TAX ATTITUDE AND TAX COMPLIANCE AMONG MATHEMATICS
WITH ECONOMICS STUDENTS IN UNIVERSITI
MALAYSIA SABAH

KOH CHEE YI

PERPUSTAKAAN
UNIVERSITI MALAYSIA SABA

THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENT FOR THE DEGREE OF BACHELOR OF SCIENCE
WITH HONOURS

MATHEMATICS WITH ECONOMICS PROGRAMME
FACULTY OF SCIENCE AND NATURAL RESOURCES
UNIVERSITI MALAYSIA SABAH

2015
UNIVERSITI MALAYSIA SABAH
BORANG PENGESAHAN STATUS TESIS

JUDUL: Tax Attitude and Tax Compliance Among Mathematics Economics students in Universiti Malaysia Sabah

IA AZAH: Bachelor of Science with Honours

SAYA: Koh Chee Yi
(HURU1' BESAR)

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AKNOWLEDGEMENT

First and foremost, I would like to express my gratitude to Universiti Malaysia Sabah (UMS) for giving me this opportunity to carry out this research as my final year project. Throughout this research, I have gained a lot of knowledge and experience on how to carry out a proper research which will benefit me in the future.

Secondly, I would like to thank my supervisor, Mr. Assis Kamu for his continuous support and guidance throughout the completion of this dissertation. The trust and freedom that Mr. Assis Kamu has given me encouraged me to work even harder for this dissertation. His willingness to help especially in checking my drafts has enabled me to improve on my dissertation.

Besides that, I would also like to thank Dr. Darmesah Gabda. She was always there to listen and give advice to me in making sure I was at the right track for the well progress of this research. I truly appreciate it.

Last and foremost, I greatly thank 249 respondents from the course of Mathematics with Economics (ME) in Faculty of Science and Natural Resources (FSSA) for their willingness to spend their time in answering the questionnaire of this research. Not forgetting to express my outmost gratitude to my family and friends for their constant support throughout this research. Without their support, I wouldn’t be able to carry out this research successfully.
ABSTRACT

This research is aimed to study the attitudes of Mathematics with Economics (ME) students in Universiti Malaysia Sabah (UMS) towards taxation and to find out the effective factors in creating tax consciousness. Primary data used in this study were obtained by distributing self-administered questionnaires to 249 ME students from Faculty of Science and Natural Resources, UMS. The statistical analyses utilized in this study are descriptive analysis, reliability test, factor analysis, normality test, independent t-test, one-way ANOVA test, Mann Whitney U test and Kruskal-Wallis test. From the results, ME students agreed that taxation is a legal issue, tax is a part of social responsibility, today's unpaid taxes increase the tax and debt burdens of future generations, taxpayers naturally avoid paying taxes due to high tax rates and tax legislation is very complex and difficult to understand. On the other hand, ME students disagree that there is a fair taxation system in our country. Besides, the effective factors to create tax consciousness are making citizens knowledgeable about the results of economic and financial policies and also through family education and school education. The ineffective factor is implementing severe criminal actions. The results from factor analysis show that there are three components extracted from the dependent variable measuring the attitudes of ME student towards taxation; which are social responsibility, rationality in paying tax and tax issues. The results from factor analysis also show that there are two components extracted from the dependent variable determining the effective factors in creating tax consciousness; which are clarity and understanding about tax and education and implementation. The results of the comparison test show that there is a significant difference between years of study on rationality in paying tax. Year of study also shows a significant difference on clarity and understanding about tax. Other than that, family's place of residence shows a significant difference on the factor education and implementation as an effective factor in creating tax compliance.
SIKAP TERHADAP PERCUKAIAN DAN PEMATUHAN CUKAI DI KALANGAN
PELAJAR JURUSAN MATEMATIK DENGAN EKONOMI DI UMS

