT PEKERJAAN

	SENDIRI	ISTERI
NAMA DAN ALAMAT MAJIKAN SEKARANG		
NO. FAIL MAJIKAN SEKARANG	E	E
NO. TELEFON (PEJABAT)		
NO. STAF ATAU NO. GAJI		

BAHAGIAN K MAKLUMAT PERNIAGAAN*

*...kan kertas lain jika perlu**

	PERNIAGAAN	PERKONGSIAN
NAMA DAN ALAMAT PERNIAGAAN DAN PERKONGSIAN (SUAMI / ISTERI)		
JENIS PERNIAGAAN		
TEMPOH PERAKAUNAN *(Tarikh mula dan akhir) (Hari/Bulan/Tahun)*		
TARIKH MULA PERNIAGAAN *(Jika perniagaan baru)*		
NO. PENDAFTARAN PERNIAGAAN		
NO. TELEFON		
NO. FAIL CUKAI PENDAPATAN	OG / C	D

BAHAGIAN L AKUAN

SENDIRI

Saya _____ (Nama Penuh) _____ (No. Kad Pengenalan) mengaku bahawa

- maklumat mengenai pendapatan dan tuntutan bagi potongan pelepasan yang saya berikan dalam penyata ini dan dalam apa sahaja dokumen yang disertakan adalah benar, betul dan lengkap.

☐ Penyata ini dibuat bagi pihak saya sendiri*

☐ Penyata ini dibuat bagi pihak* .....

☐ Saya ingin memilih Taksiran Bersama dan taksiran dikeluarkan atas nama isteri.*
(Jika isteri tidak memilih Taksiran Bersama)

*Tandakan (✓) di petak, jika berkenaan

.....
Tandatangan

.....
Jika pemegang amanah, ejen dsb., nyatakan nama dan perlantikan

Tarikh: .....

ISTERI

Saya _____ (Nama Penuh) _____ (No. Kad Pengenalan) mengaku bahawa

- maklumat mengenai pendapatan dan tuntutan bagi potongan pelepasan yang saya berikan dalam penyata ini dan dalam apa sahaja dokumen yang disertakan adalah benar, betul dan lengkap.

☐ Saya ingin memilih taksiran bersama*

*Tandakan (✓) di petak, jika berkenaan

.....
Tandatangan

Tarikh: .....

ng ini dimuat turun dari laman web

BAHAGIAN M PENDIDIKAN KE ARAH PENGIRAAN SENDIRI CUKAI PENDAPATAN (RUJUK NOTA)

	BUTIRAN JENIS PENDAPATAN/POTONGAN/PELEPASAN	KOD	SENDIRI RM	ISTERI (untuk taksiran berasingan) RM
	PENDAPATAN PERNIAGAAN (Selepas tolak elaun modal)			
	PEMBAHAGIAN PENDAPATAN PERKONGSIAN			
	PENDAPATAN PERNIAGAAN	{A}		
	Tolak RUGI DIBAWA DARI TAHUN TERDAHULU (Terhad kepada pendapatan perniagaan di atas)	{B} 012		
	JUMLAH KECIL [{A} TOLAK {B} = {C}]	{C}		
	Campur PENDAPATAN			
	PENGGAJIAN	001		
	DIVIDEN	004		
	BUNGA ATAU DISKAUN	005		
	SEWA, ROYALTI ATAU PREMIUM	006		
	PENCEN	007		
	PENDAPATAN LAIN	009		
	ANUITI ATAU BAYARAN BERKALA	010		
	PENDAPATAN AGREGAT [{C} CAMPUR ITEM 4 - 10]	{D}		
	Tolak POTONGAN			
	KERUGIAN TAHUN SEMASA	013		
	PERBELANJAAN CARIGALI (JADUAL 4)	014		
	PERBELANJAAN MODAL KE ATAS PROJEK-PROJEK PERTANIAN (JADUAL 4A)	014A		
	HADIAH WANG KEPADA KERAJAAN/INSTITUSI YANG DILULUSKAN	016		
	HADIAH WANG KEPADA PERPUSTAKAAN	017		
	HADIAH ARTIFAK, MANUSKRIP ATAU LUKISAN	018		
	HADIAH WANG / SUMBANGAN MANFAAT	018A		
	HADIAH WANG ATAU PERALATAN PERUBATAN	018B		
	HADIAH LUKISAN	018C		
	JUMLAH POTONGAN	{E}		
	JUMLAH PENDAPATAN {D} TOLAK {E}	{F}		
	Tolak PELEPASAN (SERTAKAN RESIT ASAL)*	RM	8,000	8,000
	INDIVIDU & SAUDARA TANGGUNGAN	022		
	PERUBATAN IBU BAPA — *Terhad** 5,000	023		
	PERALATAN SOKONGAN ASAS — *Terhad** 5,000	023A		
	INDIVIDU YANG TIDAK BERUPAYA — 5,000	023B		
	YURAN PENDIDIKAN — *Terhad** 5,000	023C		
	PERUBATAN PENYAKIT YANG SUKAR DIUBATI / PEMERIKSAAN PERUBATAN PENUH — *Terhad** 5,000	023D		
	PEMBELIAN BUKU/MAJALAH — *Terhad** 500			
	FAEDAH PINJAMAN PERUMAHAN PERTAMA — *Terhad** 5,000			
	i) ISTERI/SUAMI *(JIKA TAKSIRAN BERSAMA)* *(Isteri mendapat pelepasan suami jika suami tiada jumlah pendapatan atau suami memilih taksiran dikeluarkan atas nama isteri)* — 3,000	024		
	ii) BAYARAN ALIMONI KEPADA BEKAS ISTERI iii) ISTERI/SUAMI YANG TIDAK BERUPAYA — 2,500	024A		
	i) ANAK YANG BERUMUR KURANG DARIPADA 18 TAHUN DAN TIDAK BERKAHWIN Bil. Anak ( ) x Pelepasan (RM) 800 = Jumlah (RM) ( ) ii) ANAK YANG BERUMUR LEBIH DARIPADA 18 TAHUN, TIDAK BERKAHWIN DAN MASIH MENUNTUT a) Di Dalam Malaysia ( ) x 3,200 = ( ) b) Di Luar Malaysia dan pendidikan mulai - pada/selepas 17.10.97 ( ) x 800 = ( ) iii) ANAK YANG HILANG UPAYA ( ) x 5,000 = ( )			
	JUMLAH KECIL ( )	026		
	KUMPULAN WANG SIMPANAN DAN INSURANS NYAWA — *Terhad** 5,000	027		
	INSURANS PENDIDIKAN DAN PERUBATAN — *Terhad** 3,000	028		
	PREMIUM ANUITI KWSP — *Terhad** 1,000	029		
	JUMLAH KECIL PELEPASAN (item 20 - 33)	{G}		

ang ini dimuat turun dari laman web

PENDIDIKAN KE ARAH PENGIRAAN SENDIRI CUKAI PENDAPATAN

sungan dari sebelah

	BUTIRAN	KOD	SENDIRI RM	ISTERI (untuk taksiran berasingan) RM
	PENDAPATAN BERCUKAI {F} tolak {G}	{H}		
	PENGIRAAN CUKAI PENDAPATAN *(Rujuk Jadual di bawah)*			
	kai di atas RM.....yang pertama	SENDIRI / ISTERI		
	kai di atas baki RM.....%			
	JUMLAH CUKAI PENDAPATAN			
4	Tolak **REBAT CUKAI** *(Bagi pendapatan bercukai {H} kurang daripada RM 35,000 sahaja) (Rebat perseorangan ialah RM 350 dan isteri RM 350)*	046		
5	**ZAKAT ATAU FITRAH**	049		
6	**PEMBELIAN KOMPUTER PERIBADI**	049A		
7	**FI**	045A		
	JUMLAH CUKAI DIKENAKAN	→		
8	Tolak **PELEPASAN CUKAI DUA KALI (SEKSYEN 132/133)**	042-043		
9	**PELEPASAN CUKAI YANG DIPOTONG KE ATAS DIVIDEN (SEKSYEN 110)**	044		
10	**CUKAI KENA DIBAYAR** Atau			
11	**CUKAI KENA DI BAYAR BALIK**			

BAHAGIAN N RUMUSAN CUKAI DAN BAYARAN

1	**CUKAI KENA DIBAYAR (DARI M40)**			
2	Tolak **ANSURAN/POTONGAN CUKAI BERJADUAL YANG DIJELASKAN**			
3	**BAKI CUKAI PERLU DIBAYAR** Atau			
4	**CUKAI TERLEBIH BAYAR**			
5	**JUMLAH BAYARAN BALIK (M41 + N4)**			

