A STUDY ON TAX KNOWLEDGE AND TAX COMPLIANCE IN SELF ASSESSMENT SYSTEM AMONG ACADEMICIANS IN KOTA KINABALU, SABAH

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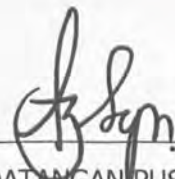4. TIDAKTERHAD

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DECLARATION

I hereby declare that the material in this thesis is my own except for quotations excerpts, equations, summaries and references, which have been duly acknowledged.

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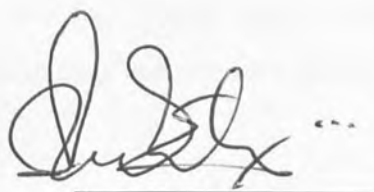
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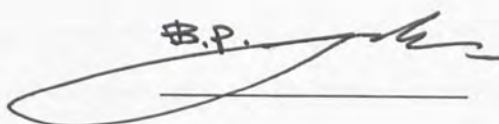
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ABSTRACT

A STUDY ON TAX KNOWLEDGE AND TAX COMPLIANCE IN SELF ASSESSMENT SYSTEM AMONG ACADEMICIANS IN KOTA KINABALU, SABAH

This study aims to investigate the relationship between tax knowledge and culture towards tax compliance amongst academicians in Kota Kinabalu, Sabah. The objectives of this study were accomplish by examining the relationship between tax compliance as dependent variables and knowledge on responsibilities, knowledge on employment income, knowledge on ICT skills (E-Filing), knowledge on tax laws and penalty, culture-uncertainty avoidance, culture-individualism as the six independent variables and gender as a moderator. Result from questionnaires collected from 151 respondents were analysed using multiple regression analysis. The finding based on multiple regressions indicated that there is only one variable that have a significant relationship towards tax compliance. It is suggested that the future research could investigate on different individual with employment income and business sources and also non-academicians. It is hoped that this research has contributed to examine the relationship between tax knowledge and tax compliance amongst academicians in Kota Kinabalu, Sabah.

ABSTRAK

Kajian ini bertujuan untuk mengkaji perhubungan tahap pengetahuan percukaian dan budaya terhadap pematuhan cukai di kalangan ahli akademik di Kota Kinabalu, Sabah. Objektif kajian ini telah dicapai dengan mengkaji perhubungan di antara pematuhan cukai sebagai pembolehubah bersandar dan pengetahuan tentang tanggungjawab dan hak, pengetahuan tentang hasil penggajian, pengetahuan tentang teknologi (E-Fail), pengetahuan tentang undang-undang percukaian dan penalti, budaya-pengelakkan ketidakpastian, budaya-perihal diri sebagai enam pembolehubah tidak bersandar dan jantina sebagai penyederhana. Hasil kajian daripada 151 orang ahli akademik di analisis menggunakan 'multiple regression' analisis. Keputusan berdasarkan 'multiple regression' menunjukkan hanya satu pembolehubah sahaja yang memberi kesan kepada pematuhan cukai. Dengan ini dicadangkan supaya kajian dilakukan ke atas individu yang mempunyai penggajian dan perniagaan dan individu bukan ahli akademik. Dengan ini diharapkan kajian ini akan menyumbang ke atas perhubungan di antara pengetahuan cukai dan pematuhan cukai terhadap ahli akademik di Kota Kinabalu, Sabah.

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LIST OF ABBREVIATIONS

IRBM   Inland Revenue Board of Malaysia

IRB   Inland Revenue Board

SAS   Self Assessment System

ICT   Information and Communications Technology

UMS   University Malaysia Sabah

UITM   University Technology MARA

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CHAPTER 1

INTRODUCTION

1.1 Introduction and Overview

This chapter provides an introduction of personal taxation in the self assessment system and a summary of the following content and key research outcomes. This chapter begins with the definition of taxation, briefing on the role of tax administrator, Inland Revenue Board of Malaysia (IRBM) and explanation on principle and objective of taxation for the country. Importance of the study, problem statement, research objectives, significance of the study and the organizations of the study are also discussed in the latter part of this chapter.

In general, taxation can be defined as a fee or type of financial charge which is imposed by governments on legal entities or individuals. It can also refer to a source of revenue for the country. Tax rates, laws and regulations differ for each country. A tax policy is important in the financial and economic development of the country. Penalties will be charge to the taxpayers who refuse to declare their tax returns and those who give false and default tax information. Taxation can be classified into two categories which are direct tax and indirect tax. Personal taxation is included in the direct tax as tax is collected directly by the government from the eligible taxpayers.