ABSTRAK

Kajian ini bertujuan untuk mengkaji sikap pelajar jurusan Matematik dengan Ekonomi (ME) di Universiti Malaysia Sabah (UMS) terhadap percukaian dan untuk mengetahui factor yang berkesan dalam mewujudkan kesedaran terhadap cukai. Data primari yang digunakan dalam kajian ini diperolehi dengan mengedarkan borang soal selidik kepada 249 pelajar ME daripada Fakulti Sains dan Sumber Alam, UMS. Analisis statistik yang digunakan dalam kajian ini adalah analisis deskriptif, ujian kebolehpercayaan, analisis factor, ujian normaliti, ujian t-sampel tak bersandar, ujian ANOVA sehala, ujian Mann Whitney U dan ujian Kruskal Wallis. Berdasarkan hasil kajian, pelajar ME bersetuju bahawa percukaian adalah isu undang-undang, cukai merupakan tanggungjawab sosial, cukai yang belum dibayar akan meningkatkan cukai dan beban hutang generasi yang akan datang, pembayar cukai mengelak daripada membayar cukai kerana kadar cukai yang tinggi dan undang-undang cukai sangat rumit dan susah difahami. Pelajar ME tidak bersetuju bahawa system percukaian di negara ini adil. Faktor yang berkesan dalam mewujudkan kesedaran cukai adalah menjadikan rakyat berpengetahuan mengenai hasil dasar-dasar ekonomi dan kewangan dan juga melalui pendidikan keluarga dan sekolah. Faktor yang tidak berkesan adalah melaksanakan tindakan jenayah Ana/isis faktor menunjukkan bahawa terdapat tiga komponen pembolehubah bersandar yang mengukur sikap pelajar ME terhadap percukaian iaitu tanggungjawab sosial, rasional dalam pembayaran cukai dan isu-isu percukaian. Analisis faktor juga menunjukkan bahawa terdapat dua komponen pembolehubah bersandar yang menentukan faktor yang berkesan dalam mewujudkan kesedaran cukai iaitu kejelasan dan pemahaman terhadap cukai serta pendidikan dan perlaksanaan. Ujian perbandingan menunjukkan bahawa terdapat perbezaan yang ketara antara tahun pengajian dan rasional dalam pembayaran cukai. Tahun pengajian juga menunjukkan perbezaan yang ketara dalam pembolehubah bersandar kejelasan dan pemahaman mengenai cukai. Selain itu, tempat kediaman keluarga juga menunjukkan perbezaan yang ketara bagi faktor pendidikan dan perlaksanaan sebagai faktor berkesan dalam mewujudkan kesedaran cukai.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td>ii</td>
</tr>
<tr>
<td>CERTIFICATION</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>Iv</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>v</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>vi</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xii</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>xiii</td>
</tr>
</tbody>
</table>

## CHAPTER 1  INTRODUCTION
1.1 Overview  
1.2 Background of study  
1.3 Justification  
1.4 Problem Statements  
1.5 Research Questions  
1.6 Objectives  
1.7 Significance of the Study  
1.8 Scope of Study  

## CHAPTER 2  LITERATURE REVIEW
2.1 Overview  
2.2 Tax Compliance  
2.3 Taxpayer’s Attitudes  
2.4 Tax Consciousness  

## CHAPTER 3  METHODOLOGY
3.1 Overview  
3.2 Research Design  
3.2.1 Target Population  
3.2.2 Sampling Size
3.3 Variables

3.3.1 Dependent Variable

3.3.2 Independent Variables

3.4 Research Instruments

3.5 Data Collection Method

3.6 Modification of instrument

3.7 Data Analysis Approach

3.7.1 Descriptive Statistic

3.7.2 Reliability Test

3.7.3 Factor Analysis

3.7.4 Normality Test

3.7.5 Comparison Test

CHAPTER 4 DATA ANALYSIS

4.1 Overview

4.2 Items Coding

4.3 Descriptive Analysis

4.3.1 Descriptive analysis on the demographic characteristics of ME students

4.3.2 Descriptive analysis on the dependent variables

4.4 Reliability Test

4.5 Factor Analysis

4.5.1 Factor analysis on the variable measuring the attitudes of ME Students towards taxation

4.5.2 Factor analysis on the variable determining the effective factors in creating tax consciousness

4.6 Comparison Test

4.6.1 Normality Test

4.6.2 Independent t-test

4.6.3 One-Way Analysis of variance (ANOVA)

4.6.4 Mann-Whitney U Test

4.6.5 Kruskal-Wallis Test

4.7 Conclusion
CHAPTER 5 DISCUSSION AND CONCLUSION

5.1 Overview

5.2 Discussions of major findings
5.2.1 Attitudes of ME students towards taxation
5.2.2 Effective factors in creating tax consciousness
5.2.3 The relationship between demographic characteristics of ME students and their attitudes towards tax
5.2.4 The relationship between demographic characteristics of ME students and the effective factors in creating tax consciousness