JADUAL CUKAI

PENGIRAAN CUKAI PENDAPATAN	PENDAPATAN BERCUKAI RM	KADAR %	CUKAI RM
Di atas setiap ringgit yang pertama	2,500	0	0
Di atas setiap ringgit yang berikut	2,500	1	25
	5,000		25
Di atas setiap ringgit yang berikut	15,000	3	450
	20,000		475
Di atas setiap ringgit yang berikut	15,000	7	1,050
	35,000		1,525
Di atas setiap ringgit yang berikut	15,000	13	1,950
	50,000		3,475

PENGIRAAN CUKAI PENDAPATAN	PENDAPATAN BERCUKAI RM	KADAR %	CUKAI RM
	50,000		3,475
Di atas setiap ringgit yang berikut	20,000	19	3,800
	70,000		7,275
Di atas setiap ringgit yang berikut	30,000	24	7,200
	100,000		14,475
Di atas setiap ringgit yang berikut	150,000	27	40,500
	250,000		54,975
Di atas setiap ringgit yang melebihi	250,000	28	

Kadar-kadar di atas dikenakan ke atas seorang yang bermastautin di Malaysia dan bagi seseorang individu yang pada masa kematiannya berdomisil di dalam Malaysia dalam tahun asas 2003

SENARAI SEMAKAN

	SILA PASTIKAN	Tandakan (✓) di petak, jika berkenaan
1	Nama, alamat, nombor kad pengenalan serta nombor fail tuan telah dicetak dengan betul. Sila buat pembetulan jika perlu.	☐
2	Akaun Perdagangan, Akaun Untung Rugi dan Kunci Kira-Kira yang ditandatangani, Jadual Elaun Modal serta Pengiraan Cukai Pendapatan disertakan.	☐
3	Penyata penggajian (C.P 8A/8C) daripada majikan disertakan.	☐
4	Baucar dividen asal disertakan.	☐
5	Penyata Pendapatan serta Perbelanjaan sewa dilampirkan.	☐
6	Resit asal bagi tuntutan derma disertakan. (Bahagian B, item 14, 15 , 17 & 18).	☐
7	Resit asal bagi tuntutan pelepasan disertakan. (Bahagian H, item 3 - 7, dan 10).	☐
8	Surat pengesahan daripada Jabatan Kebajikan Masyarakat disertakan sekiranya tuan/isteri/anak tuan hilang upaya.	☐
9	Tandatangan tuan/isteri tuan telah diturunkan di ruangan Akuan yang disediakan di BAHAGIAN L.	☐
10	Sertakan surat pengesahan kemasukan anak ke IPTA/IPTS.	☐

5089 (1)—PNMB., K.L.

Simulation for the Self Employed

Overview

Prior to the year 2001, the official assessment system (OAS) was practised. Effective from the year 2001, the OAS was replaced in stages with the self assessment system (SAS).

Under the OAS, a taxpayer was only required to file tax returns with the IRB. The IRB would then raise an assessment and issue notice of assessment to the taxpayer. Tax liability would be based on the amount so raised in the notice of assessment.

Under the SAS, a taxpayer is now required to file a return and to calculate the resulting tax liability. No notice of assessment will be issued by the IRB. Upon filing his / her tax return, a taxpayer is deemed to have been issued a notice of assessment by the IRB, and tax is payable upon the deemed receipt of such notice.

The SAS does not result in any 'new' tax being raised. This is only a change to the system of assessment.

Instruction:

Read the scenario below and imagine that you are Mr. Alex who is required to submit his tax return (appendix A) by 31 March 2004. Firstly, you will have to compute the adjusted income from the business based on the income statement given before computing the business statutory income. In order to compute the statutory income, you will need to compute the capital allowance available in Sub Package A. A simple format (see Format A) is available for you to guide your computation. You will need information in Sub Package B to fill in your income tax return and calculate the tax payable.

Scenario

Mr. Alex has been a sole-proprietor for many years. The following is an income statement prepared by his accounts clerk for the year ended 31 December 2003 together with all the necessary notes for him to understand the income statement.

Note:		**RM**
	Revenue	
(1)	Sales	250,000
(2)	Commission	2,560
	Expenditure	
(3)	Salary	47,560
	Bonus	17,800
	EPF contribution	7,930
(4)	Travelling expenses	6,750
(5)	Water and electricity	1,756
(6)	Telephone bill	3,675
(7)	Fire Insurance	508
	Life insurance	1,927
(8)	Cost of special gift	1,200
	Entertainment	5,343
(9)	Bad debts	2,818
(10)	Fees to club	1,500
	Fees to trade associations	660
(11)	Donation to public library	3,500
	Donation to Hospital Besar Melaka	927
(12)	Depreciation	22,700
(13)	Alex personal tax	3,500
	Quit rent for premises	250
(14)	Sundry expenses for business	3,957
	School/ tuition fees	3,000
	Medical expenses for employee	320
	Medical expenses for Alex's wife	265
	Net profit	**114,717**

Notes:

1. Mr. Alex took some goods for own consumption. Cost of the goods was RM5,050 and was recorded in the accounts. The market value of the goods is RM5,560.

2. As a part time estate agent, Mr. Alex will received commission for his service provided as shown in the commission slips however he only received the payment on 31 May 2004.

3. Below is the list of Salaries, Bonus and EPF contribution prepared by Mr. Alex's accounts clerk:

	Salary RM	Bonus RM	EPF RM
Mr. Alex	26,000	10,000	4,420
Bushra (employee)	12,000	6,000	2,340
Alias (employee)	9,560	1,800	1,170
	47,560	17,800	7,930

4. Included in the travelling expenses were carriage inwards of RM 4,550 meant for his business and RM2,200 was for Alex's holiday trip to Langkawi..
5. It was estimated that two thirds of the water and electrical supplies were utilized for Mr. Alex's domestic uses.
6. There is conclusive evidence that RM1,500 of the telephone expenses were for personal and private calls.
7. Of the insurance premium paid,
   Fire insurance premium on shop premises RM508
   Mr. Alex's personal life insurance premium RM1,927
8. Special gifts, costing RM1,200 were given to regular customers. RM 5,343 were entertainment expenses incurred to entertain potential client and suppliers.
9. Bad debts is related to debts given to a customer.
10. Alex paid RM1,500, being his subscription fees to a golf club. Subscriptions paid to trade associations amounted to RM660.
11. The business donated RM3,500 to a public library and RM927 to Hospital Besar Melaka.
12. Refer to sub package A.
13. The tax payment of RM3,500 was for Alex's personal income tax. Quit rent of RM250 was for the business premises.
14. The RM3,000 school/tuition fees were for Alex's children. The medical expenses of RM320 were for Alias (a handicapped employee) and RM265 were for Alex's wife.

Sub package A

List of assets of Mr. Alex's business prepared by his accounts clerk is as follows:-

	Cost RM	Depreciation for the year RM	Annual rate	Capital allowance for the year RM
Furniture	32,000	3,200	10%	
Motor vehicle	90,000	18,000	16%	
Refrigerator	15,000	1,500	10%	
Total				

All the assets were purchased in year 2001.

Now you may compute the capital allowances using formula below:

(Cost of asset A) x (annual rate for asset A) = (capital allowance for asset A)

Instruction:

Using the format below, fill in the amount for any adjustment in the box provided. Please indicate "NA" where no adjustment is required. The numbers indicate the notes to the income statement provided in the scenario above. Compute the adjusted income and statutory income from business.

Format A: Computation of Business adjusted income and statutory income

			RM
	Net Profit as per Income Statement		114,717
Less:	Income not taxable as business income:		
(1)	Sales		
(2)	**Commission**		
Add:	Expenses not allowed for deductions:		
(1)	Withdrawal of goods		
(3)	Salary		
	Bonus		
	EPF contribution		
(4)	Travelling expenses		
(5)	Water and electricity		
(6)	Telephone bill		
(7)	Fire Insurance		
	Life insurance		
(8)	Cost of special gift		
	Entertainment		
(9)	Bad debts		
(10)	Fees to club		
	Fees to trade associations		
(11)	Donation to public library		
	Donation to *Hospital Besar Melaka*		
(12)	Depreciation		
(13)	Alex personal tax		
	Quit rent for premises		
(14)	Sundry expenses for business		
	School/ tuition fees		
	Medical expenses for employee		
	Medical expenses for Alex's wife		
Less:	**Expenses allowed for double deductions**		
	Adjusted income from Business		
Less:	**Capital allowances (refer sub package A)**		
	Statutory Income from Business		

Sub package B: Other information

Mr. Alex also received a dividend voucher and a cheque from Telekom Malaysia Berhad, the photocopy of which are shown below:-

Telekom Malaysia Berhad (C44558) Serial No. 006
Menara Telekom
345, Jalan Dang Wangi
40000 Kuala Lumpur

DIVIDEND VOUCHER

Unit hold	Gross dividend (in RM)	Tax 28% (RM)	Net Dividend (RM)
25,000	10,000	2,800	7,200

For the Board of Directors
.....