The Inland Revenue Board of Malaysia (IRBM) is one of the main agencies under the Ministry of Finance that is responsible to collect revenue for the country. As a leader in tax administration, IRBM is responsible to give the best service to their customers. IRBM is responsible to comply with all laws and regulations that relates to the administration. IRBM has announced that in the year 2010, they

have collected gross direct taxes amounting to RM 86,499 million which is contributes to 53.35% of the total estimated Federal Government Revenue of RM 162,131 million. However, there was a decreasing number of total net collection in year 2010 compared to the previous year in 2009. One of the factors was due to the drop in crude oil and natural gas prices in the global market (Annual Report IRBM, 2010). This can be referred to in Table 1.1.

Table 1.1:   Federal Government's Revenue, Direct Taxes and Government's Revised Estimates

	2006 RM MILLION	2007 RM MILLION	2008 RM MILLION	2009 RM MILLION	2010 RM MILLION
Federal Government's Revenue	123,546	139,885	161,558	162,100	162,131
Gross Collection	65,738	74,703	90,651	88,402	86,499
Net Collection	61,396	69,309	82,091	81,021	79,542
Government's Revised Estimates	62,637	70,117	77,579	78,734	76,156

Source: Annual Report IRBM 2010, Page 97

According to the statistics from the Annual Report of IRBM in year 2010, there were increasing numbers of tax collections for individual taxpayers every year from 10,409.65 million in 2006 to 17,802.69 million in 2010. This can be referred to in Figure 1.1. However, the number of tax audit resolved also increased from 6,741 cases in year 2006 to 1,741,113 cases in year 2010. It is shown in Table 1.2. These numbers showed that even though there was an increasing in

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number of individual taxpayers, there were also tax default and tax non-compliance based on the increasing number of tax audit cases. The offences included were declaring false returns, not providing correct information, failure to submit tax returns on time and eligible to pay tax but ignore to comply. The implementation of tax audit program by IRBM is very important in increasing tax collections. This can ensure and help IRBM to improve their level of tax compliance according to the law and regulations especially in the era of Self Assessment System.

Source: Annual Report IRBM 2010, Page 97
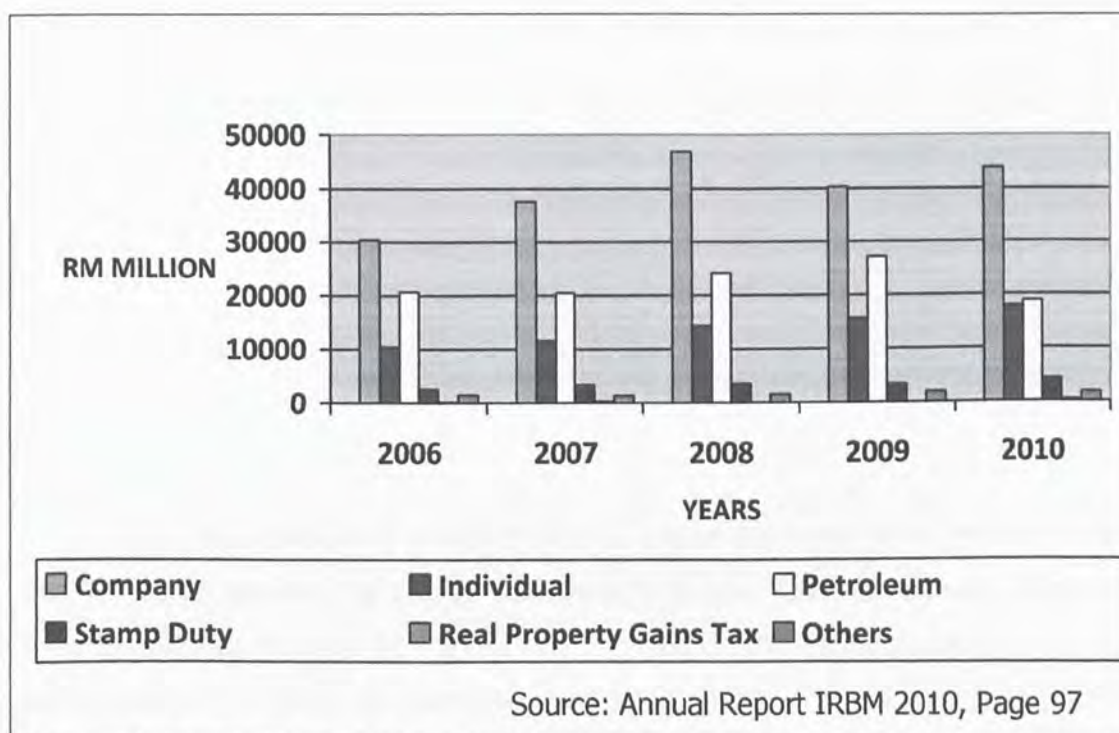
Figure 1.1:   Tax Collections by Category