5.3 Limitation and Recommendation for the study
5.3.1 Respondents
5.3.2 Questionnaires

5.4 Conclusion

REFERENCES
APPENDIX A Questionnaire
APPENDIX B Descriptive analysis of demographic characteristics of ME students and pairwise comparisons between years of study on factor 2 and factor 4
<table>
<thead>
<tr>
<th>Table No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>5-point Likert Scale</td>
</tr>
<tr>
<td>3.2</td>
<td>Demographics characteristics of ME students (independent variables)</td>
</tr>
<tr>
<td>3.3</td>
<td>Cronbach’s alpha coefficient</td>
</tr>
<tr>
<td>3.4</td>
<td>Analysis table for ANOVA</td>
</tr>
<tr>
<td>4.1</td>
<td>Items coding for variables measuring the attitudes of ME students towards taxation</td>
</tr>
<tr>
<td>4.2</td>
<td>Items coding for variable determining the effective factors in creating tax consciousness</td>
</tr>
<tr>
<td>4.3</td>
<td>Demographic characteristics of ME students</td>
</tr>
<tr>
<td>4.4</td>
<td>Mode of the variable measuring the attitudes of ME students towards taxation</td>
</tr>
<tr>
<td>4.5</td>
<td>Mode of the variable determining the effective factors in creating tax consciousness</td>
</tr>
<tr>
<td>4.6</td>
<td>Summary of Reliability Statistics</td>
</tr>
<tr>
<td>4.7</td>
<td>KMO and Bartlett’s Test</td>
</tr>
<tr>
<td>4.8</td>
<td>Total Variance Explained with Eigenvalues more than 1</td>
</tr>
<tr>
<td>4.9</td>
<td>Total Variance Explained with four factors</td>
</tr>
<tr>
<td>4.10</td>
<td>Factor Analysis on the variable measuring the attitudes of ME students towards taxation</td>
</tr>
<tr>
<td>4.11</td>
<td>KMO and Bartlett’s Test</td>
</tr>
<tr>
<td>4.12</td>
<td>Total Variance Explained with Eigenvalues more than 1</td>
</tr>
<tr>
<td>4.13</td>
<td>Factor Analysis on the variable determining the factors in creating tax consciousness</td>
</tr>
<tr>
<td>4.14</td>
<td>Test of Normality on the variable measuring the attitudes of ME students towards taxation</td>
</tr>
<tr>
<td>4.15</td>
<td>Test of Normality on the variable determining the effective factors in creating tax consciousness</td>
</tr>
<tr>
<td>4.16</td>
<td>Independent t-test between genders</td>
</tr>
<tr>
<td>4.17</td>
<td>Independent t-test between family’s place of residence</td>
</tr>
<tr>
<td>4.18</td>
<td>Independent t-test between genders</td>
</tr>
<tr>
<td>Section</td>
<td>Title</td>
</tr>
<tr>
<td>---------</td>
<td>---------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>4.19</td>
<td>Independent t-test between family’s place of residence on factor 5.</td>
</tr>
<tr>
<td>4.20</td>
<td>Group Statistics for ME student family’s place of residence and factor 5</td>
</tr>
<tr>
<td>4.21</td>
<td>Test of Homogeneity of Variances</td>
</tr>
<tr>
<td>4.22</td>