A/C Payee Only Maybank Bhd (C45098) 15 April 2003
Menara Maybank, Jalan Kuching, K.L.

Pay to: Mr. Alex Bin Abas (NRIC 541102075720)

Ringgit: Seven Thousand Two Hundred Only. **RM 7,200/=**

"34005" 02 "55678"

Mr. Alex took a loan to purchase the shares in Telekom Malaysia Berhad. He repaid the loan by monthly instalments. In 2003 the total instalment payments was R1,800, as follows:-

RM1,080 being repayment of capital sum
RM720 being interest payment.

Mr. Alex owns a house in Kuala Lumpur which was rented out. In 2003, the receipts and payments in relation to the house are as follows:-

	RM
Receipts:-	
Rental	18,000
Payments:-	
Quit rent	350
Assessment	1,500
Repair to kitchen sink	200
Renovation to car porch	8,000
Interest on bank loan to acquire the house	4,500

In 2003, Mr. Alex also earned income from fixed deposit and savings account, as follows:-

Type Of Account	Deposit / Savings In	Amount Of Deposit / Savings	Interest Earned
Fixed Deposit	Maybank Bhd.	RM60,000	RM1,800
Savings Account	Public Bank Bhd	RM40,000	RM1,600

Mr. Alex also derived income from outside Malaysia, all of which were remitted to Malaysia in 2003, as follows:-

Type Of Income	Country Income Derived From	Amount
Rental	Singapore	RM18,000
Dividend	Brunei	RM26,000
Royalty (from composing songs)	Indonesia	RM8,000

Donations made by Mr. Alex in 2003:-

Donations Made To:-	Amount
The Malaysian Government	RM20,000
The Indonesian Government	RM10,000
Association For The Blind – an approved institution	RM200

Mr. Alex's wife is an Australian. In 2003 she was a tax resident in Malaysia, but did not have any income.

Mr. Alex and his wife have four children, the particulars (for the year 2003) are as follows:-

Name of Children	Age	Marital Status	Education, Etc.	Amount incurred by Mr. Alex on the maintenance of the child
Alan	25 years	Not Married	Full time student; University of Malaya	RM4,500
Bernard	23 years	Married in 2001	Full time student: University of London	RM12,000
Daniel	19 years	Not Married	Not schooling ; unemployed	RM3,000
Emiley	15 years	Not married	Not schooling; a disabled child	RM7,000

Payment of insurance premium by Mr. Alex in 2003:-

Type Of Insurance. Etc.	Amount of Premium, Etc
Life Insurance. Insured on life of Mr. Alex.	Premium paid was RM1,500.
Life Insurance. Insured on life of Mr. Alex's wife.	Premium paid was only RM2,300. Actual premium that should have to be paid was RM3,500.
Education insurance. For Alan (the eldest child)	Premium paid was RM3,000.
Medical / Health Insurance. For the whole family	First premium of RM1,800 was due in December 2003, but was only paid on 3 January 2004.

Alex's mother (Puan Jenny) was hospitalised in June 2003, and all medical expenses were paid by Mr. Alex, as evidenced by the copy of the receipt below.

Pantai Hospital, Kuala Lumpur (C 56789) Receipt No. 998
Date: 05/06/03

Official Receipts

Received from: Mr. Alex Bin Abas on behalf of Mrs. Jenny

Ringgit: Three Thousand Four Hundred Fifty only RM3,450.00

Being medical fees paid.

Issued by
For the management

End of simulation

Thank you for participating in this simulation

Appendix X (a): 2004 Tax return for the self-employed

CP 4A-Pin. 2004

Borang **B**

LEMBAGA HASIL DALAM NEGERI MALAYSIA
BORANG CUKAI PENDAPATAN ORANG PERSEORANGAN
DI BAWAH SEKSYEN 77 AKTA CUKAI PENDAPATAN 1967

Borang ini ditetapkan di bawah seksyen 152 Akta Cukai Pendapatan 1967

TAHUN TAKSIRAN **2004**

1 Nama

2 No. Rujukan Cukai SG/OG - ( )

3 No. K/P Baru - -

4 No. K/P Lama

5 No. Polis

6 No. Tentera

7 No. Pasport

Untuk Kegunaan Pejabat

- -

BAHAGIAN A: MAKLUMAT INDIVIDU

A1 Warganegara Malaysia *1 = Ya 2 =Tidak*

A2 Negara Mastautin/ Domisil *(Gunakan Kod Negara)*

A3 Jantina *1 = Lelaki 2 = Perempuan*

A4 Status *1 = Bujang 2 = Kahwin 3 = Janda/Duda 4 = Mati*

A5 Tarikh Kahwin - - (Hari Bulan Tahun)

A6 Tarikh Cerai/ Mati - - (Hari Bulan Tahun)

A7 Jenis Taksiran *1 = Bersama 2 = Berasingan*

A8 Taksiran Atas Nama *Jika A7 = 1* *1 = Suami 2 = Isteri*

A9 Ketetapan Umum Dipatuhi *1 = Ya 2 = Tidak*

A10 Alamat Surat-menyurat

Poskod Bandar

Negeri

A11 Alamat Kediaman/Kediaman Pentadbir Harta Pusaka

Poskod Bandar

Negeri

A12 Alamat Premis Perniagaan

Poskod Bandar

Negeri

A13 Nama Majikan

ama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ][ ]

A14 No. Staf/ No. Gaji [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ]

A15 No. Majikan E [ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ]

A16 No. Telefon [ ][ ] - [ ][ ][ ][ ][ ][ ][ ][ ][ ]

A17 No. Telefon Majikan [ ][ ] - [ ][ ][ ][ ][ ][ ][ ][ ][ ]

A18 e-mel

A19 Nama Bank

A20 Nombor Akaun Bank

A21 Alamat Bank

Poskod [ ][ ][ ][ ][ ] Bandar

Negeri

BAHAGIAN B: MAKLUMAT SUAMI / ISTERI

B1 Nama Suami / Isteri

B2 No. Rujukan Cukai SG/OG [ ][ ] [ ][ ][ ][ ][ ][ ][ ][ ] - [ ][ ]

B3 No. K/P Baru [ ][ ][ ][ ][ ][ ] - [ ][ ] - [ ][ ][ ][ ]

B4 No. K/P Lama

B5 No. Polis

B6 No. Tentera

B7 No. Pasport

BAHAGIAN C: PENDAPATAN BERKANUN DAN JUMLAH PENDAPATAN

Pendapatan Berkanun Perniagaan

		Kod Perniagaan	Amaun
C1	Perniagaan 1		, , ,
C2	Perniagaan 2		, , ,
C3	Perniagaan 3 + 4 dan seterusnya (jika ada)		, , ,

Pendapatan Berkanun Perkongsian

			No. Rujukan Cukai	Amaun
C4	Perkongsian 1	D	[ ][ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ]	, , ,
C5	Perkongsian 2	D	[ ][ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ]	, , ,
C6	Perkongsian 3 + 4 dan seterusnya (jika ada)	D	[ ][ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ]	, , ,

C7	**JUMLAH (C1 hingga C6)**	C7	, , ,
C8	**TOLAK**: Rugi perniagaan bawa hadapan	C8	, , ,
C9	Agregat pendapatan berkanun perniagaan (C7 - C8)	C9	, , ,

ama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ]-[ ][ ]( )

PENDAPATAN BERKANUN LAIN

C10	Penggajian	C10	
C11	Dividen	C11	
C12	Faedah dan diskaun	C12	
C13	Sewa, royalti dan premium	C13	
C14	Pencen, anuiti dan bayaran berkala lain	C14	
C15	Apa-apa perolehan atau keuntungan lain	C15	
C16	Tambahan mengikut peruntukan perenggan 43(1)(c)	C16	
C17	Agregat pendapatan berkanun lain (C10 hingga C16)	C17	
C18	**PENDAPATAN AGREGAT (C9 + C17)**	C18	
C19	**TOLAK:** Rugi perniagaan tahun semasa	C19	
C20	**JUMLAH (C18 - C19)**	C20	
	TOLAK : Perbelanjaan lain		
C21	Perbelanjaan mencarigali - Jadual 4 dan perenggan 44(1)(b)	C21	
C22	Perbelanjaan ladang yang layak - Jadual 4A dan perenggan 44(1)(b)	C22	
C23	**JUMLAH [C20 - (C21 + C22)]**	C23	
	TOLAK: Derma dan Hadiah		
C24	Hadiah wang kepada Kerajaan/Kerajaan Tempatan atau institusi yang diluluskan	C24	
C25	Hadiah artifak, manuskrip atau lukisan	C25	
C26	Hadiah wang kepada perpustakaan	C26	
C27	Hadiah wang atau sumbangan manfaat bagi menyediakan kemudahan di tempat awam untuk orang yang hilang upaya	C27	
C28	Hadiah wang atau kos peralatan perubatan kepada mana-mana badan rawatan kesihatan	C28	
C29	Hadiah lukisan kepada Balai Seni Lukis Negara atau balai seni lukis negeri	C29	
C30	Jumlah derma dan hadiah (C24 hingga C29)	C30	
C31	Lain-lain tolakan	C31	
C32	**JUMLAH PENDAPATAN (C23 - C30 - C31)**	C32	