Table 1.2:   Tax Audit

	2006	2007	2008	2009	2010
Number of Cases Resolved	6,741	279,175	1,052,939	1,399,660	1,741,113
Taxes and Penalties (RM Million)	692.68	1,410.57	1,697.16	3,054.95	2,870.62

Source: Annual Report IRBM 2010, Page 97

Individual income tax collection is the third major component of direct taxes that contribute to the income for the country. According to IRBM, the number of active taxpayers in Kota Kinabalu, Sabah also increased from year 2007 to year 2010. It is shown in the number of active file in Table 1.3. SG and OG refer to the number of income tax file. SG is refer to the individual file that has income mainly from salaried and not carrying any business and OG refers to the individual file with business resources.

Table 1.3   Number of Registered File in Kota Kinabalu, Sabah

YEAR	SG	OG
2007	92,119	36,806
2008	109,874	39,255
2009	111,024	40,269
2010	116,387	47,820

Source: Statistic and Data Integration Department of IRBM

The self assessment system (SAS) is one of the approaches whereby the taxpayers are required by law to determine their own taxable income, compute their tax liability and submit the tax return based on the existing regulations and policy statements issues by Inland Revenue Board (IRB). With effect from the year of assessment 2004, every eligible individual are required to submit their tax return before 30th of April every following year of assessment. Under this self assessment system, individuals have to calculate their own taxes. Thus, IRB have delivered tax education through workshops, seminars and briefings in order to minimize the errors in the income tax calculations and encourage the usage of electronic services.

Nowadays, taxpayers can submit their form by using e-filing and no more form will be issued. Besides that, other electronic services such as e-PCB,

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e-Payment, e-Data PCB and e-Register are also available. In the IRB's perspective, in promoting people to use SAS it will increase the rate of tax collection and at the same time to minimize the cost of collecting taxes and encourage voluntary compliance (Annual Report IRBM, 2010). With this SAS, it 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. Besides this, under the SAS, the IRB's will accept all the information that is provided in the system as the basis for computing the tax. However, it is the responsibility for the taxpayer to submit the tax return accordingly to law and fairly.

Culture was used in this study as an environmental factor that gives an impact on ethical values and moral development and ultimately affecting tax compliance decisions. According to Chau, G. and Leung, P. (2009), different social norms and ethical values will create different incentives and opportunities for tax compliance. Thus, this study will examined whether culture influence tax compliance or not.

1.2 The Importance of Tax Knowledge and Culture in the era of SAS

The importance of this study firstly, is to ensure that taxpayers to be tax compliant whereby the individual taxpayers need to be tax literate and have knowledge about tax systems. They need to have a minimum basic knowledge such as the responsibilities to submit tax returns, taxability of income, tax laws and penalty as well as knowledge in ICT skills to use E-Filing tax system. According to Kasipillai, J. and Baldry, J. (1998), the greater taxpayers knowledge, the easier it is for them to voluntary comply and the simpler the tax structure and the greater the education level of taxpayers, the easier it is for them to fulfill their tax obligations. However, it is also depends on their willingness to comply. Eriksen, K. and Fallan, L. (1996) stated that level of tax knowledge is important for people to understand taxation and it is associates their attitudes towards taxation. They also indicate that to prevent tax evasion, they need to provide more tax knowledge to a larger segment of the society.

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Second, this study adds culture as a variable to present a more complete model of tax compliance. This fills a gap in the extant literature of this study. Culture is important and considered to be a powerful environmental factor that affects tax compliance. The different social norms and ethical values will create different incentives and opportunities for tax compliance. According to Chau, G. and Leung, P. (2009), they used Hofstede's culture dimensions to test the effect of tax compliance and not all cultural dimensions affect taxpayers' compliance. In Hofstede's model, uncertainty avoidance focuses on the level of tolerance for uncertainty and ambiguity. For cultural dimension of individualism relates to the degree of interdependence among individuals in the society. According to Hofstede, G. (1991), a high individualism culture is signified by people focusing on themselves rather than on the group to which they belong.

1.3   Problem Statement

This research acknowledged that tax knowledge is important to ensure taxpayers to voluntary comply in the self assessment system. Amrizah, K. and Nero, M. (2005) and Nero, M., Amrizah, K., Tamoi, J., Muliati, A.I., Aizimah, A.S. and Kamaruzaman, J. (2010) stated that salaried taxpayers in Sabah were found less tax literate than taxpayers in Sarawak and they were not prepared for the self assessment system. They also found that taxpayers in Sabah have an average basic understanding about tax knowledge. They need an assistance to determine the correct amount of tax payment. Furthermore, they were not aware on tax matters and tax laws as compared to Sarawak's taxpayers. Thus, this study will find out whether it is true by using simple random sampling to academicians in Kota Kinabalu, Sabah as the respondents. This study will explore whether this group is aware on the tax issues or not as they are among the large part of the taxpayers in Kota Kinabalu, Sabah. The actual number of non-compliance remains unknown but in this study, increasing number in tax audit cases and previous research were used as a base to find out the non-compliance.