<td>ANOVA Results</td>
</tr>
<tr>
<td>4.23</td>
<td>Test of Homogeneity of Variances</td>
</tr>
<tr>
<td>4.24</td>
<td>ANOVA Results</td>
</tr>
<tr>
<td>4.25</td>
<td>Test of Homogeneity of Variances</td>
</tr>
<tr>
<td>4.26</td>
<td>ANOVA Results</td>
</tr>
<tr>
<td>4.27</td>
<td>Test of Homogeneity of Variances</td>
</tr>
<tr>
<td>4.28</td>
<td>ANOVA Results</td>
</tr>
<tr>
<td>4.29</td>
<td>Mann-Whitney U Tests between Genders</td>
</tr>
<tr>
<td>4.30</td>
<td>Mann-Whitney U Tests between family’s place of residence</td>
</tr>
<tr>
<td>4.31</td>
<td>Mann-Whitney U Tests between Genders</td>
</tr>
<tr>
<td>4.32</td>
<td>Mann-Whitney U Tests between family’s place of residence</td>
</tr>
<tr>
<td>4.33</td>
<td>Kruskal-Wallis Tests between years of study of ME Students</td>
</tr>
<tr>
<td>4.34</td>
<td>Pairwise comparisons test among years of study of ME students</td>
</tr>
<tr>
<td>4.35</td>
<td>Mean rank among the years of study of ME students on factor 2 (rationality in paying tax)</td>
</tr>
<tr>
<td>4.36</td>
<td>Kruskal-Wallis Test among monthly family income</td>
</tr>
<tr>
<td>4.37</td>
<td>Kruskal-Wallis Tests between years of study of ME Students</td>
</tr>
<tr>
<td>4.38</td>
<td>Pairwise comparisons test among years of study of ME students</td>
</tr>
<tr>
<td>4.39</td>
<td>Mean Rank among the years of study of ME students on factor 4</td>
</tr>
<tr>
<td>4.40</td>
<td>Kruskal-Wallis Test among monthly family income</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure No.</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Percentage and frequency of respondents based on gender</td>
<td>31</td>
</tr>
<tr>
<td>4.2</td>
<td>Percentage and frequency of respondents based on race</td>
<td>32</td>
</tr>
<tr>
<td>4.3</td>
<td>Percentage and frequency of respondents based on years of study</td>
<td>32</td>
</tr>
<tr>
<td>4.4</td>
<td>Percentage of respondents based on state</td>
<td>33</td>
</tr>
<tr>
<td>4.5</td>
<td>Percentage and frequency of respondents based on their father's profession and mother’s Profession</td>
<td>29</td>
</tr>
<tr>
<td>4.6</td>
<td>Percentage and frequency of respondents based on their monthly family income</td>
<td>34</td>
</tr>
<tr>
<td>4.7</td>
<td>Percentage and frequency of respondents based on their monthly pocket money</td>
<td>35</td>
</tr>
<tr>
<td>4.8</td>
<td>Percentage of Respondents based on their Family's Place of Residence</td>
<td>35</td>
</tr>
<tr>
<td>4.9</td>
<td>Scree Plot of the variable measuring the attitudes of ME Students towards taxation</td>
<td>42</td>
</tr>
<tr>
<td>4.10</td>
<td>Scree Plot on the variable determining the effective factors in creating tax consciousness</td>
<td>47</td>
</tr>
</tbody>
</table>
# LIST OF ABBREVIATION