ATAU

C33 **PENDAPATAN DAN KREDIT DIPINDAHKAN KE SUAMI / ISTERI**

C33a	**JUMLAH PENDAPATAN YANG DIPINDAHKAN KE SUAMI / ISTERI (C23 - C30 - C31)**	C33a	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
C33b	**ANSURAN/POTONGAN YANG DIPINDAHKAN KE SUAMI / ISTERI**	C33b	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

C34 **PENDAPATAN BAGI TAKSIRAN BERSAMA**

RUANGAN INI PERLU DIISI OLEH INDIVIDU DI MANA TAKSIRAN DIKELUARKAN ATAS NAMANYA

C34a	JUMLAH PENDAPATAN SENDIRI (dari C32)	C34a	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
C34b	JUMLAH PENDAPATAN YANG DIPINDAHKAN DARI SUAMI / ISTERI	C34b	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
C34c	**JUMLAH PENDAPATAN (C34a + C34b)**	C34c	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

Nama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ][ ]

BAHAGIAN D: PELEPASAN DAN PENDAPATAN BERCUKAI

D1	Individu dan saudara tanggungan			8,000
D2	Perubatan ibu bapa		TERHAD 5,000	
D3	Peralatan sokongan asas		TERHAD 5,000	
D4	Individu yang hilang upaya		5,000	
D5	Yuran pendidikan		TERHAD 5,000	
D6	Perubatan bagi penyakit yang sukar diubati		TERHAD 5,000	
D7	Pemeriksaan perubatan penuh (terhad 500)			
D8	Pembelian buku/majalah		TERHAD 500	
D9	Faedah pinjaman perumahan		TERHAD 3,000	
D10	Isteri		TERHAD 3,000	
D11	Bayaran alimoni kepada bekas isteri			
D12	Suami		3,000	
D13	Suami / isteri yang hilang upaya		2,500	
D14	Anak :			

D14a Anak - Di bawah umur 18 tahun

Bilangan	Kadar Kelayakan		
	100%	50%	
[ ][ ]	[ ][ ] x 1,000 = [ ][ ],[ ][ ]	[ ][ ] x 500 = [ ][ ],[ ][ ]	[ ][ ],[ ][ ]

D14b Anak - 18 tahun dan ke atas yang masih belajar

Kadar Kelayakan		
100%	50%	
[ ][ ],[ ][ ]	[ ][ ],[ ][ ]	[ ][ ],[ ][ ]
[ ][ ],[ ][ ]	[ ][ ],[ ][ ]	
[ ][ ],[ ][ ]	[ ][ ],[ ][ ]	
[ ][ ],[ ][ ]	[ ][ ],[ ][ ]	

D14c Anak - Hilang upaya

Bilangan	Kadar Kelayakan		
	100%	50%	
[ ][ ]	[ ][ ] x 5,000= [ ][ ],[ ][ ]	[ ][ ] x 2,500= [ ][ ],[ ][ ]	[ ][ ],[ ][ ]

D15	Insurans dan KWSP		TERHAD 5,000	
D16	Insurans pendidikan dan perubatan		TERHAD 3,000	
D17	Premium anuiti KWSP		TERHAD 1,000	
D18	Lain-lain pelepasan			
D19	**Jumlah pelepasan (D1 hingga D18)**	D19		[ ][ ],[ ][ ],[ ][ ]
D20	PENDAPATAN BERCUKAI (C32 - D19) atau (C34c - D19)	D20		[ ][ ],[ ][ ],[ ][ ]

ama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ]-[ ][ ]( )

BAHAGIAN E: CUKAI KENA DIBAYAR

E1 **PENDAPATAN BERCUKAI (dari D20)** — E1 [ ][ ],[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

E2 **PENGIRAAN CUKAI PENDAPATAN (Rujuk jadual kadar cukai yang disediakan)**

E2a Cukai ke atas yang pertama [ ][ ],[ ][ ][ ],[ ][ ][ ],[ ][ ][ ] — Atas Kadar (%) [ ][ ] — [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E2b Cukai ke atas baki [ ][ ],[ ][ ][ ],[ ][ ][ ],[ ][ ][ ] — [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E3 JUMLAH CUKAI PENDAPATAN (E2a + E2b) — E3 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

TOLAK : Rebat Cukai

E4	Rebat cukai individu	350 [ ][ ][ ]
E5	Rebat cukai suami / isteri	350 [ ][ ][ ]
E6	Zakat atau fitrah	[ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]
E7	Pembelian komputer peribadi	Terhad 400 [ ][ ][ ]
E8	Fi (Levi)	[ ][ ],[ ][ ][ ],[ ][ ][ ]

E9 **Jumlah rebat (E4 hingga E8)** — E9 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E10 JUMLAH CUKAI YANG DIKENAKAN (E3 - E9) — E10 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

TOLAK

E11 Tolakan cukai seksyen 110 (dividen) — E11 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E12 Tolakan cukai seksyen 110 (lain-lain) — E12 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E13 CUKAI KENA DIBAYAR (E10 - E11 - E12) — E13 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E14 **ATAU** : CUKAI DIBAYAR BALIK (E11 + E12 - E10) — E14 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

BAHAGIAN F: RUMUSAN CUKAI DAN BAYARAN

F1 Cukai kena dibayar (dari E13) — F1 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

TOLAK:

F2 Ansuran/Potongan Cukai Berjadual yang telah dibayar- SENDIRI — [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

F3 Ansuran/Potongan Cukai Berjadual yang dipindahkan dari- SUAMI / ISTERI — [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

F4 Baki cukai kena dibayar (F1 - F2 - F3) — F4 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

F5 **ATAU** : Cukai terlebih bayar (F2 + F3 - F1) — F5 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

BAHAGIAN G: PENDAPATAN TAHUN KEBELAKANGAN YANG BELUM DILAPORKAN

	Jenis pendapatan	Bayaran bagi tahun	Amaun kasar	Caruman kumpulan wang
G1	PENGGAJIAN	[ ][ ][ ][ ]	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
G2		[ ][ ][ ][ ]	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
G3		[ ][ ][ ][ ]	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

BAHAGIAN H: PELUPUSAN SYER DALAM SYARIKAT HARTA TANAH DAN PELUPUSAN HARTA TERTAKLUK KEPADA PERUNTUKAN CUKAI KEUNTUNGAN HARTA TANAH

H1 Telah melupuskan syer dan / atau harta tanah? [ ] *1 = Ya 2 = Tidak*

H2 Telah melaporkan pelupusan ke LHDNM? *Jika H1 = 1* [ ] *1 = Ya 2 = Tidak*

361

ama _____ No. Rujukan Cukai

BAHAGIAN J: MAKLUMAT PENTADBIR HARTA PUSAKA

J1 Nama Pentadbir Harta Pusaka

J2 No. K/P Baru

J3 No. K/P Lama

J4 No. Polis

J5 No. Tentera

J6 No. Pasport

BAHAGIAN K: MAKLUMAT PENDAPATAN PERNIAGAAN

K1 **KERUGIAN YANG DITUNTUT**

K1a Baki kerugian tahun semasa — K1a

K1b Baki kerugian tahun kebelakangan — K1b

K1c Kerugian hantar hadapan (K1a + K1b) — K1c

K2 **ELAUN MODAL YANG DITUNTUT**

		Elaun dituntut	Baki hantar hadapan
K2a	Perniagaan 1		
K2b	Perniagaan 2		
K2c	Perniagaan 3 + 4 dan seterusnya (jika ada)		
K2d	Perkongsian 1		
K2e	Perkongsian 2		
K2f	Perkongsian 3 + 4 dan seterusnya (jika ada)		

K3 **MAKLUMAT CUKAI PEGANGAN**

	Seksyen	Jumlah kasar dibayar	Jumlah cukai yang dipegang dan diremit ke LHDNM
K3a	107A		
K3b	109		
K3c	109A		
K3d	109B		