Culture was argued as a reflected affect to varying degrees in general values and specific behavioral norms. These values and norms are constantly expressed and reinterpreted during a person's everyday social contract, which can either increase or decrease tax non-compliance (Richardson, G., 2008).

There was also a mix result of gender as a moderator effect towards tax knowledge and tax compliance. Gender is used as a control variables and it was found significantly affect tax compliance with regard to tax knowledge (Mohd Rizal, P., 2010). Besides, according to Chau, G. and Leung, P. (2009), gender is used to identified attitude and moral and the effect towards tax compliance. Thus, this study will indentify whether gender moderates tax knowledge and tax compliance or not.

Hence, the fundamental concern of this study is to investigate the level of understanding on tax knowledge and culture among academicians in the era of SAS. This is to fill the gap in tax knowledge and culture literature as there seems to be a lack of such research, in Sabah particularly. Specifically, in tandem with the background discussed above, the current research also aims to examine the relationship between tax knowledge, culture and tax compliance. Lastly, this study identifies gender as a moderator towards the relationship of the variables.

1.4   Research Questions

Based on the problem statements presented above, this study attempts to answer the following research questions:

1.   What is the relationship between tax knowledge and tax compliance?
2.   Does culture influence tax compliance?
3.   Does gender moderate the relationship between tax knowledge, culture and tax compliance?

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1.5　Research Objectives

Thus, in order to answer the main research questions identified by the current research, the following research objectives are determined:

1. To investigate the relationship between tax knowledge and tax compliance.
2. To examine the influence of culture towards tax compliance.
3. To understand the role of gender as a moderator in the relationship between tax knowledge, culture and tax compliance.

1.6　Rationale and Significance of the Study

This study provides a good information on how important the tax knowledge in the era of the implementation of the self assessment system. Moreover, it can motivate academicians to comply in the submission of tax return to IRB. This study also focuses on the level of individual taxpayers' knowledge and explores the level of tax knowledge which influences tax compliance in the self assessment system. Besides that, this study also can examine the influence of culture towards tax compliance. Previous researchers found that taxpaying culture play an important role in the tax compliance in the society. Genders also play a role as a moderator in this study. This study can determine whether male or female are more tax compliant. The result from this study can inform policymakers on the extent to which the tax knowledge is important in the self assessment system and in what ways it can affect compliance. This study also can suggests in the future research that a subject on tax can be introduced at school or university level, so that the future taxpayers can know the purpose of collecting taxes, the contribution of tax revenues to the country, the responsibilities of taxpayers and most important it can help to enhance voluntary tax compliance.

1.7　Scope of the Study

This study will only seek to assess the academician's tax knowledge and tax compliance in response to the era of the SAS. The scope of tax knowledge and tax compliance in this study is restricted only to personal taxation. The samples are academicians from the Public Institutions of Higher Learning in Kota Kinabalu,

Sabah such as UMS, UITM and Polytechnic Kota Kinabalu, Sabah. Norazah M.A. (2006) indicated that academicians are chosen because they received non-formal tax education and their responses are more based on their personal experience in the era of SAS.

1.8 Definitions of Terms Used

This section will explain on the definitions of terms that are used in this study. For the purpose of this study, the following definitions of key terms were assumed.

1.8.1 Tax Knowledge

Tax knowledge can be defined as understanding of tax laws and obligations to enable taxpayers to fulfill their statutory for instance, correctly compute and report their income tax returns (Loo, E.C., McKerchar, M. and Hasford, A., 2009). According to Loo, E.C., Evans, C. and McKerchar, M. (2010), lack of appropriate tax knowledge may lead to unintentional non-compliance.

1.8.2 Culture

According to Gray, S.J. (1995), culture can be defined as an intangible asset that is part of human software. It is also a social and behavioral phenomenon which is largely invisible and unconscious. Ashby, J.S., Webley, P. and Haslam, A.S. (2009) defined occupational taxpaying culture as a behavior and motivational pastures towards tax administration such as cooperation and resistant.

1.8.3 Tax Compliance

Tax compliance can be defined as an ability to comply with tax laws, declare the correct income and pay the right amount on time (Annual Report IRBM, 2010). According to Mohd Rizal, P. (2010), tax compliance can be determined by behavior, attitude and ethics, legal environment and other factors at a particular time and place.

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