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANOVA</td>
<td>Analysis of Variance</td>
</tr>
<tr>
<td>df</td>
<td>Degree of freedom</td>
</tr>
<tr>
<td>FSSA</td>
<td>Faculty of Science and Natural Resources</td>
</tr>
<tr>
<td>GSB</td>
<td>Graduate School of Business</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Service Tax</td>
</tr>
<tr>
<td>KMO</td>
<td>Kaiser-Meyer-Olkin</td>
</tr>
<tr>
<td>MBA</td>
<td>Master of Business Administration</td>
</tr>
<tr>
<td>ME</td>
<td>Mathematics with Economics</td>
</tr>
<tr>
<td>MYR</td>
<td>Malaysian Ringgit</td>
</tr>
<tr>
<td>PCA</td>
<td>Principle Component Analysis</td>
</tr>
<tr>
<td>Sig.</td>
<td>Significant</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Packages for the Social Sciences</td>
</tr>
<tr>
<td>UKM</td>
<td>Universiti Kebangsaan Malaysia</td>
</tr>
<tr>
<td>UMS</td>
<td>Universiti Malaysia Sabah</td>
</tr>
</tbody>
</table>
CHAPTER 1

INTRODUCTION

1.1 Overview
It has never been easy to persuade all tax payers to comply with the requirements of a tax system. Ever since the Goods and Services Tax (GST) is implemented in Malaysia on 1st April 2015, the tax compliances of Malaysian have been a question. Many people were skeptical about their purchasing capabilities as well as the other effects on them. There is no doubt that compliance is a major problem confronting all revenue authorities. Therefore, this study aims to investigate the attitudes of Mathematics with Economics students (ME) in Universiti Malaysia Sabah (UMS) towards taxation as well as the effective factors in creating tax consciousness. At the beginning of this chapter, background of study, problem statement and objectives of this study will be introduced. Besides that, hypotheses of the study and significance of the study will also be addressed at the end of this chapter.

1.2 Background of study
The tax involved in Malaysia consists of direct tax and indirect tax. Direct tax involves income tax, corporate tax, real property taxes, etc and indirect tax includes GST, custom duties and etc.

Primary purpose of taxation is to benefit the citizens rather than punish citizens. The basic functions of this economic burden imposed on citizens by the government is to provide source of funds used for development projects such as provision of infrastructure like highway, stable power supply and water supply, etc. In Malaysia, income tax is comparably low and many taxes which are raised in other countries do not exist in Malaysia. These have made Malaysia become a tax friendly country. Nevertheless, taxpayers are closely interested in these taxes and wonder where and how these taxes are spent. For this reason, opinions of taxpayers regarding taxes become subjects of many researchers. In many researches, it is seen
that taxpayers have concerns regarding how and where these taxes are spent and they are aware of the types of taxes being paid.

Tax compliance is global phenomena hassling both developed and developing countries such as Malaysia. According to Oyedele (2009), tax compliance is described as the process of fulfilling the tax payer’s civil obligation for tax payment and filing the tax returns including the provision of necessary documents and explanations required by the tax authority in a timely manner. Noncompliance of taxpayers can easily lead to tax evasion. The level of tax evasion and noncompliance on average is much more in developing and transition countries than developed countries (Kim, 2008). Therefore, dealing with the problem of tax evasion requires at least some understanding of the factors underlying the taxpayers’ decision whether to pay or evade taxes.

Taxpayers’ attitudes on compliance may be influenced by many factors, which eventually influence taxpayers’ behavior. Those factors differed from one country to another and also from one individual to another (Kirchler, 2007). Some of the factors include taxpayers’ perceptions and understanding of the tax system, tax reform, tax laws, punishment such as penalties, etc.

For instance, Malaysia has just undergone a tax reform by implementing GST. This implementation is to enhance the capability, effectiveness, and transparency and tax administration and management (Shamsuddin, 2014). However, this can only be achieved if the GST mechanism is correctly worked and documented properly. In order for the GST mechanism to work efficiently, public needs to have at least some basic awareness or knowledge regarding the GST implementation. Insufficient information about GST will cause the arisen of many problems, which eventually will lower the productivity and the efficiency of the company.

Undergraduates as future employees need to have some correct attitudes and consciousness towards taxation. They have the responsibility to know about the tax scheme and tax system since they are taxpayers. This is because they are going to pay the tax for most of the goods and services they purchase. Having a clear understanding about this new tax scheme could help them to change their spending behavior and increase their purchasing power. For example, they could save some cost from buying the GST exempt items.

In a nut shell, tax compliance has evolved into a major research. It is interesting to find out the attitudes of ME students towards taxation and also the
effective factors in creating tax consciousness especially the GST implementation has just started not long ago in Malaysia. As a taxpayer, undergraduates should have positive attitudes towards the tax system and learn how to manage their financial efficiently.

1.3 Justification
Taxpayers' behavior towards tax system has evoked great attention among many revenue authorities in the world especially developed countries. However, little is known about tax compliance behavior in developing countries (Andreoni et al., 1998). Hence, this study attempts to explore factors that determine ME students’ tax compliance as well as their attitudes towards tax.