BAHAGIAN L: PERBELANJAAN KHAS, POTONGAN SELANJUTNYA DAN POTONGAN DUA KALI

	KOD TUNTUTAN	AMAUN		KOD TUNTUTAN	AMAUN
L1			L3		
L2			L4		

L5 JUMLAH DITUNTUT — L5

BAHAGIAN M: TUNTUTAN INSENTIF

	Jenis insentif	Amaun yang dituntut	Baki hantar hadapan
M1	Elaun Jadual 7A		
M2	Elaun Peningkatan Eksport Perkhidmatan		
M3	Perbelanjaan Jadual 4		M3
M4	Perbelanjaan Jadual 4A		M4

362

ama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ] ( )

BAHAGIAN N: MAKLUMAT KEWANGAN ORANG PERSEORANGAN

AKAUN PERDAGANGAN UNTUNG RUGI

N1	Kod Perniagaan	N1	[ ][ ][ ][ ][ ]
N2	Jualan atau perolehan	N2	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
	TOLAK:		
N3	Stok awal	N3	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N4	Belian dan kos pengeluaran	N4	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N5	Stok akhir	N5	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N6	Kos jualan (N3 + N4 - N5)	N6	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N7	**UNTUNG KASAR (N2 - N6) / RUGI KASAR (N6 - N2)**	N7	[ ] [ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

(Tandakan " X " jika negatif) ▲

PENDAPATAN :

N8	Perniagaan lain	N8	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N9	Dividen	N9	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N10	Faedah dan diskaun	N10	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N11	Sewa, royalti dan premium	N11	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N12	Pendapatan lain	N12	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N13	JUMLAH (N8 hingga N12)	N13	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

PERBELANJAAN :

N14	Faedah pinjaman	N14	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N15	Gaji dan upah	N15	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N16	Sewa/pajakan	N16	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N17	Kontrak dan subkontrak	N17	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N18	Komisen	N18	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N19	Hutang lapuk	N19	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N20	Perjalanan	N20	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N21	Perbelanjaan lain	N21	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N22	**JUMLAH PERBELANJAAN (N14 hingga N21)**	N22	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N23	**UNTUNG / RUGI BERSIH**	N23	[ ] [ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

(Tandakan " X " jika negatif) ▲

N24	Perbelanjaan yang tidak dibenarkan	N24	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

KUNCI KIRA-KIRA

Aset tetap :

N25	Tanah dan bangunan	N25	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N26	Loji dan jentera	N26	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N27	Kenderaan	N27	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N28	Aset tetap lain	N28	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]
N29	**JUMLAH ASET TETAP (N25 hingga N28)**	N29	[ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

Nama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ]-[ ][ ]( )

N30	Pelaburan		N30
	Aset semasa :		
N31	Stok	N31	
N32	Penghutang dagangan	N32	
N33	Penghutang lain	N33	
N34	Baki tunai	N34	
N35	Baki dalam bank	N35	
N36	Aset semasa lain	N36	
N37	**JUMLAH ASET SEMASA (N31 hingga N36)**		N37
N38	**JUMLAH ASET (N29 + N30 + N37)**		N38
	LIABILITI:		
N39	Pinjaman	N39	
N40	Pemiutang dagangan	N40	
N41	Pemiutang lain	N41	
N42	**JUMLAH LIABILITI (N39 hingga N41)**		N42
	MODAL:		
N43	Baki bawa hadapan		N43
N44	Pendahuluan		N44
N45	Pembahagian untung/rugi tahun semasa	N45 [ ]	N45
	(Tandakan " X " jika negatif) ▲		
N46	Ambilan		N46
N47	Baki hantar hadapan		N47

AKUAN

Saya [ ][ ][ ][ ][ ][ ][ ][ ][ ][

Nama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ]-[ ][ ]

MAKLUMAT FIRMA DAN TANDATANGAN ORANG YANG MENYEDIAKAN BORANG INI

a Nama Firma

b Alamat Firma

Poskod

Bandar

Negeri

c No. Telefon

d No. Telefon Bimbit

e e-mel

f No. Kelulusan Ejen Cukai / Lesen Audit

Sila baca peringatan di bawah sebelum menurunkan tandatangan tuan/puan

PERINGATAN

Pastikan anda telah mengisi borang ini dengan lengkap dan teratur. Sila semak dengan teliti semua butiran sebelum menyerahkannya ke Lembaga Hasil Dalam Negeri Malaysia.

Pastikan perkara-perkara berikut telah dilakukan:

√ Membuat pengiraan cukai di atas helaian kerja yang telah disediakan (berpandukan buku panduan dan nota penerangan) dan amaun berkenaan telah dipindahkan ke dalam Borang B ini dengan tepat dan betul.

√ Menyimpan semua helaian kerja, rekod dan dokumen dengan teratur untuk semakan LHDNM.

√ Mengisi dengan terang dan jelas semua butiran dalam ruang yang disediakan.

√ Mengisi nama dan nombor rujukan cukai di bahagian atas borang ini dan juga helaian kerja yang berkaitan.

√ Menggunakan slip pengiriman bayaran yang disediakan untuk membuat bayaran baki cukai (jika ada).

Tarikh: [ ][ ]-[ ][ ]-[ ][ ][ ][ ]
Hari Bulan Tahun

Tandatangan

Jawatan

365

Nama _____ No. Rujukan Cukai | | | | | | | | | | - | ( )

Untuk Kegunaan Pejabat

Tarikh terima	Tarikh proses	Status taksiran

CP501

SLIP PENGIRIMAN BAYARAN

Kepada: **KETUA PENGARAH HASIL DALAM NEGERI**

Bersama-sama ini disertakan cek/kiriman wang/wang pos/draf bank sebagai bayaran cukai pendapatan.

NO. RUJUKAN CUKAI	KOD	BIL. ANSURAN	TAHUN TAKSIRAN
	084	99	2004

Amaun Bayaran RM , , , .

Nama dan Alamat Pos

No. Kad Pengenalan

No. Cek dan Lain-lain

Nama Bank Pembayar

No. Telefon

Tarikh : .....

CUKAI PENDAPATAN MALAYSIA
Slip Pengiriman Bayaran

1. Gunakan Slip Pengiriman Bayaran ini (CP501) apabila membuat bayaran.
2. Bayaran melalui cek, kiriman wang, wang pos dan draf bank hendaklah dipalang dan dibayar kepada **Ketua Pengarah Hasil Dalam Negeri** di alamat pos LHDNM. Bayaran juga boleh dibuat di kaunter bayaran LHDNM seperti alamat di bawah:

	Alamat Pos	Kaunter Bayaran
SEMENANJUNG MALAYSIA :	Lembaga Hasil Dalam Negeri Malaysia Cawangan Pungutan, Karung Berkunci 11061, 50990 Kuala Lumpur.	Tingkat Bawah, Blok 8A, Kompleks Bangunan Kerajaan, Jalan Duta, Kuala Lumpur.
SABAH & WP LABUAN :	Lembaga Hasil Dalam Negeri Malaysia Cawangan Pungutan, Blok E, Bangunan KWSP, Jalan Karamunsing, 88600 Kota Kinabalu.	Tingkat Bawah, Wisma Bandaraya, Jalan Masjid Lama, Kota Kinabalu.
SARAWAK :	Lembaga Hasil Dalam Negeri Malaysia Cawangan Pungutan, Aras 3, 6, 7, 8 & 15, Wisma Ting Pek Khiing, No. 1, Jalan Padungan, 93600 Kuching.	Aras 3, Wisma Ting Pek Khiing, No. 1, Jalan Padungan, Kuching.

3. Pembayaran juga boleh dibuat dengan menggunakan slip pengiriman bayaran di semua cawangan bank yang dilantik iaitu **Bumiputra-Commerce Bank Berhad (BCB), Public Bank Berhad (PBB)** dan **Public Finance Berhad (PFB)**.
4. Sila catatkan **nama, nombor rujukan cukai, tahun taksiran, alamat** dan **kod/jenis bayaran** di belakang instrumen bayaran.
5. Semak resit/slip bank sebelum meninggalkan kaunter bayaran.

D111346—PNMB., K.L. - (1)

Appendix X (b): 2004 Tax return for the salary and wage earner

LHDN
MALAYSIA

BORANG BE BAGI TAHUN TAKSIRAN 2004

Perkara di atas dirujuk.

2. Untuk makluman, tuan/puan dikehendaki melengkapkan dan mengemukakan borang cukai ini mengikut subseksyen 77(1) Akta Cukai Pendapatan (ACP) 1967. Ianya adalah penyata berkenaan pendapatan bercukai dan amaun cukai pendapatan yang kena dibayar di bawah subseksyen 77(4) ACP 1967. Borang cukai ini juga dianggap sebagai notis taksiran di bawah subseksyen 90(2) Akta yang sama.