According to the past study on tax consciousness (Omurbek et al., 2007), the factors affecting the tax consciousness were analyzed and to what extent taxpayers are aware of the paid taxes and under which circumstances the tax consciousness increases were examined. Conclusion of this study states that educational level increases could lead to the increase in tax consciousness and taxpayer are aware of the taxes they pay.

Studying what factors that creates tax consciousness, their attitudes and compliance is not only important for academic interest, but is important from a policy perspective. Systematic and coherent information about the taxpayers’ attitudes and compliance are required for a better analysis so that a more informed tax policy design can be created for the welfare of the country.

Therefore, in this study, the attitudes of Mathematics with Economics (ME) Students in Universiti Malaysia Sabah (UMS) towards taxation were investigated, and the factors which are effective in creating tax consciousness were determined as well.

1.4 Problem Statement
Tax compliance is a major problem for many tax authorities and is not an easy task to persuade taxpayer to comply with (James & Alley, 2002). Considering the common point of different definitions of tax awareness, the key word “voluntariness” emerges. However, there are many factors which could adversely affect volunteerism, the basis of tax compliance. Taking into account these factors, it is not possible to create tax awareness.
According to Organ and Yegen (2013), their study illustrates factors of the tax awareness of individual such as subjective tax burden, taxpayer's attitudes, devotion and trust towards country, demographics details such as gender, race, profession and the taxpayers thought on public spending can be listed. Besides that, complexity of the tax system, frequent changes in the tax legislation, the effectiveness of the tax administration, and tax rates are crucial factors as well. Torgler and Benno (2004) stated that one of the factors is taxpayer's perception of how he is treated by government in areas such as payment of taxes, return of public services. It is seen that there are a lot of factors affecting the tax awareness. Hence, it is important to determine the factors that affect tax compliance and to find out the factors in creating tax consciousness.

On the other hand, according to Shamsuddin (2014), they found that many respondents are still having moderate understanding on their (tax payer) responsibility. Besides that, according to Saira et al. (2010), their study shows that the level of awareness among Malaysian is still relatively low when comes to tax. This could be due to the government has not released many legislation pertaining to the tax structure. Furthermore, there is a lack of promotion of the tax system by the government to create and intensify awareness. The Malaysian general public is concerned that GST would adversely affect the distribution of their real income. For instance, the lower income group does not pay tax but after GST is implemented, they might need to pay taxes for the goods and services they consumed.

In short, there seems to be a gap between the desired state and the actual state with regards to understanding and acceptance of tax in this country. Hence, this study attempts to fill up this perpetual gap by knowing the attitudes of ME students towards taxation and determine the effective factors in creating tax consciousness. A desired situation would be that all Malaysian taxpayers irrespective of who they are need to be well aware of what tax is all about, especially with regards of how it works and what benefits it bring.

1.5 Research Questions
This study will answer the questions regarding tax compliance as follow:

i. What are the attitudes of Mathematics with Economics undergraduates towards taxation?

ii. Which factors influence tax consciousness and tax compliance?
iii. Do ME students have enough tax knowledge about tax legislation?
iv. What is the relationship between the ME students' demographics characteristics and their attitudes towards taxation?
v. What is the relationship between the ME students' demographics characteristics and the factors in creating tax consciousness?

1.6 Objectives
The objectives of this study are as follow:

i. To investigate the attitudes of ME students towards taxation;

ii. To determine the effective factors in creating tax consciousness;

iii. To examine the relationship between the demographic characteristics of ME students and their attitudes towards taxation; and

iv. To examine the relationship between the demographic characteristics of ME students and the effective factors in creating tax consciousness.

1.7 Significance of the Study
Failure to have an awareness of taxes, the national economy and social welfare are adversely affected. Being well organized in both tax legislation and tax administration are not sufficient itself. This is because human factors become more important than the organization of them (Mutlu & Tasci, 2013). If the factors affecting taxpayer behaviours are analysed clearly, taxpayer compliance can be increased (Ipek & Kaynar, 2009). Since this study determined the factors in creating tax consciousness, hence the results of this study could contribute to the increase in compliance.

Taxpayer's opinions and attitudes are important in determining the success of the tax regime in Malaysia. A positive attitude or behaviour would encourage them to pay the tax to the government. Therefore, this study is significant in providing the information about the attitudes of ME undergraduates towards tax.

Understanding of what makes taxpayers have positive or negative attitude and perception of tax is important especially for the tax authority in modernizing the existing tax system. It could ensure voluntary compliance when tax legislation and administration are practise efficiently. As such, result of this study would provide valuable input for the tax authority to make necessary changes so that compliances can be enhanced. Furthermore, the higher level of voluntary compliance rate among tax payers could potentially increase the government revenue.
On the other hand, this study is significant because information derived from this study would assist the tax authority in identifying areas that need improvement. For example, by knowing the effective factors in creating tax consciousness, government could come out with different strategies or efforts to disseminate the information about tax to the public so that the compliance could be raised. This will gain public confidence as well as their acceptance on the tax system of this country.

Besides, low compliance might lead to tax evasion. Tax evasion is said to occur when individuals deliberately fail to comply with their tax obligations. The resulting tax revenue lost may cause serious damage to the proper functioning of the public sector.

Lastly, this research will enrich the current literature on tax in Malaysia. It will benefit the government by providing information and feedback about the tax compliance.

1.8 Scope of Study
This research is using primary data by distributing questionnaire to Mathematics with Economics (ME) Students from first year to those who extend their studies in Universiti Malaysia Sabah (UMS).
CHAPTER 2

LITERATURE REVIEW

2.1 Overview
This chapter provides a review on the literatures related to tax compliance, taxpayers’ attitudes and tax consciousness.

2.2 Tax Compliance
According to Morti et al. (2010), tax compliance refers to the behavior of adhering to the tax laws and is different with respect to countries. Morti et al. (2010) investigated the attitude of taxpayers towards tax system, examined the factors that influenced taxpayers’ attitude and attempted to establish the relationship between attitudes and tax compliance behaviour among SMEs business income earners in Kenya.

In terms of attitudes towards tax system, Morti et al. (2010) found that respondents have negative attitudes towards attitudinal factors such as they are paying a fair share of tax and that tax laws are easy to understand. Most respondents disagreed that the easy understanding of tax laws and the feeling of justice with tax system in Kenya contributed to tax compliance. The study found that there is a very strong relationship between taxpayers’ attitude and tax compliance in Kenya.

Helhel and Ahmed (2014) conducted a survey study on 170 Yemeni individual taxpayers to find out the internal and external factors affecting level of tax compliance in Yemen. For internal factors, it was reported that respondents strongly agreed that collected taxes are not well-spent considering that they are not benefitting from the public services provided by Yemeni Government.

As for external factors, Helhel and Ahmed (2014) obtained similar findings as Morti et al. (2010) where respondents indicated that tax equity is not fair in Yemen. It was also reported that the complexity of tax legislation leads to tax non-compliance.
The study concluded that complex tax laws contribute to underreported taxes which lead to tax inequity and hence the non-compliance of taxpayers towards taxation.

Palil et al. (2013) studied the influence of religiosity towards tax compliance among working adults who were pursuing MBA program at UKM-GSB. In the study, hierarchical regression was carried out to investigate the role of religiosity as the moderating variable in the relationship between tax education and tax knowledge towards tax compliance. Findings of the study suggested that there is a significant relationship between tax knowledge and tax compliance.

It was reported that religiosity has failed to predict tax compliance. However, Palil et al. (2013) found that religiosity has significantly moderate the relationship between tax education and tax knowledge on tax compliance. Therefore, this study concluded that religiosity serves as moderator in the relationship between tax education and tax knowledge towards tax compliance.

The influence of tax education on tax compliance has been a popular subject of research considering the availability of literatures on this topic. Anies Bariyah and Lai (2009) attempted to study tax education among 450 working adults who are pursuing off campus non-accounting program. The study focused on analyzing the level of tax knowledge among the working adults and highlighted relevant tax topics that should be taught if tax education is to be integrated into non-accounting curriculum in higher education.