3. Tuan/puan adalah diperlukan untuk:
   (i) mengisi borang ini dengan lengkap, terang dan jelas; dan
   (ii) membuat pengiraan cukai berpandukan nota penerangan yang dilampirkan atau buku panduan yang boleh diperolehi di cawangan Lembaga Hasil Dalam Negeri Malaysia (LHDNM) terdekat atau laman web. Walau bagaimanapun, helaian kerja (daripada buku panduan) yang digunakan untuk pengiraan tidak perlu dikembalikan bersama-sama borang ini tetapi perlu disimpan untuk tujuan semakan LHDNM.

4. Untuk kes yang melibatkan bayaran balik seperti yang dituntut di ruang E14 borang ini, tuan/puan adalah dikehendaki mengemukakan Helaian Kerja HK-3 yang dilampirkan atau diperolehi daripada buku panduan serta baucar dividen asal yang berkenaan untuk membolehkan tindakan bayaran balik dibuat.

5. Baki cukai (jika ada) seperti di ruang F4 borang ini hendaklah dijelaskan dengan menggunakan Slip Pengiriman Bayaran (CP501) yang disertakan di bawah ini.

6. Sila kembalikan Borang BE yang telah dilengkapkan dalam tempoh yang ditetapkan oleh LHDNM ke alamat seperti di atas.

Ketua Pengarah Hasil Dalam Negeri
Lembaga Hasil Dalam Negeri Malaysia

LHDN
MALAYSIA

CP501

SLIP PENGIRIMAN BAYARAN

Kepada: **KETUA PENGARAH HASIL DALAM NEGERI**

Bersama-sama ini disertakan cek/kiriman wang/wang pos/draf bank sebagai bayaran cukai pendapatan.

NO. RUJUKAN CUKAI	KOD	BIL. ANSURAN	TAHUN TAKSIRAN
	084	99	2004

Amaun Bayaran RM

Nama dan Alamat Pos

No. Kad Pengenalan

No. Cek dan Lain-lain

Nama Bank Pembayar

No. Telefon

Tarikh : .....

CUKAI PENDAPATAN MALAYSIA
Slip Pengiriman Bayaran

1. Gunakan Slip Pengiriman Bayaran (CP501) apabila membuat bayaran.
2. Bayaran melalui cek, kiriman wang, wang pos dan draf bank hendaklah dipalang dan dibayar kepada **Ketua Pengarah Hasil Dalam Negeri** di alamat pos LHDNM. Bayaran juga boleh dibuat di kaunter bayaran LHDNM seperti alamat di bawah:

		Alamat Pos	Kaunter Bayaran
SEMENANJUNG MALAYSIA	:	Lembaga Hasil Dalam Negeri Malaysia, Cawangan Pungutan, Karung Berkunci 11061, 50990 Kuala Lumpur.	Tingkat Bawah, Blok 8A, Kompleks Bangunan Kerajaan, Jalan Duta, Kuala Lumpur.
SABAH & WP LABUAN	:	Lembaga Hasil Dalam Negeri Malaysia, Cawangan Pungutan, Blok E, Bangunan KWSP, Jalan Karamunsing, 88600 Kota Kinabalu.	Tingkat Bawah, Wisma Bandaraya, Jalan Masjid Lama, Kota Kinabalu.
SARAWAK	:	Lembaga Hasil Dalam Negeri Malaysia, Cawangan Pungutan, Aras 3, 6, 7, 8 & 15, Wisma Ting Pek Khiing, No. 1, Jalan Padungan, 93600 Kuching.	Aras 3, Wisma Ting Pek Khiing, No. 1, Jalan Padungan, Kuching.

3. Pembayaran juga boleh dibuat dengan menggunakan slip pengiriman bayaran di semua cawangan bank yang dilantik iaitu **Bumiputra-Commerce Bank Berhad (BCB), Public Bank Berhad (PBB)** dan **Public Finance Berhad (PFB)**.
4. Sila catatkan **nama, nombor rujukan cukai, tahun taksiran, alamat** dan **kod/jenis bayaran** di belakang instrumen bayaran.
5. Semak resit/slip bank sebelum meninggalkan kaunter bayaran.

CP 4B-Pin. 2004

Borang
BE

LEMBAGA HASIL DALAM NEGERI MALAYSIA
BORANG CUKAI PENDAPATAN ORANG PERSEORANGAN
DI BAWAH SEKSYEN 77 AKTA CUKAI PENDAPATAN 1967

Borang ini ditetapkan di bawah seksyen 152 Akta Cukai Pendapatan 1967

TAHUN TAKSIRAN
2004

1 Nama

2 No. Rujukan Cukai SG - ( )

3 No. K/P Baru - -

4 No. K/P Lama

5 No. Polis

6 No. Tentera

7 No. Pasport

Untuk Kegunaan Pejabat

- -

BAHAGIAN A: MAKLUMAT INDIVIDU

A1 Warganegara Malaysia — *1 = Ya 2 = Tidak*

A2 Negara Mastautin/ Domisil — *(Gunakan Kod Negara)*

A3 Jantina — *1 = Lelaki 2 = Perempuan*

A4 Status — *1 = Bujang 2 = Kahwin 3 = Janda/Duda 4 = Mati*

A5 Tarikh Kahwin - - (Hari Bulan Tahun)

A6 Tarikh Cerai/ Mati - - (Hari Bulan Tahun)

A7 Jenis Taksiran — *1 = Bersama 2 = Berasingan*

A8 Taksiran Atas Nama *Jika A7 = 1* — *1 = Suami 2 = Isteri*

A9 Ketetapan Umum Dipatuhi — *1 = Ya 2 = Tidak*

A10 Alamat Surat-menyurat

Poskod Bandar

Negeri

A11 Alamat Kediaman/Kediaman Pentadbir Harta Pusaka

Poskod Bandar

Negeri

A12 Nama Majikan

A13 No. Staf / No. Gaji

A14 No. Majikan E -

A15 No. Telefon -

A16 No. Telefon Majikan -

Nama _____ No. Rujukan Cukai - ( )

A17 e-mel

A18 Nama Bank

A19 Nombor Akaun Bank

A20 Alamat Bank

Poskod | Bandar

Negeri

BAHAGIAN B: MAKLUMAT SUAMI / ISTERI

B1 Nama Suami / Isteri

B2 No. Rujukan Cukai SG / OG - ( )

B3 No. K/P Baru - -

B4 No. K/P Lama

B5 No. Polis

B6 No. Tentera

B7 No. Pasport

BAHAGIAN C: PENDAPATAN BERKANUN DAN JUMLAH PENDAPATAN

C1	Penggajian	C1
C2	Dividen	C2
C3	Faedah dan diskaun	C3
C4	Sewa, royalti dan premium	C4
C5	Pencen, anuiti dan bayaran berkala lain	C5
C6	Apa-apa perolehan atau keuntungan lain	C6
C7	**PENDAPATAN AGREGAT (C1 hingga C6)**	C7

TOLAK: Derma dan Hadiah

C8	Hadiah wang kepada Kerajaan/Kerajaan Tempatan atau institusi yang diluluskan	C8
C9	Hadiah artifak, manuskrip atau lukisan	C9
C10	Hadiah wang kepada perpustakaan	C10
C11	Hadiah wang atau sumbangan manfaat bagi menyediakan kemudahan di tempat awam untuk orang yang hilang upaya	C11
C12	Hadiah wang atau kos peralatan perubatan kepada mana-mana badan rawatan kesihatan	C12
C13	Hadiah lukisan kepada Balai Seni Lukis Negara atau balai seni lukis negeri	C13
C14	Jumlah derma dan hadiah (C8 hingga C13)	C14

Nama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ]

C15 Lain-lain tolakan C15

C16 **JUMLAH PENDAPATAN (C7 - C14 - C15)** C16

ATAU

C17 **PENDAPATAN DAN KREDIT DIPINDAHKAN KE SUAMI / ISTERI**

C17a **JUMLAH PENDAPATAN YANG DIPINDAHKAN KE SUAMI / ISTERI (C7 - C14 - C15)** C17a

C17b **ANSURAN/POTONGAN YANG DIPINDAHKAN KE SUAMI / ISTERI** C17b

C18 **PENDAPATAN BAGI TAKSIRAN BERSAMA**

RUANGAN INI PERLU DIISI OLEH INDIVIDU DI MANA TAKSIRAN DIKELUARKAN ATAS NAMANYA

C18a JUMLAH PENDAPATAN SENDIRI (dari C16) C18a

C18b JUMLAH PENDAPATAN YANG DIPINDAHKAN DARI SUAMI / ISTERI C18b

C18c **JUMLAH PENDAPATAN (C18a + C18b)** C18c

BAHAGIAN D: PELEPASAN DAN PENDAPATAN BERCUKAI

D1	Individu dan saudara tanggungan		8,000
D2	Perubatan ibu bapa	*TERHAD 5,000*	
D3	Peralatan sokongan asas	*TERHAD 5,000*	
D4	Individu yang hilang upaya	*5,000*	
D5	Yuran pendidikan	*TERHAD 5,000*	
D6	Perubatan bagi penyakit yang sukar diubati	*TERHAD 5,000*	
D7	Pemeriksaan perubatan penuh (terhad 500)		
D8	Pembelian buku/majalah	*TERHAD 500*	
D9	Faedah pinjaman perumahan	*TERHAD 3,000*	
D10	Isteri	*TERHAD 3,000*	
D11	Bayaran alimoni kepada bekas isteri		
D12	Suami	*3,000*	
D13	Suami / isteri yang hilang upaya	*2,500*	