Results showed that less than 30 percent of the respondents have high level of tax knowledge. Some relevant tax topics to be integrated into higher education are basic tax principles, personal taxation, tax planning for individuals and taxation for small business and company. The study concluded that tax education should be introduced in non-accounting curriculum in higher education especially in this era of self-assessment tax system. However, according to Anies Bariyah and Lai (2009), tax education has not been integrated into any disciplines in higher education, either in Malaysia or any other parts of the world.

Kasipillai (2003) studied the influence of tax education on tax compliance among undergraduate students in Malaysia. A pre-test (at the beginning of the semester) and a post-test (at the end of the semester), which were in the form of questionnaire were given to 560 accounting students in Universiti Utara Malaysia. It was found that higher
tax education leads to a change in the attitudes of the respondents, particularly to questions related to general avoidance and personal evasion. Therefore, Kasipillai (2003) concluded that tax education has influenced the attitudes of Malaysia students towards tax evasions and tax avoidance.

Park and Hyun (2003) investigated the determinants of tax compliance in Korea using experimental data on 15 graduate students. Findings suggest that lower tax rate and higher penalty rate along with higher audit rate contributes to higher tax compliance rate. Another important finding of the study was that tax education, for example, the importance of voluntary compliance and consequences of tax evasion is an effective tool in inducing tax compliance.

2.3 Taxpayer’s Attitudes
Torgler and Schneider (2005) conducted a study to examine the attitudes of Austrians towards taxation. Specifically, the study was intended to investigate factors influencing tax morale, which is the willingness to comply and pay taxes and voluntarily contribute to public good. Torgler and Schneider introduced two models with tax morale as dependent variable to estimate the development of tax morale in 1990 and 1999 and a model for pooled (1990 and 1999) estimations.

Results suggested that generally, taxpayers’ sense of pride towards the country and their awareness towards tax evasion strongly affects tax morale. Higher sense of pride leads to higher tax morale while awareness that tax evasion is common leads to lower tax morale. It was also reported that taxpayers’ trust in legal/justice system has strong positive effect on tax morale. This suggests that if government maintained good relationship with citizens by positive actions and well-functioning institutions, citizens are more likely to commit themselves to obedience and pay taxes.

Eriksen and Fallan (1996) intended to examine whether there is a connection between specific tax knowledge and taxpayers’ attitudes. A group of second year students pursuing Business Administration study were used as the subject of study. The control group comprised of students who selected marketing as an elective subject while the experiment group comprised of students who selected tax laws as an elective subject. These two groups of students were asked to answer a questionnaire on tax
knowledge and attitudes towards tax in a pre-test (at the beginning of the semester) and post-test (at the end of the semester).

It was found that there are no significant difference in the level of tax knowledge and attitudes towards tax between the pre-test and post-test for the control group. On the other hand, the experiment group showed increased tax knowledge and change in attitude towards own tax evasion and towards the fairness of the tax system. Eriksen and Fallan (1996) concluded that tax knowledge increases taxpayers’ awareness and ethics towards reducing the tendency of tax evasion.

2.4 Tax Consciousness

Tax consciousness is defined as “wistfulness of tax payers, aware of tax in realizing public services, for fulfilling their liabilities regarding tax”. (Akdogan, 2009)

Safakali and Kutlay (2014) examined the factors affecting tax compliance among Turkish university students. The analysis was done based on 569 questionnaires completed by Turkish students. Findings of the study suggested that factors such as more transparent and accountable public administration, a fair tax reform, the knowledge of where and how the tax revenues are used, education level of the society and family education are effective in creating tax consciousness.

Yildirim and Comakli (2013) conducted a study to determine the consciousness of taxpayers’ to environmental taxes in Erzurum. In the study, questionnaires on environment consciousness, environmental pollution and environmental taxes were answered by 597 respondents. Results suggest that the taxpayers are aware of environmental problems and environmental taxes in their province. Respondents also highlighted their willingness to pay environmental taxes provided that the taxes collected are only meant for protecting the environment.
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