D14 Anak :

D14a Anak - Di bawah umur 18 tahun

Bilangan	Kadar Kelayakan		
	100%	*50%*	
	x 1,000 =	*x 500 =*	

Nama _____ No. Rujukan Cukai [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ] - [ ][ ]

D14b Anak - 18 tahun dan ke atas yang masih belajar

Kadar Kelayakan	
100%	*50%*
[ ][ ][ ],[ ][ ][ ]	[ ][ ][ ],[ ][ ][ ]
[ ][ ][ ],[ ][ ][ ]	[ ][ ][ ],[ ][ ][ ]
[ ][ ][ ],[ ][ ][ ]	[ ][ ][ ],[ ][ ][ ]
[ ][ ][ ],[ ][ ][ ]	[ ][ ][ ],[ ][ ][ ]
[ ][ ][ ],[ ][ ][ ]	[ ][ ][ ],[ ][ ][ ]

[ ][ ],[ ][ ][ ]

D14c Anak - Hilang upaya

Bilangan	Kadar Kelayakan	
	100%	*50%*
[ ][ ]	[ ][ ] *x 5,000=* [ ][ ],[ ][ ][ ]	[ ] *x 2,500=* [ ][ ],[ ][ ][ ]

[ ][ ],[ ][ ][ ]

D15 Insurans dan KWSP *TERHAD 5,000* [ ][ ],[ ][ ][ ]

D16 Insurans pendidikan dan perubatan *TERHAD 3,000* [ ][ ],[ ][ ][ ]

D17 Premium anuiti KWSP *TERHAD 1,000* [ ][ ],[ ][ ][ ]

D18 Lain-lain pelepasan [ ][ ],[ ][ ][ ]

D19 **Jumlah pelepasan (D1 hingga D18)** D19 [ ][ ],[ ][ ][ ],[ ][ ][ ]

D20 **PENDAPATAN BERCUKAI (C16 - D19) ATAU (C18c - D19)** D20 [ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

BAHAGIAN E: CUKAI KENA DIBAYAR

E1 **PENDAPATAN BERCUKAI (dari D20)** E1 [ ][ ][ ],[ ][ ][ ],[ ][ ][ ]

E2 **PENGIRAAN CUKAI PENDAPATAN (Rujuk jadual kadar cukai yang disediakan)**

E2a Cukai ke atas yang pertama [ ][ ],[ ][ ][ ],[ ][ ][ ] [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

Atas Kadar (%)

E2b Cukai ke atas baki [ ][ ],[ ][ ][ ],[ ][ ][ ] [ ][ ] [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E3 JUMLAH CUKAI PENDAPATAN (E2a + E2b) E3 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

TOLAK : REBAT CUKAI

E4	Rebat cukai individu	**350**	[ ][ ][ ]
E5	Rebat cukai suami / isteri	**350**	[ ][ ][ ]
E6	Zakat atau fitrah		[ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]
E7	Pembelian komputer peribadi	**Terhad 400**	[ ][ ]
E8	Fi (Levi)		[ ][ ],[ ][ ][ ],[ ][ ][ ]

E9 **Jumlah rebat (E4 hingga E8)** E9 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E10 JUMLAH CUKAI YANG DIKENAKAN (E3 - E9) E10 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

TOLAK

E11 Tolakan cukai seksyen 110 (dividen) E11 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

E12 Tolakan cukai seksyen 110 (lain-lain) E12 [ ][ ],[ ][ ][ ],[ ][ ][ ].[ ][ ]

Nama _____ No. Rujukan Cukai [| | | | | | | | | | - | ( )]

E13 CUKAI KENA DIBAYAR (E10 - E11 - E12) — E13 [, , , .]

E14 **ATAU** : CUKAI DIBAYAR BALIK (E11 + E12 - E10) — E14 [, , , .]

BAHAGIAN F: RUMUSAN CUKAI DAN BAYARAN

F1 Cukai kena dibayar (dari E13) — F1 [, , , .]

TOLAK:

F2 Ansuran/Potongan Cukai Berjadual yang telah dibayar - SENDIRI [, , , .]

F3 Ansuran/Potongan Cukai Berjadual yang dipindahkan dari - SUAMI / ISTERI [, , , .]

F4 Baki cukai kena dibayar (F1 - F2 - F3) — F4 [, , , .]

F5 **ATAU** : Cukai terlebih bayar (F2 + F3 - F1) — F5 [, , , .]

BAHAGIAN G: PENDAPATAN TAHUN KEBELAKANGAN YANG BELUM DILAPORKAN

	Jenis pendapatan	Bayaran bagi tahun	Amaun kasar	Caruman kumpulan wang
G1	PENGGAJIAN	[ ]	[, , .]	[, , .]
G2		[ ]	[, , .]	[, , .]
G3		[ ]	[, , .]	[, , .]

BAHAGIAN H: PELUPUSAN SYER DALAM SYARIKAT HARTA TANAH DAN PELUPUSAN HARTA TERTAKLUK KEPADA PERUNTUKAN CUKAI KEUNTUNGAN HARTA TANAH

H1 Telah melupuskan syer dan / atau harta tanah? [ ] *1= Ya 2 = Tidak*

H2 Telah melaporkan pelupusan ke LHDNM? [ ] *1 = Ya 2 = Tidak*
Jika H1 = 1

BAHAGIAN J: MAKLUMAT PENTADBIR HARTA PUSAKA

J1 Nama Pentadbir Harta Pusaka [| | | | | | | | | | | | | | | | | | | | | | | |]

J2 No. K/P Baru [| | | | | | - | - | | | |]

J3 No. K/P Lama [| | | | | | | |]

J4 No. Polis [| | | | | | | | | | |]

J5 No. Tentera [| | | | | | | |]

J6 No. Pasport [| | | | | | | | | | |]

AKUAN

Saya [| | | | | | | | | | | | | | | | | | | | | | | |]
[| | | | | | | | | | | | | | | | | | | | | | | |]

No. Kad Pengenalan / No. Pasport / No. Polis / No. Tentera* [| | | | | | | | | | | |]

dengan ini mengakui bahawa maklumat mengenai pendapatan dan tuntutan bagi potongan pelepasan yang saya berikan dalam borang ini dan dokumen yang disertakan adalah benar, betul dan lengkap.

[ ] 1 = Borang ini bagi pihak saya sendiri
2 = Borang ini bagi pihak individu di atas

Tarikh: [| | - | | - | | | | |]
Hari Bulan Tahun

_____
Tandatangan

** Potong yang mana tidak berkenaan*

Nama _____ No. Rujukan Cukai [ ] - [ ]

MAKLUMAT FIRMA DAN TANDATANGAN ORANG YANG MENYEDIAKAN BORANG INI

a Nama Firma

b Alamat Firma

Poskod

Bandar

Negeri

c No. Telefon

d No. Telefon Bimbit

e e-mel

f No. Kelulusan Ejen Cukai / Lesen Audit

Sila baca peringatan di bawah sebelum menurunkan tandatangan tuan/puan

PERINGATAN

Pastikan anda telah mengisi borang ini dengan lengkap dan teratur. Sila semak dengan teliti semua butiran sebelum menyerahkannya ke Lembaga Hasil Dalam Negeri Malaysia.

Pastikan perkara-perkara berikut telah dilakukan:

√ Membuat pengiraan cukai di atas helaian kerja yang telah disediakan (berpandukan buku panduan dan nota penerangan) dan amaun berkenaan telah dipindahkan ke dalam Borang BE ini dengan tepat dan betul.

√ Menyimpan semua helaian kerja, rekod dan dokumen dengan teratur untuk semakan LHDNM.

√ Mengisi dengan terang dan jelas semua butiran dalam ruang yang disediakan.

√ Mengisi nama dan nombor rujukan cukai di bahagian atas borang ini dan juga helaian kerja yang berkaitan.

√ Menggunakan slip pengiriman bayaran yang disediakan untuk membuat bayaran baki cukai (jika ada).

Tarikh: [ ][ ] - [ ][ ] - [ ][ ][ ][ ]
Hari Bulan Tahun

_____ Tandatangan

_____ Jawatan

Untuk Kegunaan Pejabat

Tarikh terima	Tarikh proses	Status taksiran

Experimental design ('2 x 2 x 3' factorial design)

Group	Tax rate	Audit rate	Penalty rate
A	5	10	1
B	5	10	20
C	5	50	1
D	5	50	20
E	15	10	1
F	15	10	20
G	15	50	1
H	15	50	20
I	28	10	1
J	28	10	20
K	28	50	1
L	28	50	20

Appendix XII: Case study protocol

Case Study Protocol

Data Collection

Covers two main areas:

1. PROCESS: How do taxpayers complete their tax return? (discover)
2. OUTCOME: what was the compliance outcome? (judgement)

Pre interview checklist:

1. Confirm that the taxpayer (case) has completed his / her own tax return for the year ended 31 December 2004 and is ready to submit the return
2. Attend to information sheet and consent form.
3. Assign case number.

Personal Details:

Gender

- ☐ Male
- ☐ Female

Language Proficiency

- ☐ Bahasa Malaysia & English
- ☐ English only

Age

- ☐ 21 to 30 years
- ☐ 31 to 40 years
- ☐ 41 to 50 years
- ☐ 51 years & above

Ethic background

- ☐ Malay
- ☐ Chinese
- ☐ Indian
- ☐ Others, _____

Highest Level Of Education

- ☐ School (SPM / STPM)
- ☐ University / College (Diploma)
- ☐ University / College (Degree)
- ☐ Others _____

Part A: PROCESS

A1. How did the taxpayer go about preparing his/her tax return?

- ☐ Use the accompanying instructions (attached together with the tax return forms)?
- ☐ Use last year's tax return?
- ☐ Ask for advice from IRB officers?
- ☐ Ask for help from others?

Interviewee
Observation
Physical evidence

A2. Experienced any problems in completing tax return? **Yes /No**

A3. If Yes, what type of problems?

	The accompanying instructions (attached together with the tax return forms) were difficult to understand
	The tax computations were too difficult
	The tax return form itself was difficult to follow
	Don't understand the language used
	Don't understand some of the terms used
	It took too much time
	First time filling in the form
	Others, describe _____

Interviewee
Observation
Physical evidence

A4. Which part of tax return caused problems?

Interviewee
Observation
Physical evidence

A5. How difficult were these problems?

Interviewee
Observation
Physical evidence

A6. How were problems resolved?

Interviewee
Observation
Physical evidence

A7. Does the taxpayer think the tax return is correct?

Interviewee
Observation
Physical evidence

A8. Was it important to get the tax return correct? Why?

Interviewee
Observation
Physical evidence

Part B: OUTCOME

Examination of tax return by the interviewer

B1. Check ACCURACY

Accuracy	Yes	No	Observation
1. Matching source documents to tax return			
2. Enter correct amount at the correct section			
3. Correct Calculations			
4. Correct application of law			

B2. Check ERRORS

Error	1	2	3	4	5	6
Section						
Type						
Gross RM						
Tax Bracket						
Net RM						
Cause						
Observation						

CONCLUSION: Interviewee's comments

C1. Has self assessment factors affects compliance behaviour?

C2. Does SAS affect perception of the fairness of the tax system?

C3. Is SAS significant issue?

C4. Others

Appendix XIII: Factor analysis results

Factor analysis results –tax knowledge

	Pre					
	TK1	TK2	TK3	TK4	TK5	TK6
C1	.562					
D1B				.783		
D1C				.757		
D1D				.788		
D1E		.585		.361		
D2					.618	
D3A	.492					
D3B		.546			.400	
D3C	.442	.618				
D3D	.476	.674				
D3E		.807				
D3F			.744			
D3G			.682			
D3H	.603					
D3I	.716		.321			
D3J	.635		.439			
D3K			.621			
E1A	.417					
E1B	.654					
E1C			.454		.547	
E1D	.543	.328			.350	
F1					.518	
F4						.760
F5						.806
F6						-.413
Eigenvalue	7.34	2.09	1.67	1.31	1.08	1.04
Percent of variance	29.38	8.33	6.69	5.24	4.32	4.18
Cumulative percent	29.38	37.71	44.40	49.64	53.96	58.14

Post					
TK1	TK2	TK3	TK4	TK5	TK6
.327			.503		
		.713			
		.745			
		.774			
.371	.350	.597			
		.387	.443		.304
.416	.324				
.523					
.676					
.728					
.783					
.586					
.568					.397
	.631				
	.678				
.362	.666				
	.612				
	.549		.348		
	.574				
	.347				.672
			.726		
					.595
				.783	
				.800	
			.537		
6.79	1.98	1.72	1.29	1.15	1.03
27.15	7.94	6.87	5.17	4.60	4.11
27.15	35.09	41.96	47.13	51.73	55.84

Factor analysis results – tax structure

	Pre			Post		
	TS1	TS2	TS3	TS1	TS2	TS3
F2A	.764			.649		
F2B	.804			.744		
F2C	.662			.765		
F3A	.841			.735		
F3B	.752			.654		
F3C	.682			.761		
K10A		.902			.915	
K10B		.890			.918	
K10P			.886			.830
K10Q			.872			.873
Eigenvalue	3.59	1.66	1.41	3.15	1.88	1.30
Percent of variance	35.87	16.65	14.08	31.47	18.75	12.99
Cumulative percent	35.87	52.51	66.59	31.47	50.22	63.21

Factor analysis results – assessment system

	Pre		Post	
	AS1	AS2	AS1	AS2
K5A	.798		.801	
K5B	.545	.372	.580	
K5C	.833		.854	
K5D	.666		.581	
K5E		.849		.826
K5F	.712		.363	.508
K5G		.895		.852
Eigenvalue	3.29	1.14	2.81	1.20
Percent of variance	47.06	16.32	40.09	17.09
Cumulative percent	47.06	63.38	40.09	57.18

Factor analysis results –financial constraints

	Pre		Post	
	FC1	FC2	FC1	FC2
A3	.854		.857	
A12		.745		-.524
A16	.838		.874	
K6		-.761		.873
Eigenvalue	1.52	1.08	1.62	1.02
Percent of variance	37.93	26.88	40.46	25.53
Cumulative percent	37.93	64.81	40.46	65.99

Factor analysis results – attitude towards tax

	Pre		
	AP1	AP2	AP3
K10C	.685		
K10E	.655		
K10G	.741		
K10I	.772		
K10K	.741		
K10ß	.723		
K10R	.440		.627
K10S	.587		.367
K11	.493		
K12			.782
K13		.873	
K14		.876	
K15		.873	
K16		.826	
Eigenvalue	4.18	2.90	1.11
Percent of variance	29.83	20.74	7.89
Cumulative percent	29.83	50.57	58.46

Post			
AP1	AP2	AP3	AP4
		.825	
		.838	
.636		.472	
.821			
.802			
.638		.344	
.403			.602
.681			.382
.644			.341
			.796
	.857		
	.801		
	.887		
	.822		
4.46	2.74	1.16	1.02
31.86	19.59	8.26	7.25
31.86	51.45	59.71	66.96

Factor analysis results –business deduction and receipts

	Pre					
	KB1	**KB2**	**KB3**	**KB4**	**KB5**	**KB6**
H1A	.302		-.446		.547	
H1B	.485				.465	
H1C	-.522				-.437	
H1D					-.800	
H1E	-.762					
H1F		.594				
H2B	-.801					
H2C		.734				
H2D	.699					
H2E	.635	.437				
H3A			.828			
H3B			.841			
H3C			.565	-.396		
H4						.726
H5				-.385	.460	.461
H6				.617		
H7A		.596		.378		
H7B				.759		
H7C		.355		.756		
H7D		.773				
Eigenvalue	4.02	2.71	2.29	1.69	1.23	1.02
Percent of variance	20.09	13.55	11.44	8.43	6.16	5.08
Cumulative percent	20.09	33.64	45.08	53.51	59.67	64.75

Post						
KB1	**KB2**	**KB3**	**KB4**	**KB5**	**KB6**	**KB7**
.425	.660					
	.749					
					.682	
					.736	
-.745						
					-.319	.362
	.577				.318	
-.713						
.357	.693					
.568	.366					
.667		.729				
		.806				
		.390	.484			
		.633	.447			
		.468	.598			
						.872
			.674	.301		
				.927		
				.906		
			.739			
3.37	2.94	1.82	1.65	1.36	1.27	1.07
16.87	14.69	9.08	8.26	6.79	6.34	5.37
16.87	31.56	40.64	48.90	55.69	62.03	67.40

5 items reversed coded

- 4 FEB 2008

RARE BOOKS LIB.

UNIVERSITY OF SYDNEY LIBRARY
0000000611492844